Globalisation and oil incentives: Repositioning the 'stepchild' crop

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Recent European conflicts have thrust agricultural commodities, particularly sunflower, into the limelight. These events have refocussed the impact of globalisation on local sunflower production and the price effect will remain for some time.

Local producers are now re-evaluating the perception of sunflower as a traditional 'stepchild' crop and will likely reposition sunflower as a major contributor to their income. Sunflower in South Africa will play a significant role in driving producer profitability, given this globalisation effect. Add oil incentives to this mix and the stage is set for sunflower to claim its rightful place on high potential soil with early plantings.

When comparing the latest Crop Estimates Committee numbers, there were some significant increases in the 2022 plantings compared to last year, with an almost 40% production area increase year-on-year. This drastic increase supports the notion that sunflower will be a key crop for growers going into the coming planting season.

An additional benefit is the fact that the sunflower market has room to grow and will compete more successfully with maize, which is already at a mature market level.

Rewards for oil content

When comparing South Africa's oil industry to that of international peers, our value chain lacks a reward system for oil content. In the United States, the European Union and Argentina, producers are rewarded for oil content on top of their commodity prices. Why is this not also the norm in South Africa since oil is such a valuable plant-based commodity?

Several arguments could be tabled, ranging from a price-sensitive consumer base, a crushing capacity that is concentrated in ownership, and perhaps genetics that do not lend themselves to oil content as they were the casualties of a system that does not reward for oil content. Whatever the argument, the essence is that everyone involved in the value chain draws the shortest straw when oil concentration is not incentivised.

Perhaps the Argentine model gives some much-needed clarity. It allows for producers to be rewarded a 2% price premium for every 1% point above 40% oil content on an 'as is' basis. For example, a producer delivering sunflower with a 44% oil content will receive an 8% price premium. This oil content increase also has significant downstream advantages for crushers who simply procure based on volume needs.

By simply increasing the oil content in a ton of sunflower that is fed into a crushing facility, no additional expenses have to be incurred to extract the oil.

Selection criteria for hybrids

The Agricultural Research Council's annual sunflower trial report also gives some interesting insights into the difference between hybrids when comparing oil. Significant value can be unlocked by simply selecting hybrids based on their oil yields, and not getting stuck in the groove of grain yield as primary selection criteria for hybrids.

The 2019 report shows certain hybrids at a whopping 51% average oil concentration. This underlines the value of hybrid selection for oil concentration to easily unlock the largest gains in value capturing in the oil industry, as opposed to grain yield improvements.

Local crusher, the Central Edible Oil Company, has seized the opportunity to incentivise high-oil concentrations by allowing producers exclusive grower contracts for specific high-oil hybrids that are delivered directly to their facility in Boksburg. This end-to-end value chain paves the way for an industry rewarding producers for producing oil, not just grain.

The reset button on the value of oil concentration needs to be pressed for the industry and the consumer to benefit. If producers benefit from improved oil yield hybrids through price premium incentives, the industry is transformed, and the simplicity of a high-oil trait will initiate real market sophistication.

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