



BFAP BASELINE

Agricultural
Outlook

2015 - 2024

July 2015



Navigating policy and
strategies in a turbulent
world economy



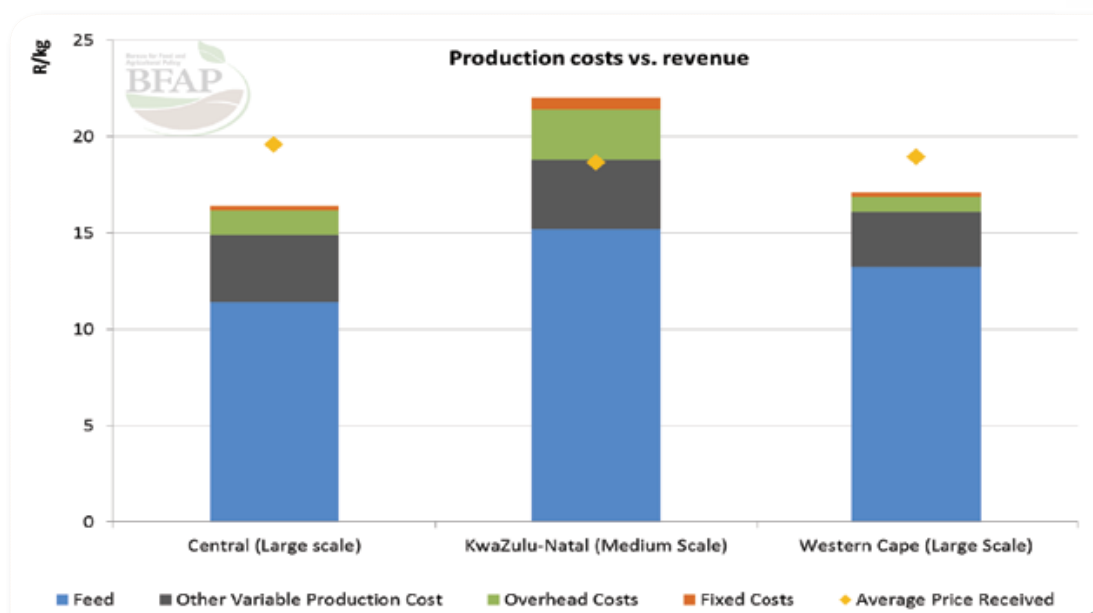


Figure 13.25: Pork production costs and revenue across regions, 2013

Margins obtained per kg meat produced were highest in the central region, where returns were the highest and cost of production the lowest. Returns in the coastal regions were similar, however high costs of production in KwaZulu-Natal resulted in negative margins in 2013, while a small positive margin was achieved in the Western Cape (Figure 13.25).

In light of its new inclusion in the farm level program, the figures presented in this section represent only a single production year and consequently may not be fully representative of long term trends. Furthermore, 2013 was a particularly difficult year for pork production due to the sharp increases in global feed grain prices. Nonetheless, the benefits associated with economies of scale and improved technical efficiency are clearly evident. The projections presented in this Outlook indicate a return to more favourable meat to feed price ratios over the next decade under the assumption of normal weather conditions and consequently, margins associated with pork production are expected to improve.

Poultry

Poultry represents the dominant sector in the South African meat complex, accounting for more than 60% of total meat consumed in South Africa between 2012 and 2014. Poultry is not included in the agri benchmark network to date and consequently, South Africa's competitiveness in the global

context is based on information obtained from the LEI, a research institute within Wageningen University in the Netherlands. A survey was conducted in South Africa regarding technical productivity indicators, as well as the cost of production.

Figure 13.26 indicates that feed conversion ratios achieved in South Africa in 2013 compare well to international counterparts; the 1.68kg of feed required to produce 1 kg of chicken was well below the sample average feed conversion of 1.79. However, differences in feed conversion ratios should be interpreted within the context of differences in slaughter weights. Slaughter weights in South Africa were the lowest of any country in the sample and in light of the fact that the efficiency of converting feed to meat declines as chickens grow older, the shorter production cycles utilised in South Africa are expected to be associated with improved feed conversion ratios.

Figure 13.27 illustrates the costs associated with primary broiler production in selected regions. As the greatest single cost component, the bulk of the difference in production costs is attributed to differences in the cost of feed, which also impacts on the cost of day old chicks. It is evident that countries that are net exporters of key feed materials such as maize and protein meal have a significant advantage in the cost of feed as well as day old chicks. Furthermore, South Africa relies on imported genetics and while this allows for continued access to the best genetics globally, it further increases the cost of day old chicks. As a share of total production costs, the combined cost



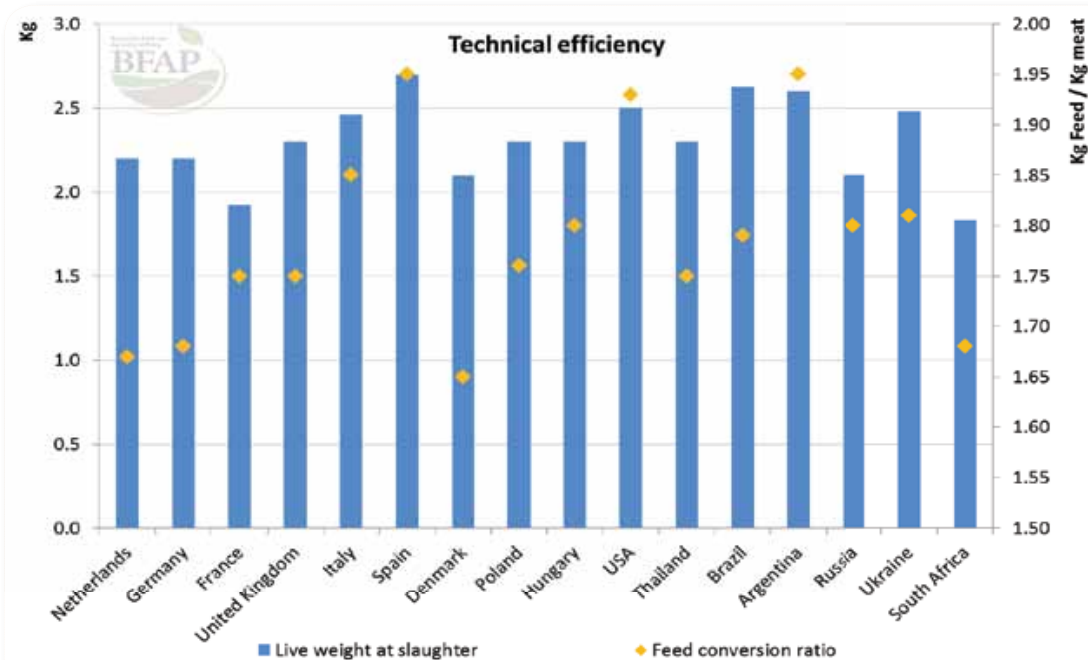


Figure 13.26: Technical efficiency of South African producers in the global context

Source: Van Horne & Bondt, 2014

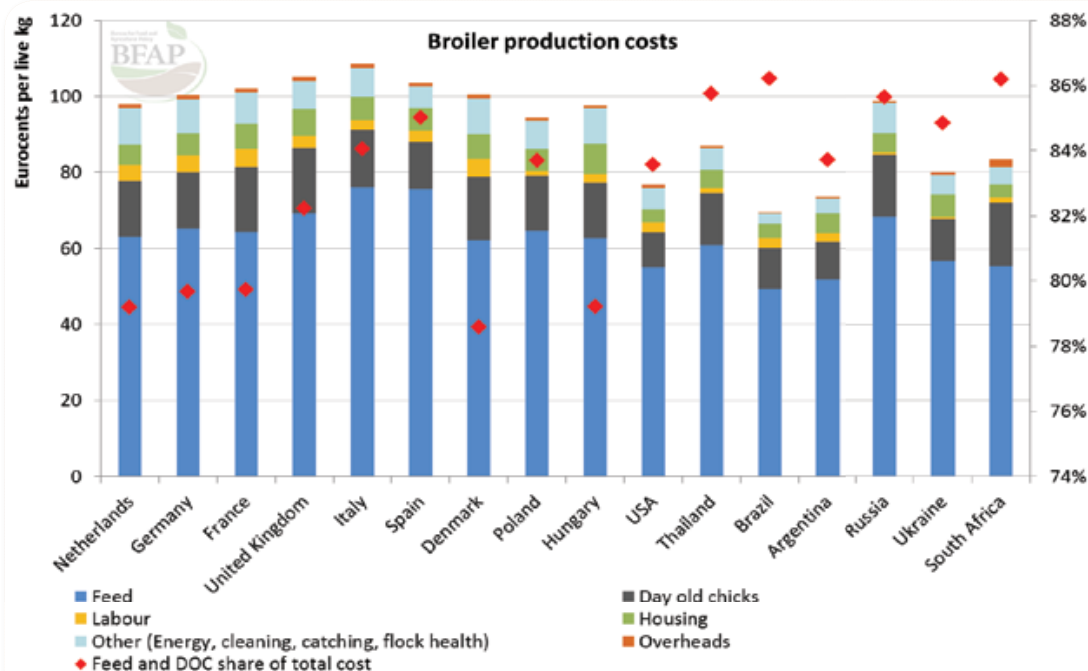


Figure 13.27: Aggregate primary production costs in selected countries

Source: Van Horne & Bondt, 2014





associated with feed and day old chicks was higher in South Africa than any other country in the sample, indicating that the rest of the required inputs are very cost competitive.

The figures presented are for a single production year only (2013) and consequently provide only a snapshot of South Africa's competitive position in the global context. Furthermore, 2013 was a particularly difficult year for broiler producers globally, due to sharp increases in feed grain prices that were not accompanied by equivalent increases in the price of chicken. Nevertheless, the results provide an indication of the drivers that influence South Africa's competitive position in the global broiler market.

Broiler producers in South Africa have been faced with significant uncertainty in 2015. Whilst meat to feed price ratios have turned in favour of broiler producers in the global market, domestic producers have been faced with persistently high feed costs arising from drought conditions in early 2015. Furthermore, concessions regarding the removal of anti-dumping duties on a quota of 65 thousand tons of chicken per annum imported from the US in June 2015 will allow competitively priced bone-

in portions into the domestic market, impacting on local price levels (Box 8.1). Despite these factors, the baseline projections reflect a cycle of lower feed grain prices over the next decade: combined with relatively firm meat prices, profitability prospects within the chicken industry are therefore set to improve. The volatility experienced over the past 5 years is indicative of how quickly this can change in the face of drought conditions and consequently risk and uncertainty remains an integral part of the producer's decision making framework.

In this regard, Figure 13.29 relates the implications of the baseline projections to a prototype broiler producer, growing broilers on contract for an integrated holding company. The simulation was conducted stochastically, introducing volatility into the cost of feed and the broiler producer price, based on historic variations around the deterministic projections at sector level. The pricing structure employed within contracted production is maintained however, reducing the risk associated with diverging trends in feed and chicken prices. The prototype production unit presented in Figure 13.29 produces approximately 300 thousand chickens per cycle and maintains slightly above average technical efficiency parameters.

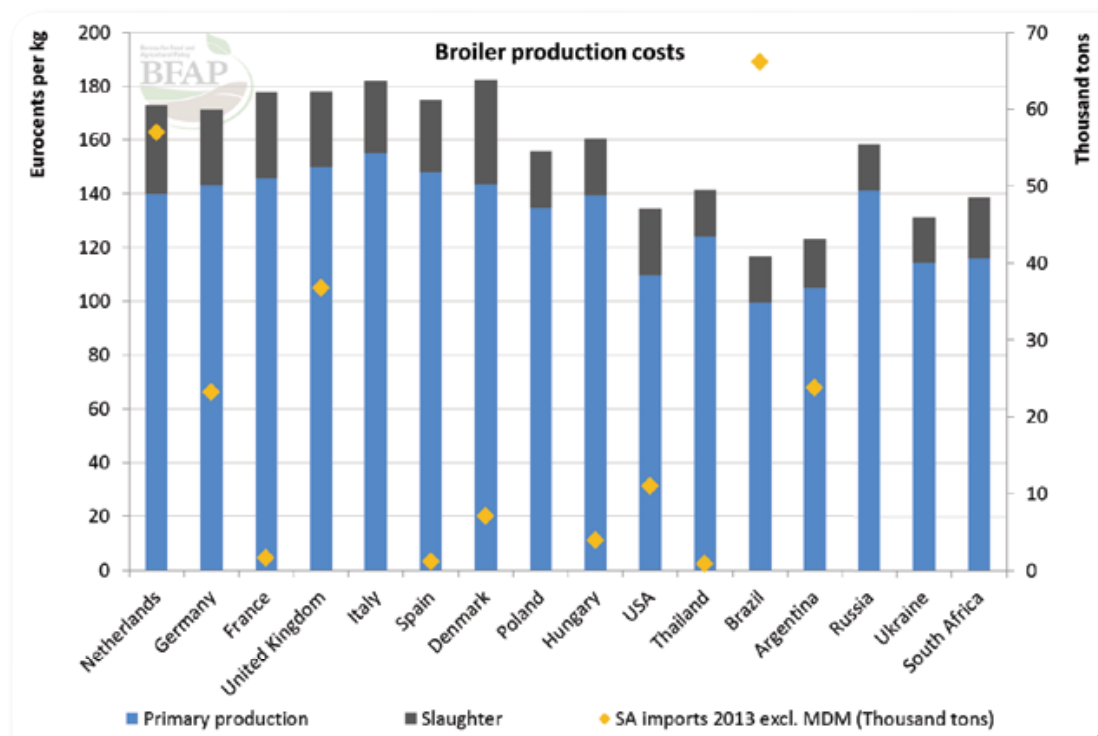


Figure 13.28: Broiler production costs in selected countries and South African imports from these countries, 2013.

Source: Van Horne & Bondt, 2014



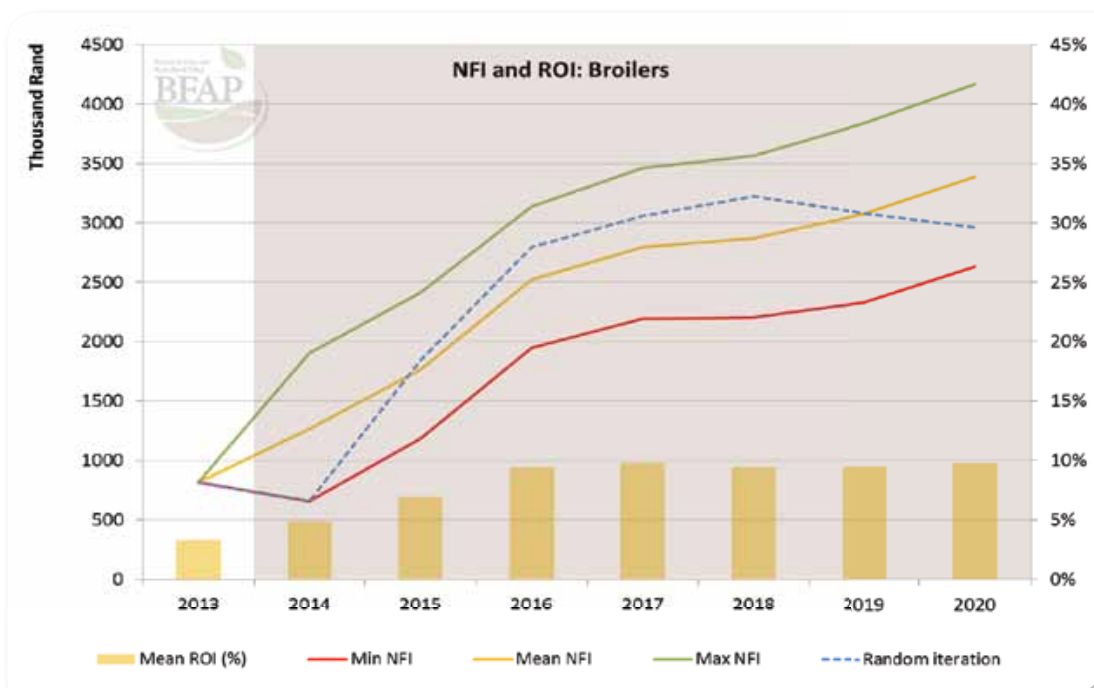


Figure 13.29: Net Farm Income and Return on Investment on a prototype broiler production unit – contract producer

Figure 13.29 indicates that, despite 2013 being a particularly challenging year for broiler producers, contract growers that were able to maintain above-average efficiency parameters could still maintain a small positive return. Naturally this depends on many factors and given the fact that the prototype producer depicted in Figure 13.29 only financed approximately one third of the chicken houses, producers with a less favourable financing structure may not have been able to maintain a positive return. It is important to note that the producer's remuneration has not yet been accounted for in the NFI, while land and fixed improvements must still be paid from this revenue. Furthermore, over the longer term, a return of

approximately 5% will not be sufficient for producers to reinvest in chicken production given the associated risk structure. Over the outlook period however, this projected return improves to 10% by 2020.

The stoplight chart in Figure 13.30 pertains to the same contract producer and illustrates the probability of obtaining a ROI ranging from 8% to 11% from 2014 to 2020. The red bars illustrate the probability of an ROI below 8%, while the green bars illustrate the probability of obtaining an ROI higher than 11%. The yellow bars in the middle are indicative of a ROI between 8% and 11%.

