



Wheat

1.	Description of the industry.....	23
2.	Market value chain	25
3.	Market structure	27
4.	Strengths, weaknesses, opportunities and threats	30
5.	Tariff dispensation in the wheat industry.....	32
6.	Acknowledgements	34



Wheat

1. DESCRIPTION OF THE INDUSTRY

Wheat is the second most important grain crop produced in South Africa. It contributed approximately 3 % to the gross value of agricultural production during 2004/05. Most of wheat produced in South Africa is bread wheat, with small quantities of durum wheat being produced in certain areas, and is used to produce pasta. In South Africa, wheat is mainly used for human consumption (bread, biscuits, breakfast cereals, rusks) and the remainder is used as seed and animal feed. There are other nonfood uses such as production of alcohol for ethanol, absorbing agents for disposable diapers, adhesives and industrial uses as starch on coatings.

Producers of wheat are estimated to be between approximately 3 800 to 4 000.

The contribution of the industry to the gross value of agricultural production as shown in Fig. 1 has fluctuated after deregulation and then increased as the industry adapted. There has been a decline from the 2003 year mainly owing to unfavourable weather conditions that resulted in decreased crop yields domestically. The industry has therefore experienced a surge in imports during the same period from 2003 to 2004.

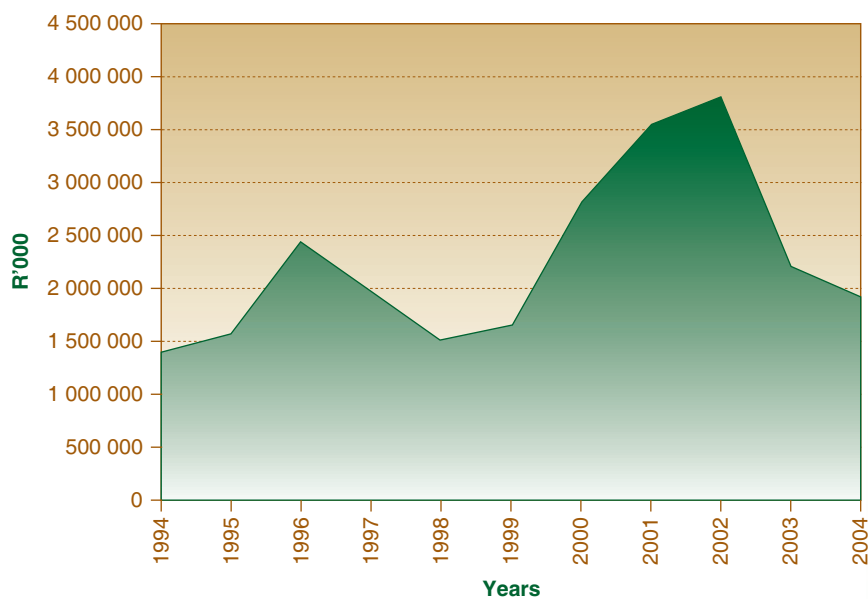


FIG. 1. Gross value of wheat production
Source: Agricultural Statistics

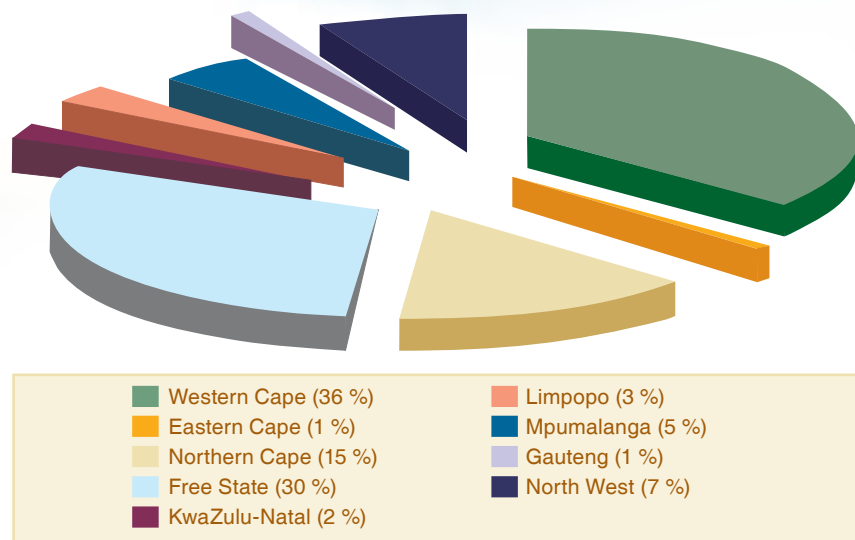


FIG. 2. Wheat production per province 2005
Source: Agricultural Statistics

1.1 Production areas

Wheat is planted between mid-April and mid-June in the winter rainfall and between mid-May and end of July in the summer rainfall areas. It is produced throughout South Africa with the Western Cape, Northern Cape and Free State being the largest producers accounting for 84 % of production as shown in Fig. 2. Approximately 20 % of the total area planted to wheat is cultivated under irrigation and 80 % under dryland conditions.

Wheat in South Africa is produced mainly for human consumption, although small quantities of poorer quality wheat are marketed as stock feed. Roughly 60 % of the total quantity of flour and meal is used for the production of bread.

1.2 Production trends



FIG. 3. Wheat: Areas planted and total production
Source: Abstract of Agricultural Statistics

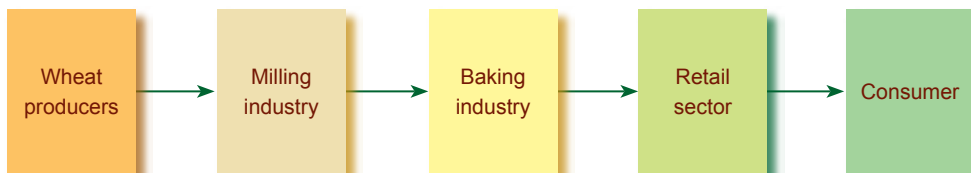
Areas planted to wheat in South Africa have been relatively stable at an average of 830 000 ha since 1998 as can be seen from Fig. 3. However, wheat production showed a decline from the year 2003 owing to unfavourable weather conditions in the country that resulted in lower crop yields. According to the Crop Estimates Committee there will be an increase in wheat production to approximately 1,8 million tons during the 2005/06 marketing year compared to 1,6 million tons produced during 2004.

1.3 Employment

Wheat farmers provide work opportunities to about 28 000 people. From 1992 to 1998 employment has decreased by 25 % in the milling industry as a result of improved efficiency and milling units being closed. The small entrants into the market are creating new employment opportunities, but on a low basis and not fast enough to counter the negative impact of the losses at the large mills. The total capital investment in the milling industry is approximately R3 billion and it employs around 3 800 people.

2. MARKET VALUE CHAIN

The local market for the South African wheat industry includes the milling industry, the baking industry and the retail sector.



2.1 Milling industry

The number of wheat mills in South Africa has dropped from 137 mills in 1996/97 to 103 mills in 2002/03. While 90 small mills have been established, 33 of the larger mills still produce 97 % of South Africa's wheat flour. The milling capacity of the wheat milling industry is 406 tons per hour and capacity utilisation is 78 %.

The milling industry produces on average 2 million tons of milled wheat yearly, which is converted into flour. The milled products include brown bread flour, whole-wheat flour, white bread flour, cake flour, self-raising flour and industrial flour. The industry sells the milled wheat to industrial users, wholesalers and the BLNS (Botswana, Lesotho, Namibia and Swaziland) countries.

During milling approximately 67 % of flour and meal produced is used for bread making.

The millers source their raw material either from the domestic market, i.e. the producer, or from the international market through imports.

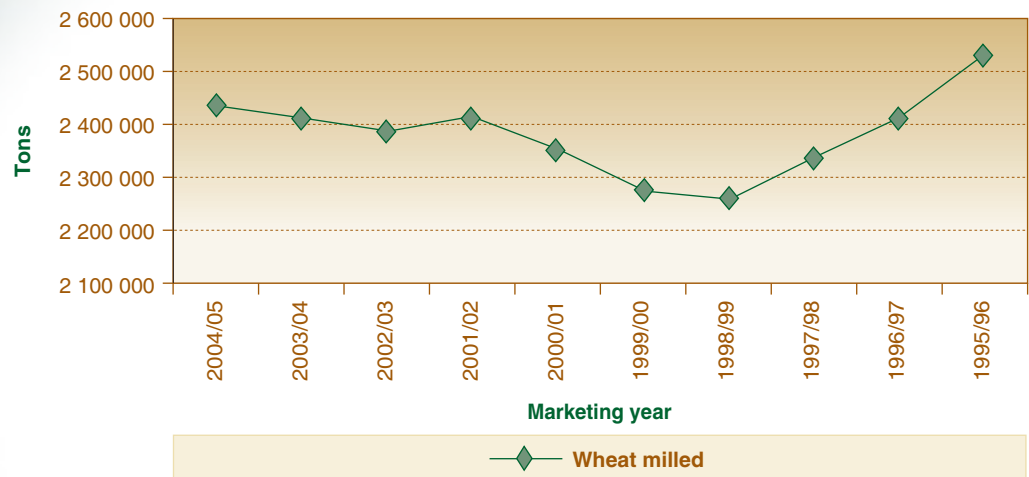


FIG. 4. Annual wheat milled in tons
 Source: National Chamber of Milling

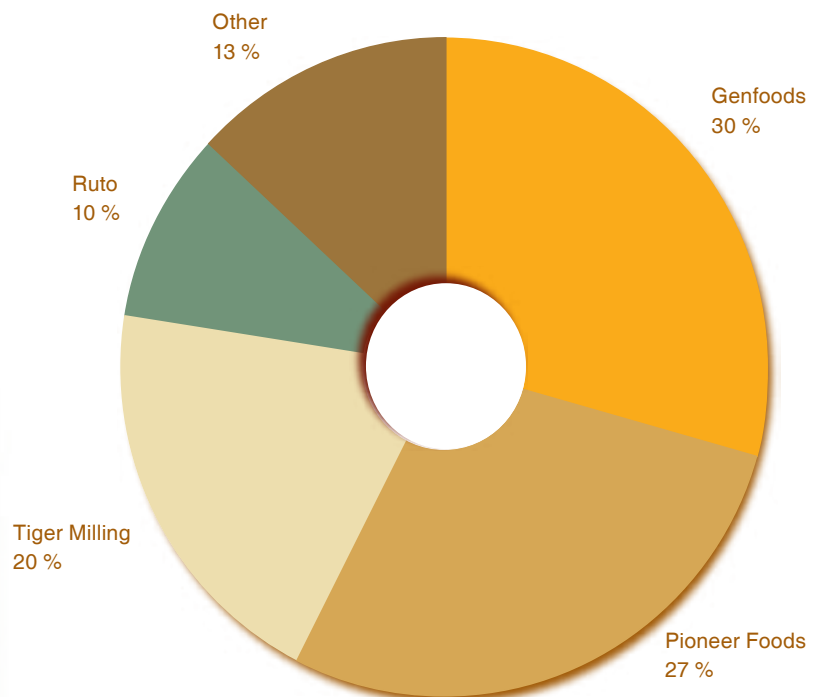


FIG. 5. Market share of top milling companies
 Source: FPMC 2003

2.2 Baking industry

According to the South African Chamber of Baking there are five different types of baking units, namely: plant, wholesale, industrial, in-store and other bakeries. There are a large number of informal bakers. The bakers produce mainly bread and other products such as biscuits, pies, pizzas, etc. The plant bakeries are still popular although there is a significant number of retail bakers, which may impact negatively on the plant bakeries. According to the HSRC survey (2002) the baking units in South Africa are estimated at 7 905, providing approximately 45 500 job opportunities. The Food Price Monitoring Committee report also indicates that there are approximately 52 200 informal bakers who operate in nonlicensed premises. Growth in this industry took place through the establishment of franchises and in-store bakeries. The major companies are Albany, Blue Ribbon, Sasko, Sunbake and BB Cereals.

TABLE 1. Percentage of flour and meal sales

Percentage of flour and meal sales in categories	2003/04
Plant bakeries (own)	35,8
Other bakeries	16,4
Industrial users	7,3
Wholesale	18,3
Retail (in-store)	20,5
State and other tenders	0,5
BLNS	1,2

Source: National Chamber of Milling

3. MARKET STRUCTURE

3.1 Domestic market

The major product of the baking industry is bread and 70 to 80 % of all flour produced is used for bread baking. The industry is the second major supplier of energy in the national diet after maize meal. Annual consumer expenditure on bread was estimated at R6 700 million in 2000 compared to an expenditure of R6 200 million for maize products.

National bread consumption is estimated at 2 800 million loaves per annum or approximately 62 loaves per person per annum. There are, however, considerable differences between the provinces in terms of total consumption and preference for white or brown bread. For example, the *per capita* consumption in Gauteng is 86 loaves per annum compared to 44 loaves in Limpopo. In the Western Cape 76 % of all bread eaten is white bread. In Limpopo however, 25 % of the bread consumed is white while the balance is brown bread.

3.2 Imports

South Africa is not a major producer of wheat in the world, it imports wheat to supplement domestic production. We are a net importer of wheat with a self-sufficiency index of around 80 to 85 %.

The major producers in the world are: China, EU countries, the USA, India, Canada, and Eastern European countries, Turkey, Australia and Argentina. These countries are responsible for almost 90 % of the world production. The top countries from which South Africa imports wheat are Argentina, Australia, France, UK and USA.

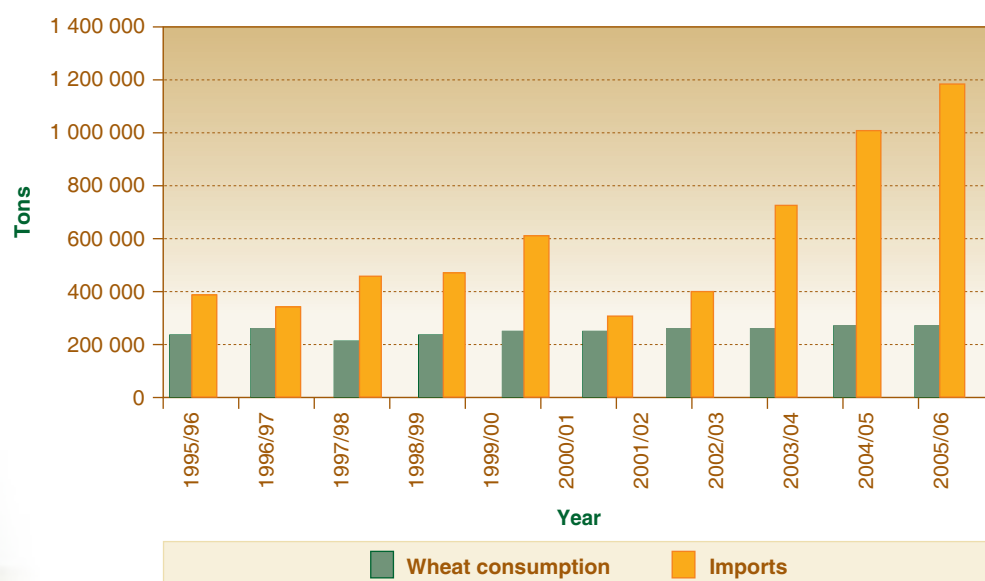


FIG. 6. Wheat consumption versus imports

Source: Agricultural Statistics

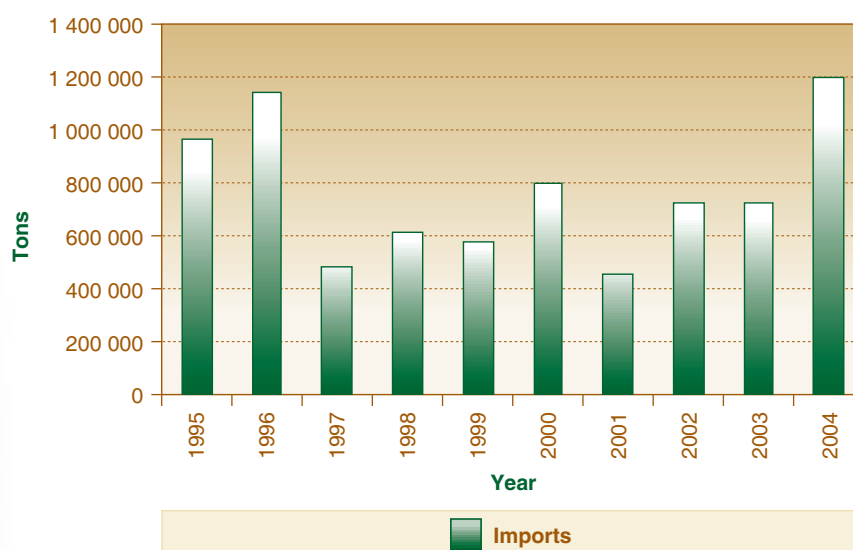


FIG. 7. Imports of wheat and wheat products

Source: Directorate Agricultural Statistics, Department of Agriculture



During 1995/96 imports amounted to 1 million tons. This can be attributed to dry conditions in parts of the western Free State and excessive rain and wet conditions as well as hail in parts of the Eastern Free State during the harvest season. The unfavourable weather conditions resulted in a lower crop domestically. Imports have risen by approximately 60 % between 2003 and 2004. The increase is the result of an unfavourable production season experienced by domestic producers. Rainfall was erratic and below normal in many areas of the main production regions, which resulted in lower than normal yields.

Wheat imports into South Africa during the period from 2000 to 2004 showed an increasing trend and were mainly from Argentina, the USA and Australia. These countries constituted more than 70 % of the total imports into South Africa as follows: Argentina (29 %), USA (23 %) and Australia (19 %). Other imports were from Germany (7 %), Canada (6 %) and Kazakhstan (5 %). The remaining 11 % was imported from other countries. The volume of imports during 2004 was 1,2 million tons, which constituted 79 % of the total volume of production during that season. The average FOB value of imports during 2004 was R1 062/ton.

3.3 Exports

South African flour exports into the SACU and the SADC regions have shown a slow increase, particularly from the year 2000, owing to low-priced imported flour from the West and East, either in the form of subsidised imports or donations. This situation is further aggravated by wheat imported from outside the SACU region subject to a rebate on import duty.

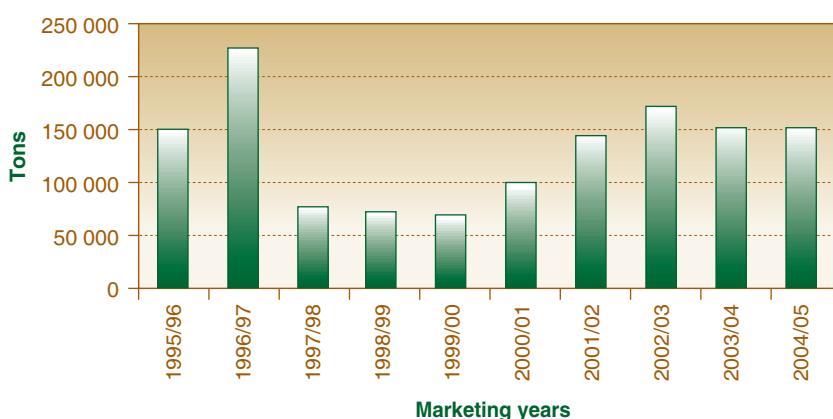


FIG. 8. Wheat exports

Source: Agricultural Statistics, Department of Agriculture



4. STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

4.1 Wheat producers

Strengths	Weaknesses
• Production knowledge has been acquired over many years • The industry is well supported by a strong producers' organisation and sound cultivar base for production • Is an important contributor to the economy of the rural areas and the total agricultural GDP	• High input costs/land value ratio as a result of dramatic increases in variable costs of production, resulting in greater production risks • Expensive crop insurance and limited insurance capacity • Slow adoption of hedging mechanisms to reduce price risk • Climatic variability resulting in variable production patterns, particularly in summer rainfall areas • Limited number of new entrants from the developing sector • Inadequate extension services
Opportunities	Threats
• There are possibilities to increase supply to satisfy the local and regional demand and possibly satisfy niche export markets • Can lead to increases in employment in rural areas • Incorporate developing commercial farmers to expand capacity • Significant productive capacity is available • There are possibilities of producing durum wheat	• Subsidies imports/dumping • Slow administrative processes to adjust tariffs • Deterioration of rail networks servicing the silos • High transport costs, resulting in low farm gate prices • Nontariff barriers affect South African wheat exports negatively



4.2 Millers

Strengths	Weaknesses
• Well-organised industry associations • There are sound infrastructure and training standards • Developed telecommunication network • Availability of workforce • There is a strong Export Committee and highly-skilled professionals and institutions for research	• Inadequate protection against unfair competition • High input costs • Lack of innovation for new products • Low export orientation • Highly-distorted international market
Opportunities	Threats
• Beneficiation of raw material • There is available production capacity • There is domestic and regional demand • Existing preferential export markets (in terms of African Growth and Opportunities Act, European Union, Southern African Development Community) • Shift in consumer demand from maize meal to bread	• Unfair competition from cheap subsidised imports • Nontariff barriers by SACU and SADC members • Changes in consumer preferences • Changes in regional dynamics and multilateral arrangements • Lack of customised incentives • Poor domestic/regional market economic conditions

4.3 Bakers

Strengths	Weaknesses
• Stable market, particularly for bread • Market growth, particularly for confectionery products • A diversified product market with a wide range of baked products that can be marketed • Strong domestic market • Use of first world baking technology, processes and equipment • A strong core of dynamic entrepreneurs and baking specialists	• Uninformed and inexperienced entrants into the baking industry • Noncompliance with bread mass regulations • Limited commitment to training and BEE and women empowerment • Overall poor legislative control and non-uniform quality control



Opportunities	Threats
• Growth potential for bread as household incomes increase • Market opportunities for a wide range of value added baked products • Promotional opportunities as a result of the introduction of fortified bread • Opportunities for bakers and baking stakeholders in Africa • Development of HACCP systems for the industry • Development of products with health enhancing properties • Development of financing packages tailored to the needs of small entrepreneurs and BEE entrants to the industry	• High cost of inputs • Market saturation • Imported baked products, particularly biscuits • Health 'scare stories' relating to baked products • Unavailability of suitably trained personnel in the industry

5. TARIFF DISPENSATION IN THE WHEAT INDUSTRY

A tariff is a tax or duty to be paid on a particular class of imports or exports. The South African wheat industry is subjected to this tariff because we import wheat products worldwide. The tariff is used to protect local producers, especially from lower world prices, which can imply that the local prices will be lower for the industry to remain sustainable. This form of protection currently is US dollar based at the reference price of \$157/ton. What this reference price means, is that if the world prices are lower than \$157/ton then a new tariff is triggered.

A custom duty is calculated at the difference between the reference prices to the 3-week moving average of US No. 2 Hard Red wheat price. Adjustment to this duty occurs when the difference between world price and 3-week moving average of the same price amounts to more than \$10 for 3 consecutive weeks. In the tariff dispensation a provision has been made for a rebate on the duty on wheat imports from BLNS countries, this is according to Schedule No. 4 of the Customs and Excise Act, 1964. In terms of the tariff position South Africa is currently obliged to allow importation of 100 000 tons of wheat at a rate of duty not above a maximum of 14,4 % *ad valorem*. This is according to the WTO's Minimum Market Access (MMA) requirements. Currently South Africa is importing an average of 700 000 tons annually.



During 2005 the International Trade Administration Commission of South Africa undertook a study to determine if the current tariff dispensation is efficient. The wheat industry, particularly, proposed an alternative dispensation of the tariff system. In the industry the current system is regarded as inefficient because it takes between 20 and 164 days to publish a new tariff.

According to the industry the import tariff is only triggered by the level of the world price and not by the level of exchange rate. It is argued that the current tariff dispensation does not take into account the different origins of the wheat imported. The proposed system will take into account the fluctuations of the exchange rate as it is highly volatile. The system will be based on the 10-year moving average and the weights of the top importing countries. Then the tariff will be updated annually which runs concurrently with the production season to protect local producers.

In the report by the commission (ITAC), it was found that there is no justification for an increase in the duty on wheat and wheat flour as the milling industry particularly, does not experience any significant competition from imports. The existing duty of approximately R18 per ton and R28 per ton respectively for wheat and wheat flour converts to an equivalent duty of 2 % *ad valorem*.



6. ACKNOWLEDGEMENTS

- International Trade Administration Commission (ITAC) of South Africa. Report No.112: Review of the customs tariff dispensation on wheat, wheat flour and downstream products thereof.
- Wheat Steering Committee. Strategy document for the South African wheat to bread value chain.

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