

Macroeconomic conditions, BRICS+, and policy developments that shape South Africa's agricultural sector

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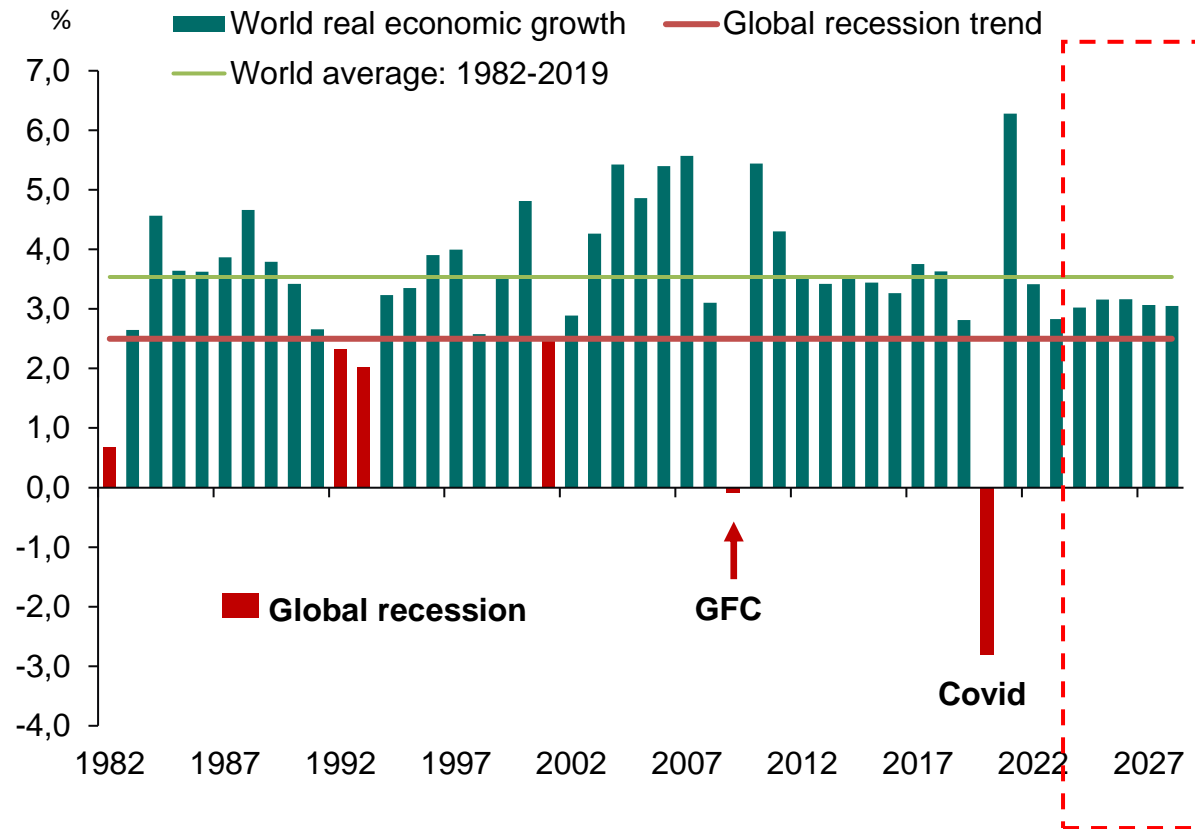
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Macadamia Symposium

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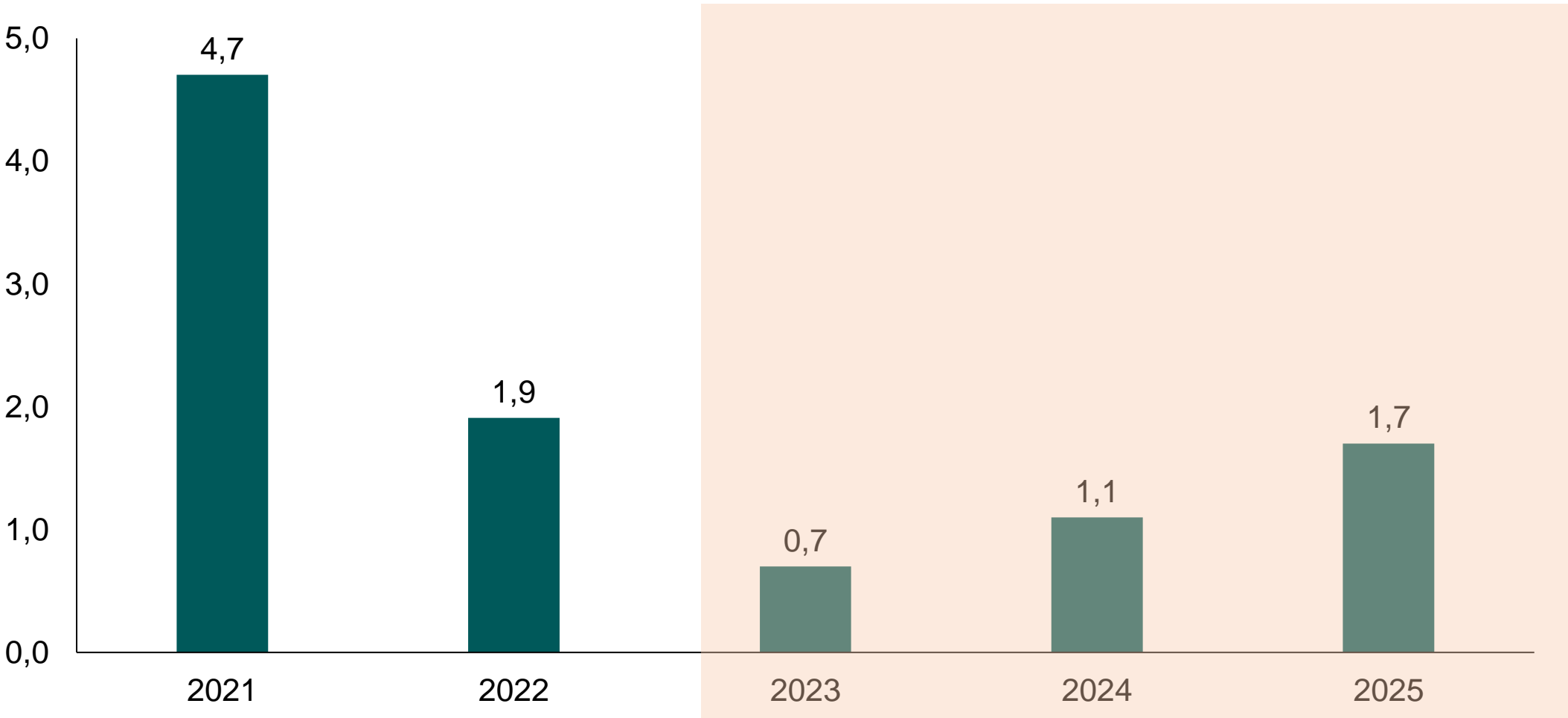
The global economic environment remains challenging



- World average growth from 1982-2019: 3.5%
- Growth of 2.5% or below is a global recession
- We have had six recessions:
 - 1982, 1991, 1992, 2001, 2009, 2020
- For the first time we have six consecutive years projecting growth in the danger zone
- The outer years of the forecast also shows weakening trend

SA's near-term growth improves

GDP growth (%)



The realities that influence SA agricultural conditions



Ongoing economic pressure with ample downside risk

- Tighter monetary policy weighing on growth prospects
- Inflation is slowing – but sensitive to further shocks
- China's recovery is slow – real estate problems remain unresolved
- Structural challenges remain in SA – consumer spending power under increasing pressure



Changes international trade environment?

- COVID-19 accentuated focus on self-sufficiency
- Numerous trade restrictions imposed through recent crisis
- Increasing prevalence of non-tariff barriers



Ongoing war in Ukraine raises uncertainty

- Immediate impact on energy and fertiliser costs has subsided
- Black Sea Grain Initiative brought stability but not renewed
- Medium-term productive capacity in Ukraine uncertain – increases risks associated with other events



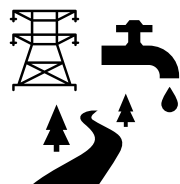
Weather conditions will bring volatility

- Affected rate of supply response
- Projections for strong El Niño in 2023/24 – impacts differently around the world – drier in SA
- Long-term climate impacts – extreme weather more frequent

South Africa facing numerous challenges that inhibit competitiveness

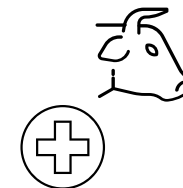


Port and logistics



Service delivery challenges

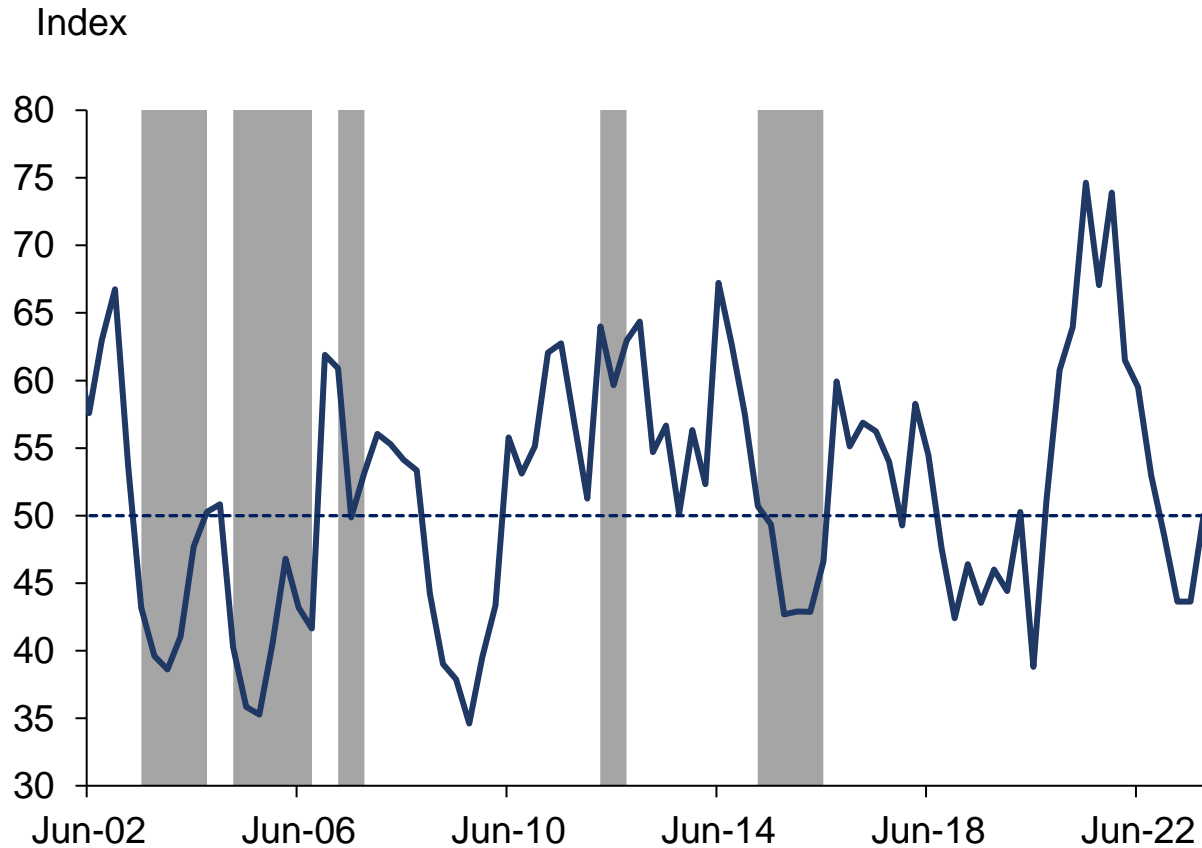
Eskom



Animal health & biosecurity

SA agribusinesses are still slightly downbeat about business conditions in the country

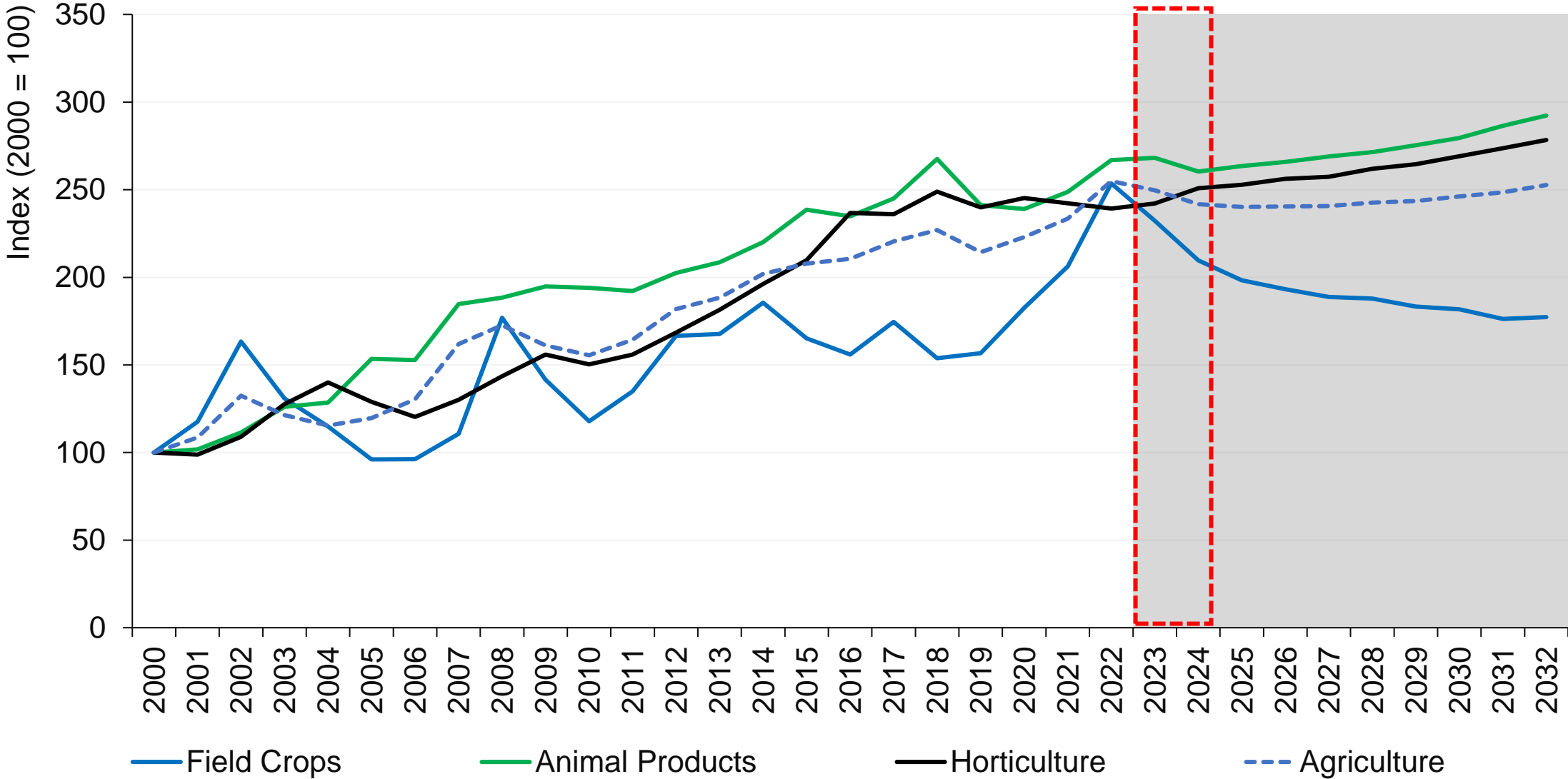
Agbiz/IDC Agribusiness Confidence Index



Factors weighing on the sentiments

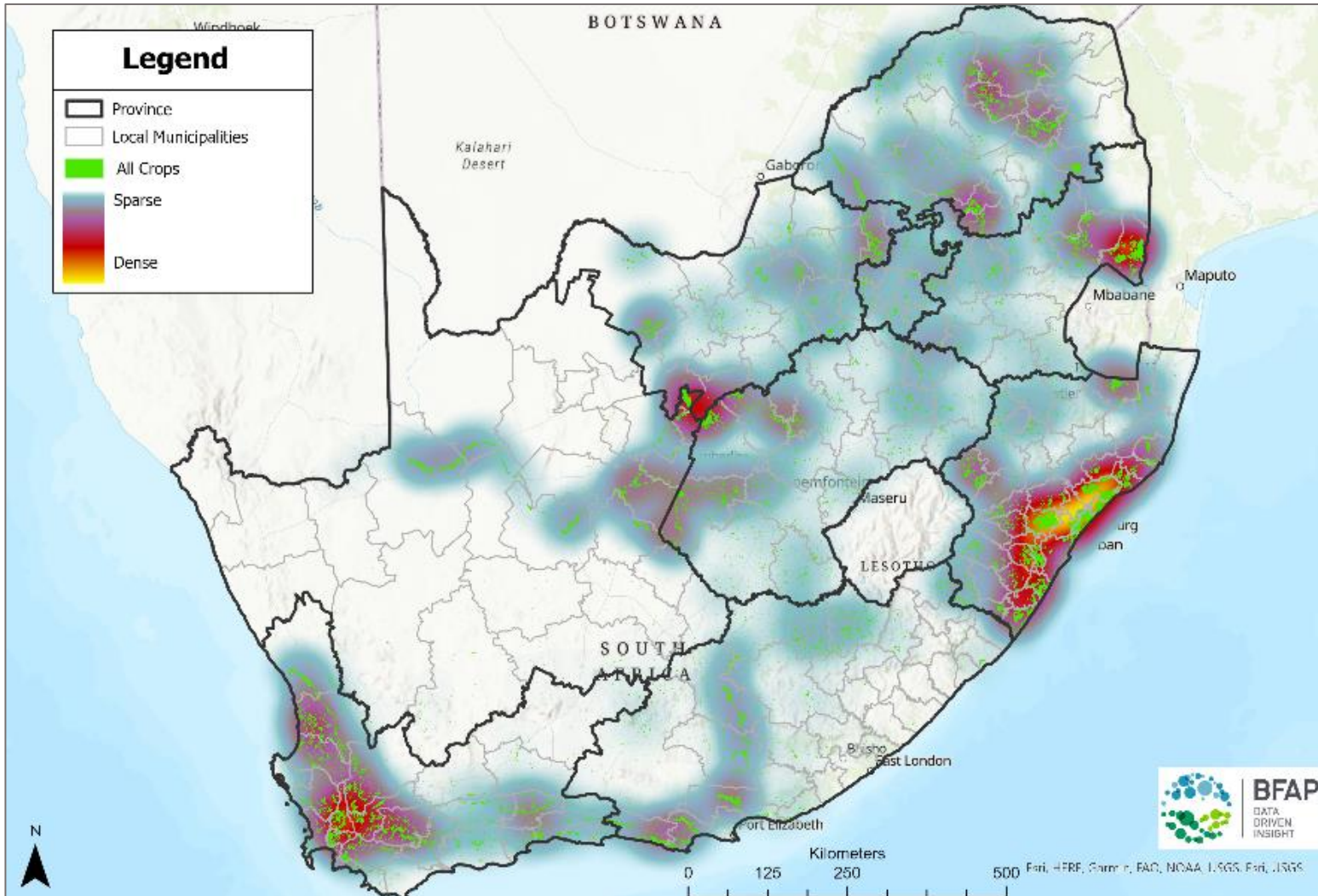
- Persistent episodes of load-shedding,
- Higher input costs,
- Rising protection in some export markets,
- Animal disease outbreaks,
- Rising interest rates,
- Intensified geopolitical tensions which disrupted supply chains,
- Ongoing weaknesses in municipal service delivery and network industries,
- Deterioration of rural roads.

SA agricultural performance coming under increasing pressure



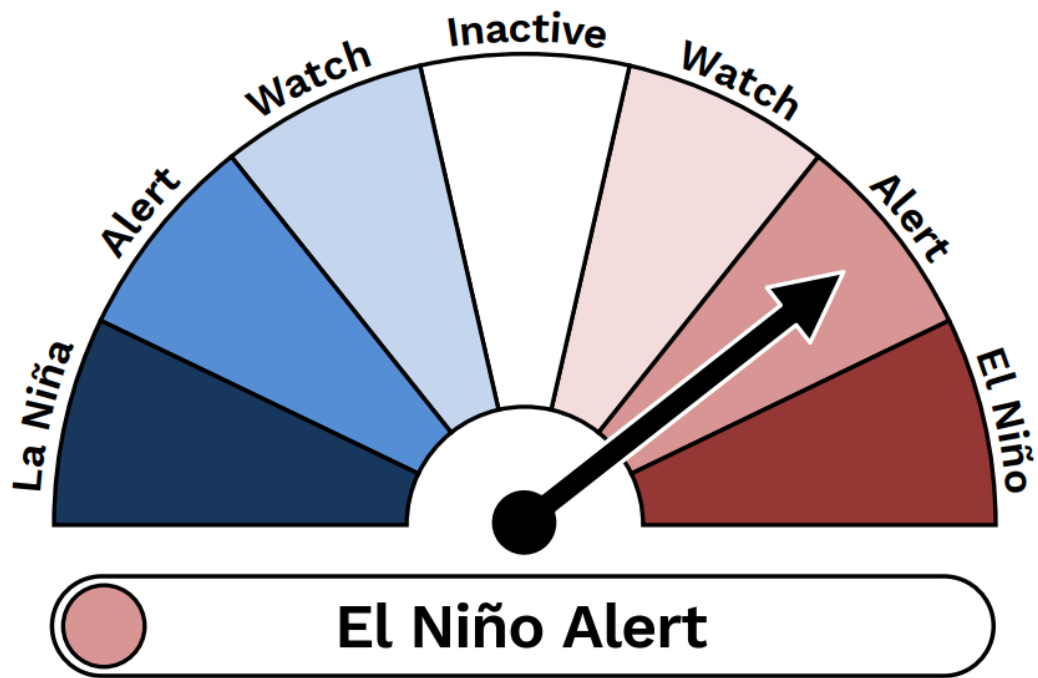
Near-term risks to domestic agricultural production

Total irrigation spatial spread in South Africa: all crops

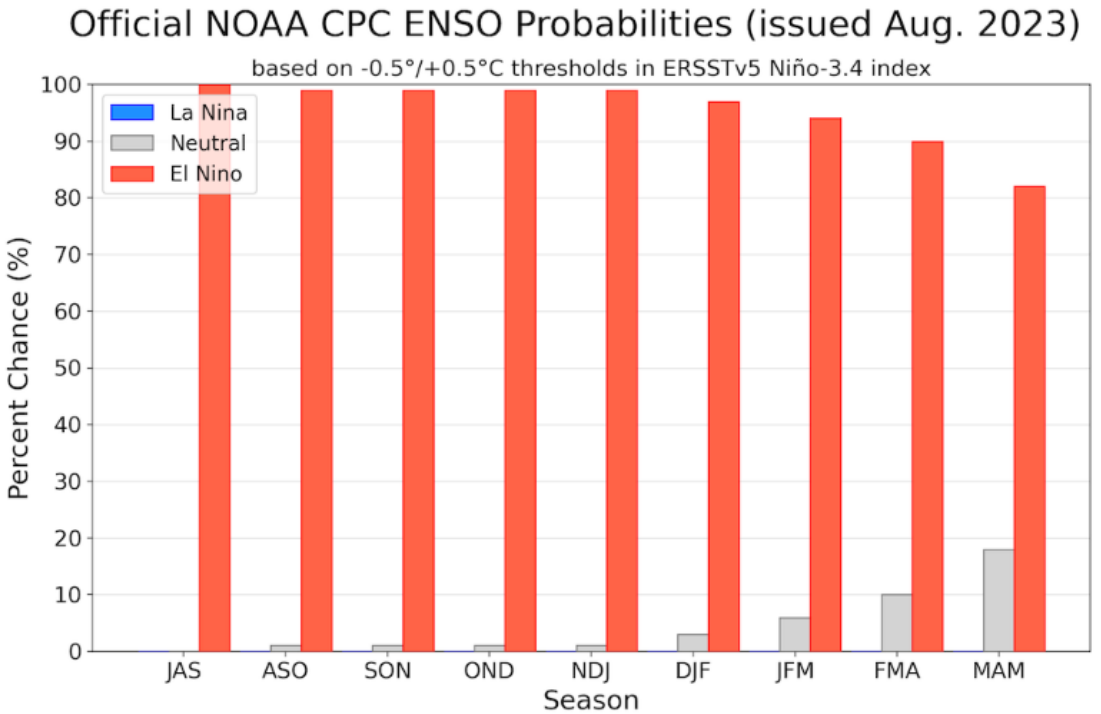


Rank	Local Municipality	Hectares
1	Nkomazi	67 739
2	uMshwathi	50 469
3	Letsemeng	45 693
4	uMlalazi	44 217
5	KwaDukuza	41 353
6	Cederberg	38 340
7	Tokologo	36 435
8	Langeberg	30 901
9	Witzenberg	30 855
10	Ray Nkonyeni	30 277
11	Molemole	30 116
12	City of Mbombela	29 503
13	Tswelopele	28 446
14	Siyancuma	27 642
15	Breede Valley	27 570
16	Mkhambathini	27 149
17	Modimolle-Mookgophong	25 930
18	Makhado	25 820
19	uMhlathuze	25 603
20	Umdoni	25 213

SA's agriculture could see below-average rains in the 2023/24 summer season



© The Bureau of Meteorology



NOAA/CPC ENSO Forecast Graphic, courtesy of NOAA/CPC

Government interventions to unlock growth in SA agriculture

Government interventions to address the energy crisis in agriculture

- Customers with dedicated supply infrastructure are part of the load curtailment process.
- There are ongoing trials for Eskom customers **supplied by the same feeder/substation to group together and apply for load curtailment or scheduled load-shedding.**
- The Department of Agriculture, Land Reform and Rural Development has announced roughly a billion rands' **Agro-Energy Fund to support farmers with installations of green energy solutions.**
- Customers in municipal supply area where switching is done by Eskom and possible to exempt/curtail, municipalities to be allowed to do own switching to accommodate customers.
- Process is still underway to assess the reconfiguration of the network to allow possible isolation where possible, and install micro grids for critical loads especially during critical times such as harvesting, irrigation and refrigeration - this will require customers to identify the essential load.
- To ease the impact of the electricity crisis on food prices, **the refund on the Road Accident Fund levy for diesel used in the manufacturing process, such as for generators, will be extended to manufacturers of foodstuffs for two years.**

Necessary interventions to deal with the long-term agriculture growth constraints

- **Agriculture finance** – a well-functioning Land Bank would be well-positioned to boost growth of the sector. But the current funding model of the Bank is highly dependent on the debt finance raised on the capital markets.
- **Animal biosecurity should be prioritised** – DALRRD and provincial departments of agriculture should ringfence a share of their annual budgets for animal disease outbreaks.
- **Improving market access and export facilities** – China, South Korea, Japan, the USA, Vietnam, Taiwan, India, Saudi Arabia, Mexico, the Philippines and Bangladesh are the key markets that SA should expand its presence into.
- The efficiency of the main SA **ports and rail** systems needs to receive **urgent attention**. The criminality resulting in the destruction of Transnet infrastructure has exacerbated the challenge and poses risks to export-oriented sectors.

A snapshot on agricultural developments within BRICS

BRICS Business Council agribusiness focus areas

- **Knowledge sharing on agri-technology** – this workstream entails knowledge sharing on new technologies that drive productivity, as well as business opportunities in this area amongst BRICS members.
- **Fertiliser** – this theme explores ways of boosting fertilizer production and trade amongst BRICS members. This theme also aligns with African Union strategy of Agriculture, where fertiliser has been noted as key to boosting agricultural productivity and reduce poverty.
- **Agricultural finance** – this theme is both knowledge sharing and sharing of opportunities for businesses that seek to increase agricultural finance in Africa.
- **Trade and Investment** – market access and barriers of entry are a primary focus amongst the BRICS members.
- **Climate-smart agriculture** – sharing of best practices from each country. This builds on the work started by China in 2022

BRICS is an important agricultural market

- While BRICS is fundamentally a multilateral cooperation mechanism, the changing geopolitical and economic landscape has increased the need for countries with close cooperation to improve trade.
- Agriculture is one of the thriving sectors of the BRICS countries. Still, this grouping also imports US\$320 billion of agricultural products from the world market in 2022. About 74% of the group's agricultural imports from China, 12% from 12% from India, 8% from Russia, 4% from Brazil and 3% from South Africa.
- The key agricultural products the BRICS grouping imports are soybeans, palm oil, beef, maize, berries, wheat, cotton, poultry, pork, poultry, apricots and peaches, sorghum, rice, and sugar. These are products that are produced at scale by some BRICS countries. Yet the imports to other BRICS members typically originate from suppliers outside the grouping.
- As BRICS matures from the political front, deepening trade is the basis for expanding the mutual benefit situation of the group's economy. It is preferable for BRICS countries to unite in trade and jointly explore regional trade arrangement to promote more competitive, dynamic, and balanced trade among BRICS countries.

BRICS is an important agricultural market

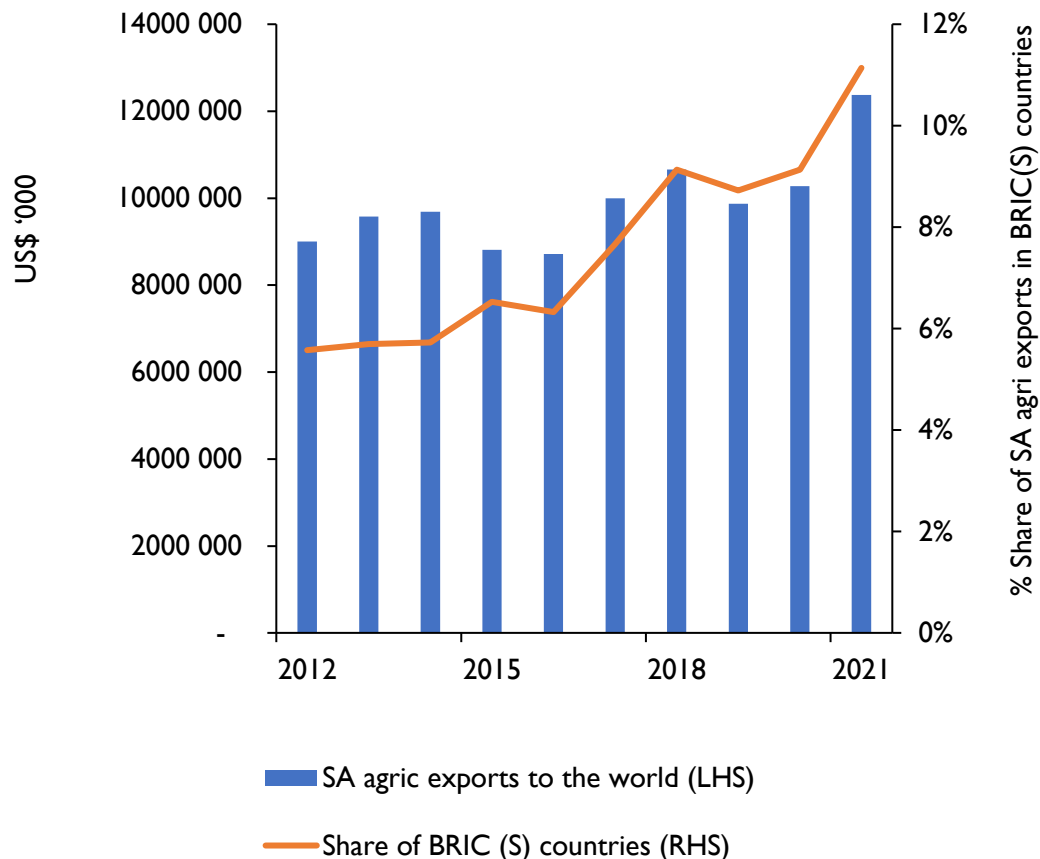
- Moreover Brazil, South Africa, and Russia typically have, in surplus, a large volume of products that India and China import from the world market. Making intra-BRICS trade more competitive and reducing various barriers would help deepen trade among these countries. **Reducing import tariffs, addressing SPS issues, and various non-tariff barriers would help deepen trade amongst these countries.**
- A reciprocal trade arrangement means that China and India would also receive equivalent access to various products they produce, which South Africa, Brazil, and Russia import in large volumes.
- A united BRICS on trade has the potential to increase trade volumes from beyond just five member states. This would potentially bring trade flows into BRICS from other countries in Asia, South America, Eastern Europe, and Africa.
- **SA's preferential market access to BRICS is through SACU-MERCOSUR PTA (access to Brazil)** (underway since 2016) and **SACU-India PTA (negotiations on-going for access to India)**. No preferential market access to China and Russia.

BRICS agribusiness major recommendations to political leadership

- A formulating an intergovernmental working group that explores the scope for making intra-BRICS trade more competitive and efficient. A more balanced regional trade arrangement is in order, which considers industries that are still in infancy and requiring protection, as well as calibrated opening of agricultural markets keeping each countries national interests in mind.
- BRICS could offer a viable alternative market that could divert trade away from key traditional markets like the EU, who are transitioning into stringent regulatory requirements under the Farm-to-Fork strategy.
- Over and under-fertilisation in BRICS countries threaten food security and the environment. Moreover, the imbalances in nutrient use, especially nitrogen, phosphorus, and potassium, can disrupt ecosystems and biodiversity due to their cost and availability. We recommend an increased focus on this issue.
- The BRICS Business Council members request that the European Commission reviews its SPS measures concerning pesticide as well as antibiotics MRLs and bring them to comply with the provisions of the WTO-SPS Agreement.

SA agricultural exports to BRICS countries

SA ag trade with BRICS

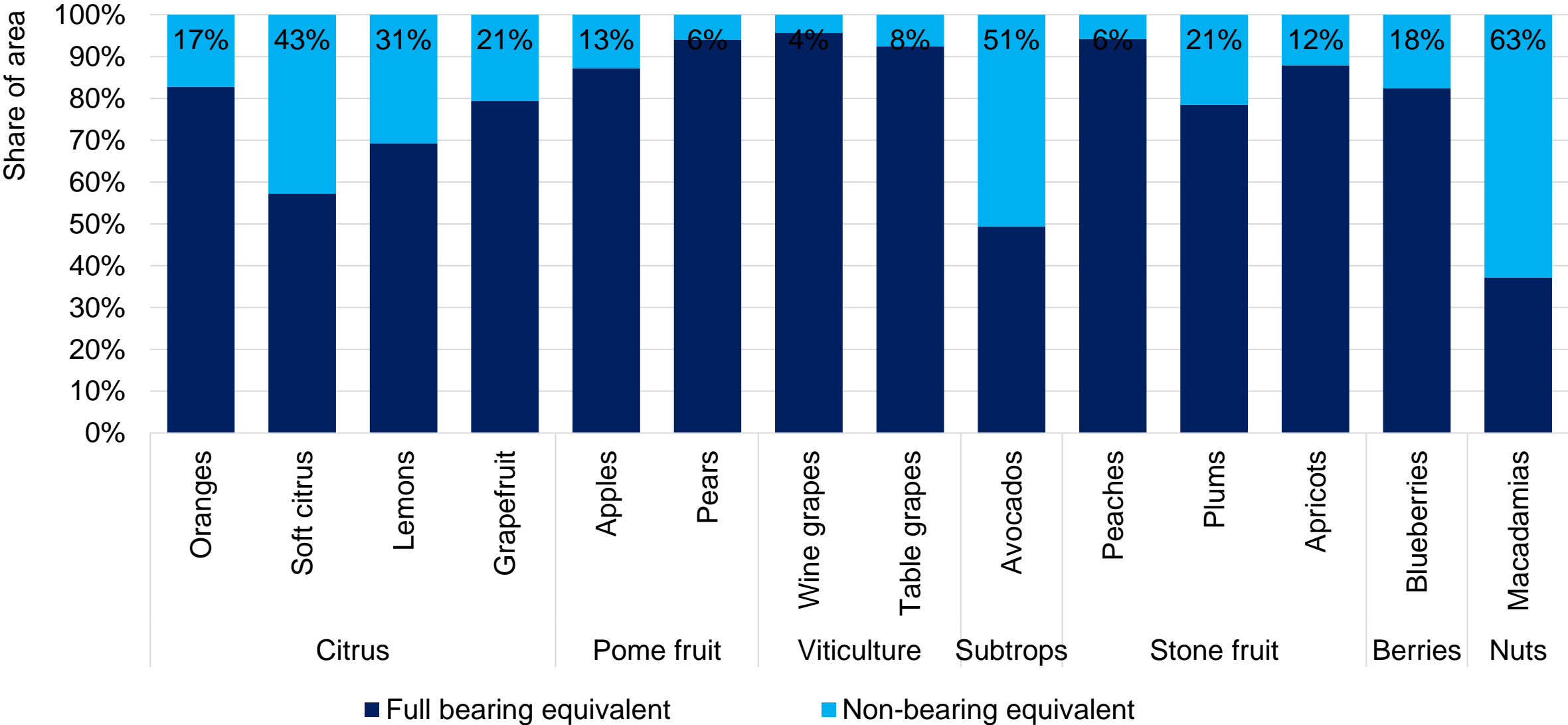


- We have an export-oriented agricultural sector that currently requires increased access to a range of export markets. BRICS is an important avenue for SA to achieve this goal.
- Currently, the **BRICS countries account for a relatively small share of South Africa's agriculture exports – an average of 8% over the past 10 years in annual average agricultural exports of US\$9,9 billion.**
- These realities imply that the South African representatives should continue to advocate for lowering import tariffs for agricultural products, specifically within India and China.
- At the same time, the business community will have to actively promote the proudly South African agriculture (and broadly food, fibre and beverages) products in this grouping of countries.

Additional countries to BRICS present a range of opportunities for agri trade

- BRICS is increasingly an important grouping with a recent resolution to add:
 - Argentine Republic,
 - the Arab Republic of Egypt,
 - the Federal Democratic Republic of Ethiopia,
 - the Islamic Republic of Iran,
 - the Kingdom of Saudi Arabia
 - and the United Arab Emirates to become full members of BRICS.
- The membership will take effect from 1 January 2024.
- The political principals have tasked the foreign ministers to further develop the BRICS partner country model and a list of prospective partner countries and report by the next summit in Russia in 2025. Trade will remain a running theme in this new and expanding grouping.

Large share of total area not yet in full production, and will require export markets



There is room for expansion in SA agricultural production

Interventions to accelerate land reform

- The State already owns 2,5 million ha of land via the PLAS process – currently in the State land holding account.
- It needs to be transferred to individual farmers that passes the skills, expertise and agricultural tests.
- Finance is critical – Land Bank can play an important role and finance farmer acquisition of land and 25% of purchase price. Other financial institutions can also play a crucial role.
- Production finance via Land Bank and other commercial banks (on blended finance) but linked to off-takers.
- We could within one year increase Black land holding in agriculture and also increase black participation in commercial farm output if we do the correct thing.

Land reform progress in SA (still slow but much more than is often claimed!!)

Government acquisition of farmland through PLAS	2 530 772 ha
Government acquisition for non-farm use	630 205 ha
Private purchases by Black South Africans	1 879 777 ha
Acquisition of farms by Blacks through gov redistribution	7 510 845 ha
Land restitution to Black communities/farmers	3 998 552 ha
Total farmland transferred away from white farmers	<u>16 550 101 ha</u> (21.3%)
<u>Add:</u> land rights restored via financial compensation	2 615 790 ha
The total area of land rights transferred or restored	<u>19 165 891 ha</u> (24.7%)

We have vast tracts of under-utilised state land for growth

PLAS hectares ('000)										
Provinces	EC	FS	GAU	KZN	LIM	MPU	NW	NC	WC	Grand Total
Total assessed	232	203	45	153	93	242	241	571	78	1 859
Field crops	9	35	18	23	9	54	22	54	5	230
Horticulture	10	10	2	15	14	20	7	9	14	84
Livestock	198	150	23	110	66	168	212	502	56	1 511
Irrigation	8	9	1	6	7	5	2	7	5	50

Agricultural development and land reform agenda

- The relatively slow progress with land reform is due to bureaucratic red tape, patronage and political influence. The Agency will change that and take land reform out of the hands of the politicians and the bureaucrats.
- The main idea and functioning of the Agency is to enable and reward large-scale white farmers to donate their land for land reform to beneficiaries of their own choice.
- The Agency should ideally have five broad tasks relating to:
 1. Enabling policy and bureaucratic processes to facilitate land donations.
 2. Creating and managing recognition mechanism given to farmers donating land and/or also provide financial and other support to beneficiary farmers.
 3. Establishing and managing the Land Reform Fund.
 4. Recording and monitoring progress on land transactions.
- This will encourage the voluntary release of land (by mines, churches, municipalities, SOEs, government departments or absentee landlords) directly to beneficiary households, communities or to the Agency.

Closing remarks

- It is important to remember that growth in agriculture is in general **two to three times more effective at reducing poverty** than an equivalent amount of growth generated outside agriculture.
- The advantage of agriculture over non-agriculture in reducing poverty is **largest for the poorest individuals in society and extends to other welfare outcomes**, including food insecurity and malnutrition.
- An important source of the poverty-reducing benefits of agricultural growth is the widespread adoption of innovations that increase producer returns and wage labour opportunities and reduce consumer prices.
- Agriculture and agro-processing also holds great potential for employment. **The nearly one million jobs the NDP highlighted in 2012 remains a possibility.**

Thank you for your attention

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