BIZCOMMUNITY

Finding the right partner key in navigating imports in drought-hit SA

By Cari Van Wyk

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With struggling farmers, livestock losses, low yields and high food prices it's clear that the drought has left its mark on the industry. It has impacted the everyday lives of farmers, farming operations, and agribusinesses. As one of the key economic sectors, the drought has also had a massive impact on imports and exports. We spoke to Adam Orlin, head of Investec Import Solutions, to find out more about the impact of the drought on the import and export of agriculture commodities and the economy as a whole.

Adam Orlin

How has the drought impacted on agriculture and food commodities imports and exports?

Adam Orlin: The drought we are currently experiencing has had a significant effect on food commodities, farming and the agricultural sector in South Africa. Many expect that while the short-term impact has already been felt, unfortunately, we are still likely to see the impact for many years to come and, in many cases, we haven't even seen the implications of the severe water shortage as of yet.

From an agriculture perspective, the maize harvest has also been significantly lower, which means the country hasn't been able to meet the demands of its citizens, which has resulted in the need to import an estimated 5 tons of maize, from May this year, and this import rate is expected all the way through to mid-2017, which of course impacts consumer pricing directly.

We know that the South African farming output has been negatively affected which impacts our GDP. As a result, we have seen an increase in imports, not only from a commodity perspective but also from the broader industry, which in itself is widening the trade deficit.

So while South Africa has a large agricultural export market, exports in this sector have also declined due to underperforming crops and a deficit of output.

How has this affected the economy as a whole?

Orlin: The drought has had a negative impact on the country's economy with many viewing its impact as so severe that it almost tipped us into a recession, especially as the Rand continued to weaken and food prices were pushed up. Coupled with the increasing number of unemployed citizens, the impact has been severe not only directly, but indirectly as well.

How has maize and other produce shortages affected trade between SADC countries, in particular, especially countries which previously imported food from South Africa?

Orlin: Southern African countries such as Namibia, Botswana, Zimbabwe, Lesotho, Zambia and Mozambique usually rely on agricultural imports from South Africa – in fact, up to 40% of their food is grown in this country. Lesotho, Namibia, Swaziland and Zimbabwe, have now declared national emergencies in response to drought conditions and will require more imports than usual. As such, the reduced agricultural exports have seen the Government's revenue decline more than the norm, and the import of foodstuff, from overseas, has increased exponentially and will likely increase South Africa's trade deficit at a time when other commodity prices are low.

Do you think this will have a lasting impact on trade relations or will any impacts last only as long as the shortages do?

Orlin: The economy is resilient and while certainly new trade options have been explored and will likely open up, the short-term impacts will only last as long as the shortages do. Just look at the import sector as a whole. Many organisations rely on averages to forecast costs without fully appreciating how forex gains, or losses that remain unallocated for. Freight costs relative to the value of the import can impact on the true cost of the goods. With operational costs and tariff hikes increasing, not to mention the uncertainty around the Rand value, businesses cannot afford to get their calculations wrong. Essentially it's about managing the transactional risk.

It's difficult to determine what the impact will be but one thing is certain – getting the value chain right will be critical. Various strategies will be deployed by different businesses with some having a rigid and consistent policy while others are looking to manage their risk on a more ad hoc basis in conjunction with the market at a point in time. Ultimately, importers need to do what is right for their business based on the current market conditions and the only way to do that is to ensure that they have greater visibility to make the right decision.

How have import costs been affected and how can local organisations and farming operations manage these costs as an extra expense in a now already cash-strapped industry?

Orlin: With such business uncertainty and the rate hikes, many businesses are likely to look at alternative methods to keep their business operational and stable, with very little disruptions to their bottom line. As a result, due to the rise in operational costs, some businesses will look at importing parts of, if not all, of their operations as it may prove to be more cost effective than manufacturing them locally. Moreover, such business increases also make South African goods less competitive for the export market. The good news, however, is that as the Rand has gained some ground, while the export market has increased once again, so too has imports.

How can businesses navigate the complexities of importing and make sense of the costs to ensure that they still have access to cash for their daily operations?

Orlin: Finding the right partner becomes a critical step in the value chain. The import process is not an easy one to undertake. From not having sight of products throughout the supply chain to being concerned about landed costs, import tariffs, and the impact it all can have on cash flow, businesses often feel intimidated. Yet, this does not have to be the case. Using a single provider that can be the one point of contact in the import process can mean the difference between maintaining effective business growth or stagnating due to these external factors.

In addition, a high-value import specialist will be able to finance the cost of goods as well as the forwarding and clearing costs. For small business limited by cash flow, this is a life-saver. Having that one point of contact to oversee the entire process means decision-makers can stay focused on meeting their core deliverables.

Is guaranteed pricing structures a reality for this sector at the moment?

Orlin: It's difficult to say as the industry is volatile and of course is affected by micro and macroeconomic factors. From our side, should we look at importing for a client, guaranteed pricing can only occur when an FEC (forward exchange contract) is put in place.

ABOUT CARI VAN WYK

Cari Coetzee is a contributor to Bizcommunity Tourism, Agriculture and Lifestyle.

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