

# Opportunities in Regional Oilcake Markets

## Executive Summary, November 2014

The Malawi Oilseed Sector Transformation Programme (MOST) contracted Liz Whitehouse to undertake an assessment of the opportunities for oilcake from Malawi in regional markets, specifically Zimbabwe, Zambia and South Africa. The specific products of focus are Sunflower Oilcake (HS-230630), Soya Flour/Meal (HS-120810), Cotton Oilcake (HS-230610) and Groundnut Cake (HS-230500). The overall objective of the assignment was to identify and list animal feed manufacturers, feed traders and brokers in the three countries and to gain an understanding of required specifications and volumes of the oilseed cake being procured. A sub-objectives has been to determine current levels of trade of these products between Malawi and the SADC region.

In 2013, total regional imports of the oilcake under investigation amounted to 316,654 tonnes. Growth in imports across the last decade has been incredibly strong at 115%. Of the total import volume, 49% is cotton seed cake and 45% is sunflower seed cake. There is very little groundnut cake traded within the region and a number of the countries are self-sufficient in soya. Within the region, South Africa is the biggest import market accounting for 67% or 217,000 tonnes of oilcake imports in 2013. Madagascar is the second largest import market and volumes have grown from zero to the current level over a few years. This suggests that some investment in livestock and feed milling sectors has taken place. There are no recorded imports of oilcake into the DR Congo, Angola, Swaziland, Lesotho or Seychelles. Malawi is the fifth largest supplier of oilcake into the region in 2013 with total exports of 29,124 tonnes. This is primarily cottonseed cake destined for South Africa and Zimbabwe. There is a high level of regional trade with 48% of the volume of regional imports sourced from regional suppliers in 2013.

### *Top Five Suppliers of Oilcake to the Region, 2013*

Exporter	Volume (tonnes)		Percentage of total 2014	Growth 2004 to 2014	Key product	Key importer
	2004	2013				
Argentina	35,281	79,153	25.0%	124%	Sunflower cake	South Africa
Zimbabwe	27,801	61,904	19.5%	123%	Cotton seed cake	South Africa
Uganda	40	54,248	17.1%	135520%	Sunflower cake	Madagascar
Zambia	1,249	32,935	10.4%	2538%	Cotton seed cake, soya meal	Namibia, South Africa, Zimbabwe
Malawi	7,874	29,124	9.2%	270%	Cotton seed cake	South Africa, Zimbabwe

Source: COMTRADE

## Zimbabwe

The Zimbabwean animal feed sector uses primarily soya meal supplemented with smaller quantities of cottonseed cake and sunflower cake. The animal feed sector uses around 100,000 tonnes of oilcake on an annual basis of which 84% is soya meal. Imports of oilcake amounted to 25,250 tonnes in 2013 suggesting that imports meet around a quarter of market requirements.

### *Estimated Annual Consumption of Oilcake in Zimbabwe, 2013*

Product	Estimated annual consumption (tonnes)	Current price (September 2014) (US\$/tonne)
Soya beans	13,410	US\$550
Soya meal - FF	15,618	
Soya meal - ME	24,078	US\$610
Soya meal - SE	45,432	US\$630
Cotton cake ,30% CP	4,398	
Cotton meal >30% CP	6,588	US\$480
Cotton seed whole	1,740	
Sunflower cake/meal	5,238	US\$220 to US\$240

Source: Calculations based on Stock Manufacturers Association figures and interviews with traders and feed manufacturers

Historically Zambia is the key supplier of soya meal into Zimbabwe given the close transport links between the two countries and Zambia's status in the region as a non-GMO supplier. Based on discussions with animal feed manufacturers and traders in Zimbabwe it would be difficult for Malawi to break into this sector of the market.

Cottonseed cake is used in Zimbabwe and import volumes have been increasing steadily. Malawi is the key supplier of imports accounting for 99% of requirements in 2013. Given the foothold in this market, imports from Malawi should continue to grow with demand. The real opportunity for Malawi in Zimbabwe appears to be in the supply of sunflower cake. Very little sunflower cake is produced locally and the product that is available locally is mechanically extracted and of a poor quality. Most users in Zimbabwe would require 36% crude protein minimum on sunflower cake. It would however be important to remember that South Africa is currently the only supplier at present and prices from Malawi would therefore need to be extremely competitive to compete.

Logistics between Malawi and Zimbabwe are a potential barrier to trade. Given the low levels of trade from Zimbabwe through to Malawi, there are no back loads which means that trucks are dedicated to loads in one direction. Trucks out of Zambia are frequent given the copper trade out of Zambia and the DR Congo giving Zambia a competitive advantage in this regard. The price differential is about US\$15 to US\$20 per tonne in Zambia's favour.

There are two major challenges to Malawian suppliers in the Zimbabwean market. Firstly, the Zimbabwean government has recently imposed a 20% tariff on oilcake imports. This will add an estimated US\$120 per tonne to the cost of imported cake. It is likely that the importers and users of cake will turn to imports of beans and seed which will be crushed locally. This is a plausible scenario given recent investments in the Zimbabwean edible oil sector. The second challenge is the fact that Zimbabwe has recently gazetted a fixed maize price of US\$390 per tonne - this is US\$100 per tonne

above the current price and this is expected to have an impact on output of animal feeds as maize is 80% of inputs. This will in turn impact on the volumes of oilcake consumed. Given the uncertainty in the market, reliance on the Zimbabwean market as an offtake market for Malawian oilcake would be risky. There are however opportunities that can be exploited.

Malawian suppliers further need to be aware of the negative perception amongst Zimbabwean buyers about quality from Malawi. Suggestions to address include the appointment of an independent inspection agency in Malawi to verify shipment and build confidence around Malawi as a supplier.

## Zambia

The animal feed industry in Zambia, and hence the market for oilcake, is driven by the poultry industry with some 80% of feeds produced destined for the poultry industry. This industry has shown extremely good growth averaging 20% per annum over the last few years. Zambia has a strong soya sector and as a result, soya meal is the key component of animal feeds in Zambia. Generally the Zambian animal feed sector is competitive and well supplied with oilcake from local sources.

Given the strength of the local soya sector, Zambia imports low volumes of oilcake (132 tonnes in 2013) compared to the other countries in this study. Small volumes of sunflower cake and cottonseed cake are imported although these two products are generally not used in feed formulations.

There is no real opportunity for soya cake or meal from Malawi in the Zambian market. The market is well supplied from local sources and even if the price of the Malawian product was much lower, soya cake from Malawi would be a direct competitor to local cake. Imports of soya cake would impact directly on growers of soya beans who tend to be small-holders.

Groundnut cake is not used in animal feeds in Zambia. The aflatoxins in groundnuts pose too much of a risk. Animal feed manufacturers find it hard to justify the use of cottonseed cake in their formulations as the soya value chain is so strong. Cottonseed is only being used in ruminant feeds at present and then only in small quantities.

The opportunity for Malawian suppliers in Zambia is for sunflower cake. Currently sunflower cake is only being supplied by the informal sector and the quality is poor. Current local supply has a 10% oil content and the protein content varies between 15% and 20%. The local product is also mechanically extracted so it is not decorticated. This means that the fibre content is too high and it is not suitable for the poultry sector which is where the bulk of demand lies. As a result sunflower cake is seldom used in formulations. A number of animal feed manufacturers have indicated to the consultant that they would like to use sunflower in their formulations as it is a valuable protein source. They would look for 35% crude protein or higher on sunflower cake and to get this level, the product would have to be solvent extracted.

The challenge for Malawian suppliers is that for a sunflower cake market to be created in Zambia, feed manufacturers will have to change their feed formulations. This is a big decision and the manufacturers would only do this if the supply was guaranteed in terms of committed volumes,

consistent quality and adherence to specification and a competitive price that would compete favourably with the price of soya cake. Solvent Extracted Soya Meal is currently selling for US\$530 per tonne in Zambia.

## South Africa

South Africa has a very strong animal feeds sector and a strong oilcake industry. Outside of soya cake, the country produces the bulk of requirements and the shortfall in demand is then imported. There are however structural changes taking place in the South African soya sector as a result of the Soy Strategy embarked upon by the South African Department of Trade and Industry. The country has recently spent an estimated R1 billion on soya bean processing plants to realise an additional 1,2 million tonnes/annum crushing capacity. This will take total national crushing capacity to an estimated 2 million tonnes by end 2014. As new local crushing capacity starts up and more local soybeans go to crushing for animal feed, it can be expected that the market will allow for more local soya oilcakes to be taken up and fewer to be imported. It will however take in the region of five years for soya bean supply to meet demand from this new crushing capacity. This growth in the local soya sector is reflected in the statics shown in the table below. In 2010, some 89% of soya cake requirements were imported – in 2013/2014 this was down to 71%.

### AFMA Raw Material Usage April 2013 to March 2014

Raw Material: local vs imported	Tonnes	Local vs Imported
Cotton Oilcake (Local)	12 920	62%
Cotton Oilcake (Imported)	7 970	38%
<b>Total</b>	<b>20 890</b>	
Groundnut Oilcake (Local)	1 572	82%
Groundnut Oilcake (Imported)	345	18%
<b>Total</b>	<b>1 917</b>	
Soya Oilcake (Local)	234 673	29%
Soya Oilcake (Imported)	586 997	71%
<b>Total</b>	<b>821 670</b>	
Sunflower (Oilcake (Local)	230 572	78%
Sunflower Oilcake (Imported)	64 011	22%
<b>Total</b>	<b>294 583</b>	

Source: South African Animal Feed Manufacturers Association

In 2013, South Africa's imports of oilcake under the tariff codes under investigation amounted to 217,000 tonnes. Some 136,000 tonnes of this was cottonseed cake and the rest was sunflower cake. South Africa's soya cake imports come in under a tariff code not included in this report (Oil-cake & other solid residues from extraction of soya bean oil, HS2304). Imports under this heading amounted to 650,000 tonnes in 2013.

As with the other markets, the South African market is all about quality and price. Transport costs are an issue in South Africa. Internal transport costs are extremely high and animal feed manufacturers located in the Cape tend to import sunflower cake directly from Argentina as it land cheaper than local product once the internal transport costs are incorporated. This will impact on a Malawian supplier's ability to remain price competitive and outside of the northern part of the country, the market would become more difficult.

There is a limited opportunity in South Africa for soya cake or sunflower cake as South Africa produces large quantities and when imports are required, the industry generally prefers to import beans and crush locally as there is excess crushing capacity. As indicated, this capacity is increasing markedly. There is the additional obstacle of Argentinian suppliers who are well entrenched in the South African market. However, ultimately it is all about price and if Malawi can compete on price, then there is a market.

The real market in South Africa for Malawi is for cottonseed cake. South Africa does not produce enough to meet demand and as a result, usage of cotton cake is very price dependant and when the pricing doesn't work, the animal feed manufacturers switch to an alternate protein source. Malawi is already a recognised supplier accounting for 16% of the volume of cottonseed cake imports in 2013.

Again, Malawi's reputation as a supplier in South Africa is not very good. According to one trader, the problem is the quality of the Malawian offering and the requirements of the South African market. Apparently the problem is the actual seed varieties in Malawi which do not have the same oil or protein content as those grown in South Africa. Generally Malawi is selling sunflower cake with a 25% protein content in South Africa whilst the market is demanding 36%. This is an issue that will need to be addressed if Malawian companies want to increase market share.