

**Your destiny is shaped in your  
moments of decision**

# **SUCCESSIONS**

*Pieter Esterhuysen*

**Dairy market opportunities and challenges in  
Southern Africa**

10/09/2015

*Presentation by Pieter Esterhuysen at the National Congress of the MPO*

# Introductory remarks

- My involvement
- International and domestic surpluses
- Prices slow to react to fundamentals
- Non-Transparent
- Volatile
- Trademark driven – margins
- Importance of financing in the value chain
- Market information

# Content

Optimise your business – market development

- Opportunities
- Challenges
- Exports to Africa
  - Supermarkets
  - Aid projects
  - Direct marketing

# Source for trading information

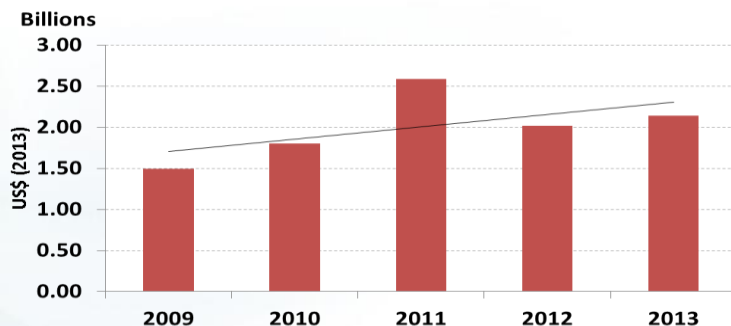
- TRADE (**T**rade and **D**evelopment) = research focus area at the North-West University specialising in the fields of international trade and economic development.
- TRADE focusses export promotion and development as well as investment flows
- TRADE has an experienced and committed team of researchers
- TRADE's research programme includes a Decision Support Model (DSM) = identify realistic export opportunities for countries, provinces and industry sectors in the form of high-potential product-market combinations.
- Prof Wilma Viviers, leader of TRADE holds a Chair of the WTO Chair Programme.

# Sub-Sahara Africa\* – dairy trade overview

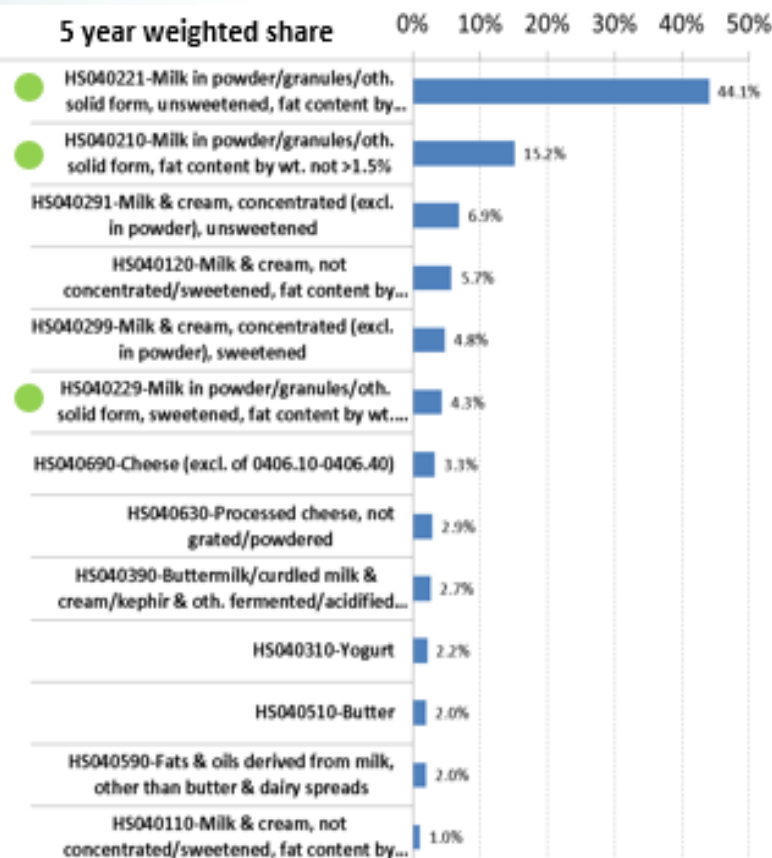
## Overall trade in dairy products:

- In excess of US\$ 2 billion per annum
- 30% - 35% of Africa within Africa – rest originates from outside the continent  
- steadily growing (around 4% p.a.) ...
- Milk in powder/granules - solid form (HS040210, HS040221, HS040229) represents 64% of traded value

Sub-sahara Africa imported Dairy related products  
(HS040110 to HS040690 + HS350220)



## 5 year weighted share



\*Excluding SACU (South Africa, Botswana, Lesotho, Namibia, Swaziland)

HS = Harmonized System product codes

Data = the French research centre in international economics (CEPII) BACI world trade database (2015:HS2002)

*Pierre Etchepare*

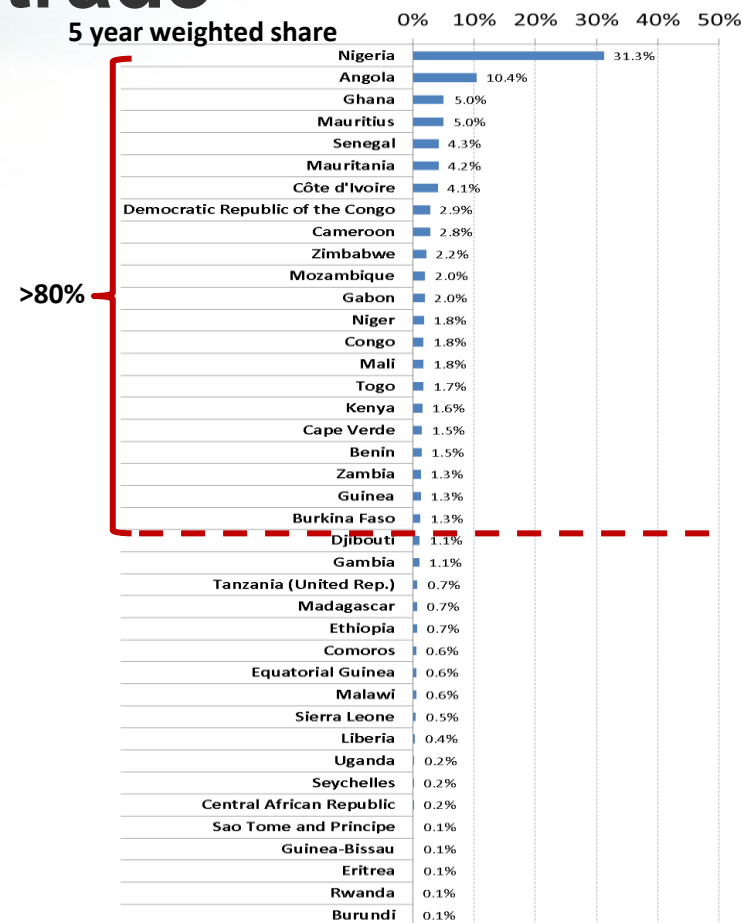
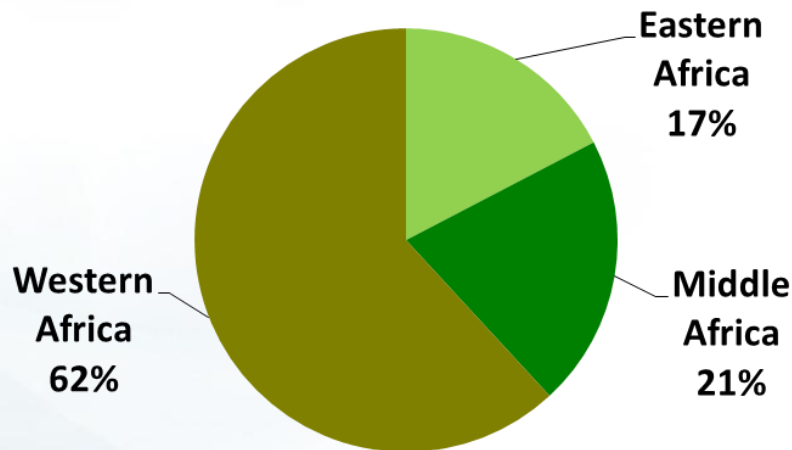


# Sub-Sahara Africa\* – dairy trade

## Sub-regions & countries

### Regional and country trade in dairy products:

- Western and Middle Africa reports largest imports
- Nigeria constitutes 31% of import demand, followed by Angola at 10% and Ghana and Mauritius each at 5%. Rest of the countries constitutes less than 5% each.
- 15 out of 40 countries accounts from >80% of import demand



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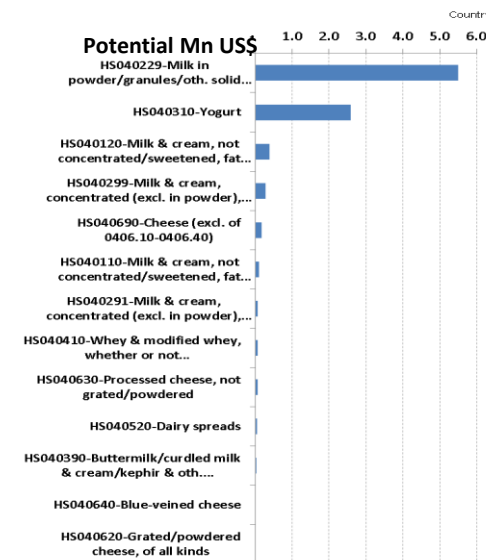
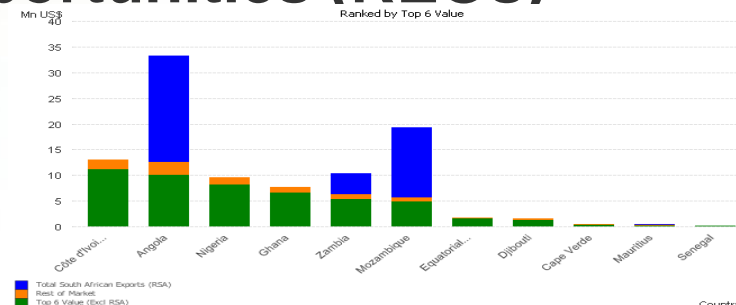
*Pierre Etchegoyen*

# Sub-Sahara Africa\* – dairy trade

## South African realistic export opportunities (REOs)

### Markets and Products (HS 6 digit):

- 34 countries in Sub-Sahara Africa (of 40 countries) import dairy related products from South Africa
- Potential opportunities therefore = 40 (countries) x 21 (products) = 840
- Applying NWU TRADE-DSM™ model identify (from South Africa's perspective)
  - 26 realistic export opportunities, consisting of - 14 products concentrated in
  - 11 markets
- South Africa already major player in 4 of these markets:
  - Angola
  - Mozambique
  - Zambia
  - Mauritius
- 14 products:
  - Largest potential HS040229-Milk in powder/granules/oth. solid form, sweetened, fat content by wt. >1.5%
  - Followed by HS040310-Yogurt



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*Peter E. E. E.*

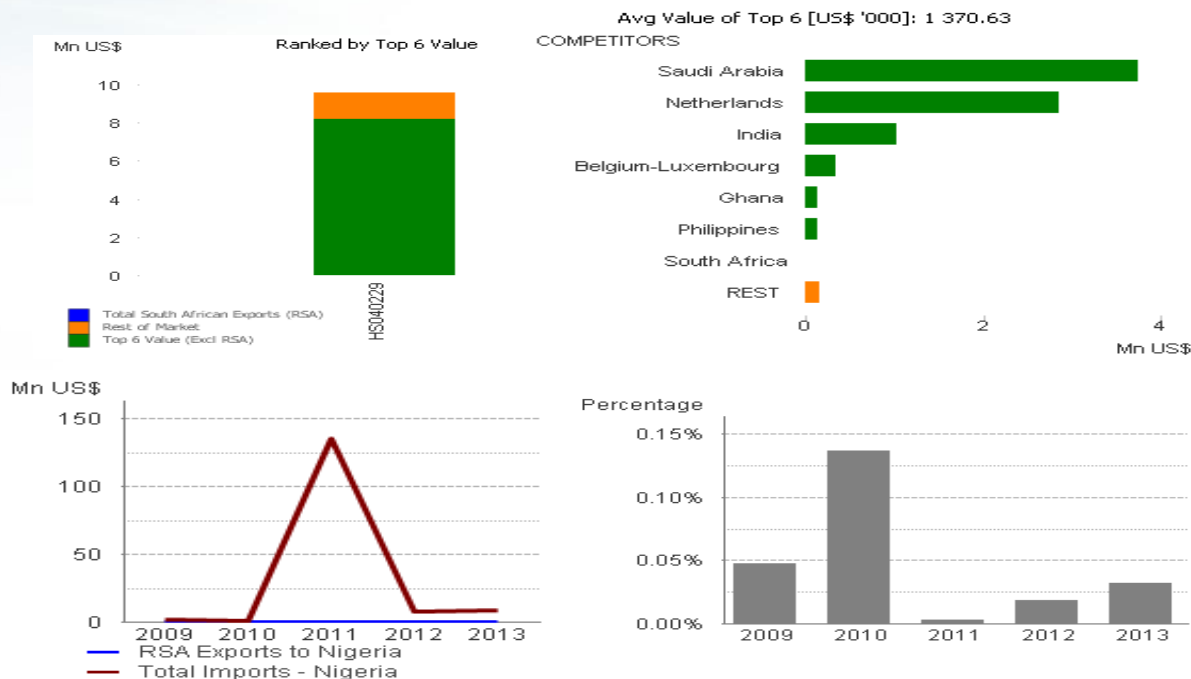
# Sub-Sahara Africa\* – dairy trade

## Examples for South African realistic export opportunities (REOs)

### Nigeria:

**HS040229**-Milk in powder/granules/oth. solid form, **sweetened**, fat content by wt. >1.5%

- South Africa ranked as 14<sup>th</sup> largest supplier into Nigeria – less than 0.05% of Nigeria's imports from RSA.
- Total import demand (2013) of US\$ 8.4 million
- Realistic potential for South Africa of at least US\$ 1.4 million
- Major competitors
  - Saudi Arabia
  - Netherlands
  - India



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*Peter Edouard*



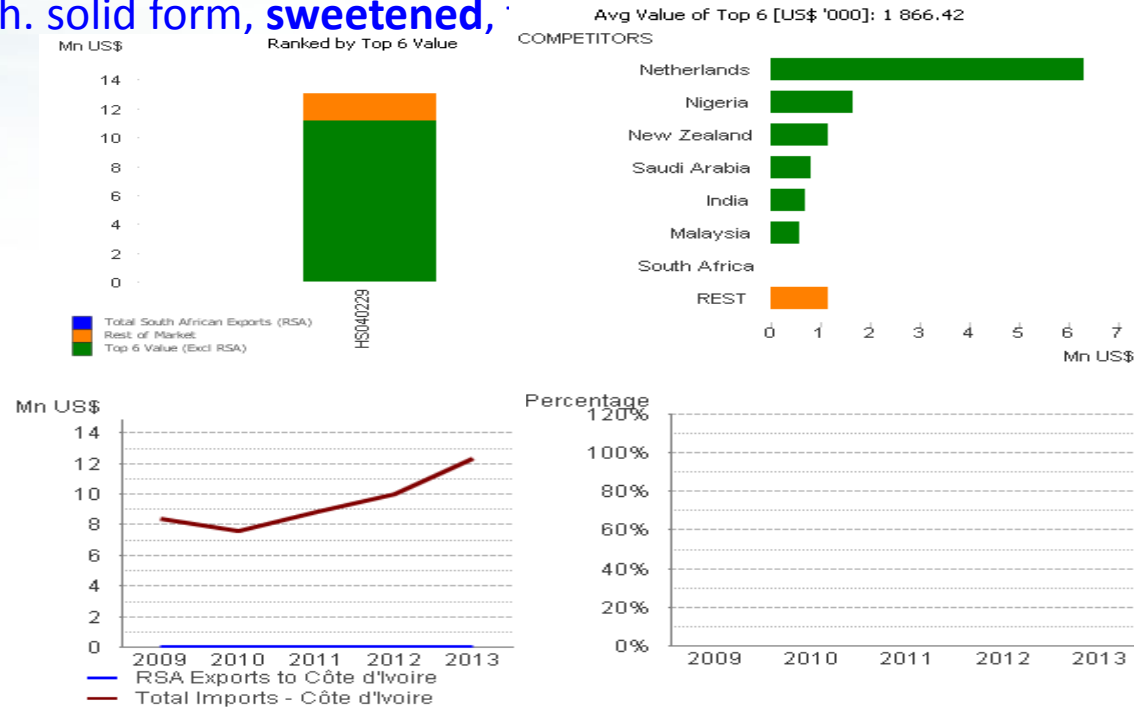
# Sub-Sahara Africa\* – dairy trade

## Examples for South African export opportunities (REOs)

Côte d'Ivoire:

HS040229-Milk in powder/granules/oth. solid form, **sweetened**,

- South Africa do not currently trade with Côte d'Ivoire on this product.
- Total import demand (2013) of US\$ 12.4 million
- Realistic potential for South Africa of at least US\$ 1.9 million
- Major competitors
  - Netherlands
  - Nigeria
  - New Zealand



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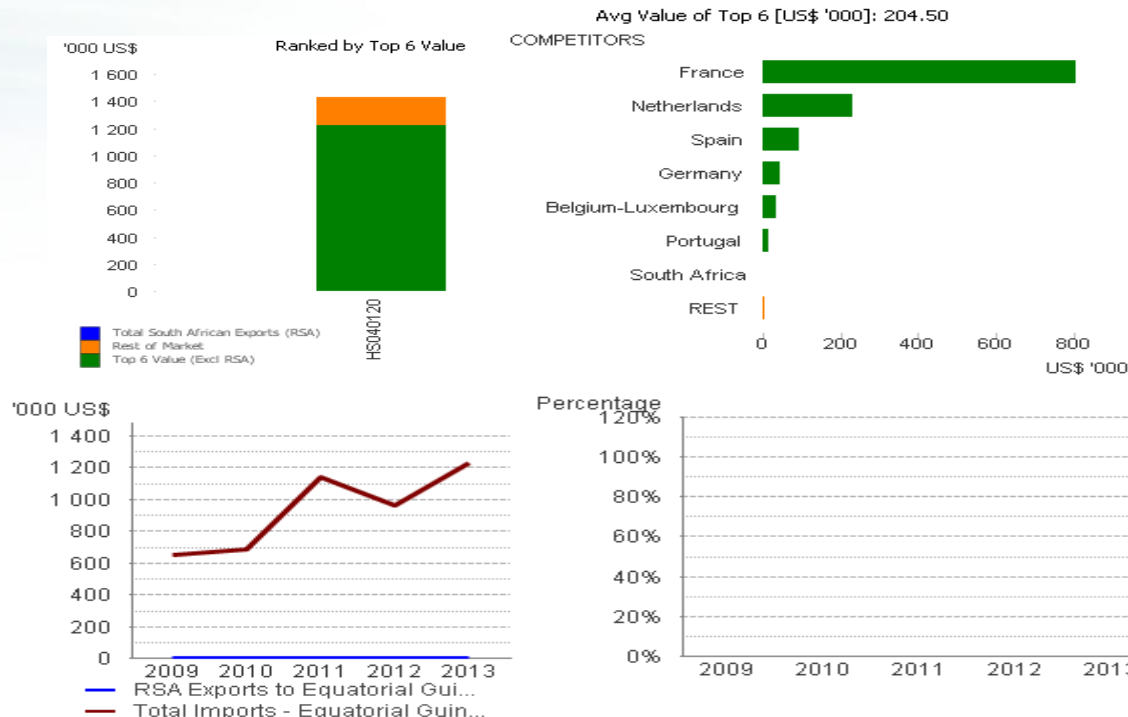
*Pierre Etienne*

# Sub-Sahara Africa\* – dairy trade

## Examples for South African realistic export opportunities (REOs)

### Equatorial Guinea: HS040120-Milk & cream, not concentrated/sweetened

- South Africa do not currently trade with Equatorial Guinea on this product.
- Total import demand (2013) of US\$ 1.2 million
- Realistic potential for South Africa of at least US\$ 0.2 million
- Major competitors
  - France
  - Netherlands
  - Spain



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*Peter E. Schreyer*

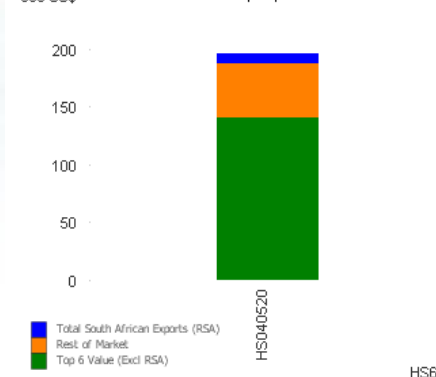
# Sub-Sahara Africa\* – dairy trade

## Examples for South African realistic export opportunities (REOs)

### Angola: HS040520-Dairy spreads

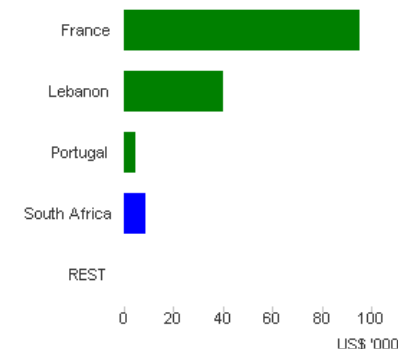
- South Africa ranked as 3<sup>rd</sup> largest supplier into Angola – less than 6% of Angola's imports from RSA.
- Total import demand (2013) of US\$ 150 thousand – growing strongly of low base
- Realistic potential for South Africa of at least US\$ 50 thousand
- Major competitors
  - France
  - Lebanon
  - Portugal

'000 US\$ Ranked by Top 6 Value

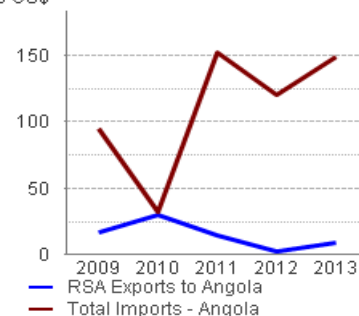


Avg Value of Top 6 [US\$ '000]: 46.79

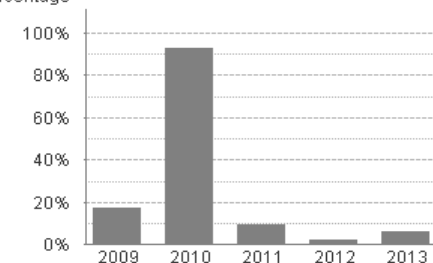
COMPETITORS



'000 US\$



Percentage



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*Pierre Etienne*

# Trading in Southern Africa

## Challenges

# Involvement in Africa

- RSA – 68 silo complexes/4.7 million mt storage/800 – 1000 people/R8 billion turnover
- Physical presence in Malawi/Zambia/Mozambique
- Also traded in Kenya/Zimbabwe
- Critical mass/Currency/Intervention



# Critical mass

- **Business establishment demands investment**
- **Investment demands returns**
  - **Supply is extremely fragmented**
  - **Demand is extremely concentrated**
  - **Commercial supply is limited**
  - **Supply is distributed over region**
  - **Expat profile/cost (diversified skills)**
  - **Effective management – domestic meetings**
  - **Establishment and operational cost (R10 000/visit=75 mt)**
  - **Expat = 15 000 mt trade = cost**
  - **Demands diversified activities**

# Foreign currency issues

## Invest Rand/US\$/etc in Kwacha/Metical/etc

- Profits
- Capital
- Devaluation/depreciation
- Control – Gov. intervention (60/40)
- Business impact:
  - Impairment – financial implications (official vs. Parallel rates)
  - Higher risk – higher return expected (price effect)
  - Local competition more options
  - Less investment – lower risk
  - Counter flow – options

# Government intervention

Natural flow – Supply  $\longleftrightarrow$  Demand  
(market understands forces – takes positions)

- Government intervention disturb natural flow
- Contaminate market – normal development XXXX
  - Minimum prices (Zambia/Malawi)
  - Maximum prices (Zambia – indirect)
  - International trade control (Malawi)
  - Stimulate supply side (Zambia/Malawi)
  - Stimulate demand side (Mozambique)
  - Objective awards
  - Government as seller – difficult transactions

# Financing

- **Producer – Land tenure system – Collateral**
- **Trader - Storage/Warehouse receipt (SGS)**
- **Processor - Financial status – Credit lines**
- **Investor - Local interest rates / Currency**

# Ethics

## Value chains are built on agreements

- Risks are taken based on agreements
- Quantity/Quality/Price/Time
- Agreements must be honoured
- Or it must be enforced
- Requires an effective working legal system
- And balance sheets must provide collateral
- Corruption
- Company culture ????



# System and infrastructure issues

## Value chain functions within systems and structures

- Infrastructure – Roads/Storage facilities/scales/security/rail
- Agenda of NGO/GO
- Co-operation with private sector – group vs. individual companies
- (system vs. individual benefit??)
- Legal and accountancy standards and compliance
- Regulatory compliance

# Conclusion

- Great opportunities
- Information regarding products and countries available
- Challenge – export channel
- General challenges of doing business in Africa  
(Local partner / NGO, corporate association / critical mass / staple = political / financing model / transfer risks – government and currency)

# Senwes Wesselsbron Silo complex

280 000 mt



Pietrus S. S. S.

Geographic regions



Sub-Sahara Africa (World Bank Definition)



Peter E. E. E.

