

The challenges facing Eastern Cape agribusinesses

The challenges that agriculture and agribusiness stakeholders face are the same across South Africa. After engaging with our members in various provinces of the country, we spent time with agribusiness and farmers in the Eastern Cape this past week. The Eastern Cape is an important agricultural province, accounting for about 6% of the sector's annual gross value added, roughly the same as Limpopo, North West and Gauteng. The broad challenges that continue to weigh on agribusiness leaders' minds in this province are the threat of deteriorating municipal service delivery, corruption in public offices and the failures in the network industries (i.e., roads, rail, water, electricity and ports). These inefficiencies lead to increasing costs of doing business in the province and taking investment away from productive agribusiness activities to maintaining roads and other infrastructure.

Beyond these challenges are the regulatory constraints, such as the dysfunctional State Veterinary Service and the need to modernize Act 36 (Act 36 of 1947) for Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act. For an extended period, South Africa embraced science and led the continent in agricultural productivity, benefiting from the adoption of critical agrochemicals, seeds and livestock remedies. However, the country's pace is drifting from this positive path. We lag behind our competitors due to the delays and large backlogs in the Registrar's office, resulting in crucial productivity-enhancing inputs not being released to the agricultural industry. The failures in national vaccine production also remain an issue, and the livestock industry is again at risk as the rainy season starts.

The agribusinesses we engaged with also highlighted the need for South Africa to expand export markets to accommodate the growing fruit and livestock output. Moreover, there needs to be improvement of relations between industry and the shipping companies so that the Eastern Cape ports can also receive prominence in services. There have been occasions where the province's ports have struggled to get shipping lines essential for the movement of agricultural products to export markets.

The need for agricultural finance, particularly developmental finance for the new entrant farmers and the need to build trust and accountability, as well as implementation, monitoring and evaluation of various sector plans, was also highlighted in the engagements.

Interventions

These challenges we highlight above are cross-cutting and not limited to the functions and responsibilities of the Department of Agriculture, Land Reform and Rural Development. This means the form of engagement with the government will also need to be broad and include the likes of the Department of Public Works and Transport, amongst others. Agbiz has been engaged in discussions on these issues through various national platforms and direct engagements with Transnet and other stakeholders. The agricultural sector role players are in regular conversations with Transnet regarding the effectiveness and efficiency of the ports. So far, Transnet has been open to engagements and efficient in resolving challenges such as rebuilding the Port of Durban following the destructive floods. Going forward, private sector role players want to explore possibilities of better partnerships in the various nodes of the ports, which could help improve efficiencies, not only for agriculture but a range of industries such as mining and automobile, amongst others. The "Interface Agreement" to be signed

31 October 2022

Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

Disclaimer:

Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any loss or damage incurred due to the usage of this information.

between Agbiz and Transnet will likely be the first step in strengthening the cooperation and delivery for the agriculture and agribusiness sectors.

Admittedly, the push for export growth has become even more urgent as agricultural output consistently improves and the country has limited capacity to absorb new produce. As we have pointed out, South Africa exports half its products in value terms. Therefore, the government and industry efforts to boost domestic production should be underscored by the expansion of the export markets. Japan, China, India, Saudi Arabia, Bangladesh, the Philippines and South Korea remain the key markets in which South African agribusinesses are interested in expanding their presence. We continue to highlight these markets to the relevant government departments and the Presidency. The presence of the agricultural role players in the recent South Africa-Saudi Arabia engagement stands as an example of what we need for cooperation and championing "South Africa Inc" agricultural products as a country. This should now be followed by technical government engagements to open the path for exports of South African agricultural products.

Regarding agricultural finance, the focus was on the recently launched Blended Finance instrument by the Department of Agriculture, Land Reform and Rural Development and the Land Bank. This is a necessary product and will positively contribute to the sector's growth and to servicing the needs of some new entrant farmers. Moreover, the Department of Agriculture, Land Reform and Rural Development has drafted the Blended Finance instrument for the broader financial service and agribusinesses sector. It will be an additional pillar that further cushions the sector and provide a necessary resource for expansion.

Overall, the challenges agribusinesses and farmers face across South Africa are similar. These are also well understood by both the government and various industry stakeholders. South Africa needs a plan of action, particularly on improving efficiencies in the network industries, municipality delivery, rooting out corruption and legislative reforms within the Department of Agriculture, Land Reform and Rural Development. The Agriculture and Agro-processing Master Plan lay out the policy framework that provides a comprehensive view of the sector's challenges and proposes some solutions. It is not a perfect plan, but it could improve the sector's operational conditions if implemented effectively and efficiently by all stakeholders. As agriculture is one of the sectors that will help grow the South African economy, there needs to be increased attention to the reforms necessary to unlock inclusive growth and job creation.

Weekly highlights

South African farmers' intentions to plant data point to prospects of yet another large summer crop in the 2022/23 season

We have generally held an optimistic view about South Africa's 2022/23 summer crop production season. The robust tractor sales since the start of the year, prospects of yet another La Niña albeit weaker than last season, and the relatively higher commodity prices pointed to possibilities of decent area plantings.

The data released by the Crop Estimates Committee (CEC) last week is aligned with our view. The CEC indicates that South African farmers intend to plant a total area of 4,35 million hectares of summer grains and oilseeds in the 2022/23 season, up mildly by 0,2% y/y.

A deep dive into the numbers show a mixed picture. For example, the 2022/23 maize planting intention is 2,59 million hectares, down by 1% y/y (but well above the 10-year average area of 2,53 million hectares). About 1,50 million hectares is white maize (down by 5% y/y), and 1,09 million hectares is yellow maize (up 4% y/y).

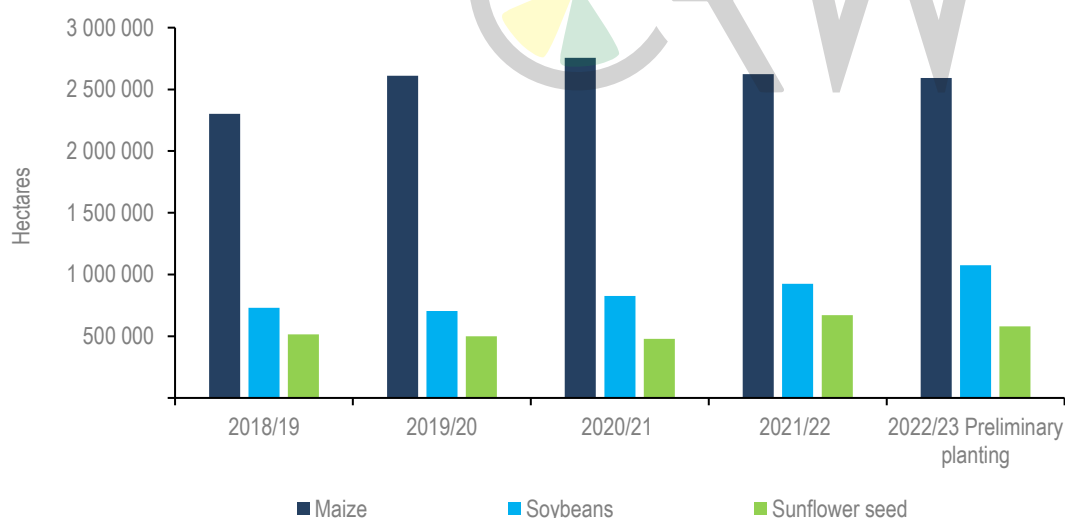
Sorghum area could fall by 11% y/y to 33 100 hectares (well below the 10-year average of 51 102 hectares). The groundnut area will likely decline by 21% from the 2021/22 production season to 34 500 hectares (lower than the 10-year average of 43 143 hectares). The sunflower seed planting could decline by 13% from the 2021/22 season to 580 500 hectares (slightly above the 10-year average of 579 955 hectares). Moreover, the dry beans planting intentions are down by 13% y/y, estimated at 37 200 hectares. Meanwhile, soybeans area plantings are set to increase by 16% from the 2021/22 production season to 1,08 million hectares, a record area.

While the picture is mixed, with most crops showing a decline, these are still welcome developments. Some feared that the rising input costs – fertilizer and agrochemicals – would potentially discourage plantings, and these data point to the opposite. Admittedly, as promising as the planting intentions data are, the higher input costs will cut the farmers' profits this new season from the past one. If one considers the herbicides such as glyphosate, atrazine, and metolachlor, their prices were up by 7%, 34% and 51%, respectively, in September 2022, compared with the corresponding period last year. The same trend persists in major fertilizers such as ammonium nitrate, urea, and potassium chloride, whose prices were up by 64%, 23% and 17%, respectively, in September 2022 compared with the same time last year.

These overall increases are on the back of supply constraints and disruptions in production lines because of the Russia-Ukraine war and the pre-existing production challenges in the major global fertilizer and agrochemical-producing countries like China, India, the United States, Russia, and Canada. Unfortunately, these headwinds are beyond the farmers' control as the price increases reflect the global market conditions rather than the domestic picture. Notably, South Africa imports about 80% of its annual fertilizer consumption and is a minor player globally, accounting for a mere 0.5%. Local prices tend to be influenced by developments in the major producing and consuming countries mentioned above. Much of the fertilizer imported by South Africa is utilized in summer grain and oilseed production. Fertilizer constitutes about 35% of grain farmers' input costs and a substantial share in other agricultural commodities and crops.

In sum, we are still in the early days, as the planting activity has recently started in the eastern and central regions of South Africa. Still, the higher tractor sales, favourable weather outlook for the season and the farmers' optimism through the intentions to plant data compel us to believe that South Africa could have another good crop in the 2022/23 production season.

Exhibit 1: South Africa's major summer grain and oilseeds plantings



Data releases this week

We start the week with a global focus, and today the United States Department of Agriculture (USDA) will publish its **Weekly US Crop Progress** data. In these data, our focus is on the US grains, and oilseeds harvest progress, specifically maize and soybeans. In the previous release, in the week of 23 October 2022, about 61% of the maize crop had already been harvested. This is slightly behind the last year's pace of 64% in the same week. This slight delay is due to unfavourable weather conditions in some regions at the start of the season. Meanwhile, soybeans harvest has progressed, with 80% of the crop already collected on 23 October 2022. This is way ahead of last year's pace of 71% in the same week. In addition, the USDA will release the **US Weekly Export Sales** data on Thursday.

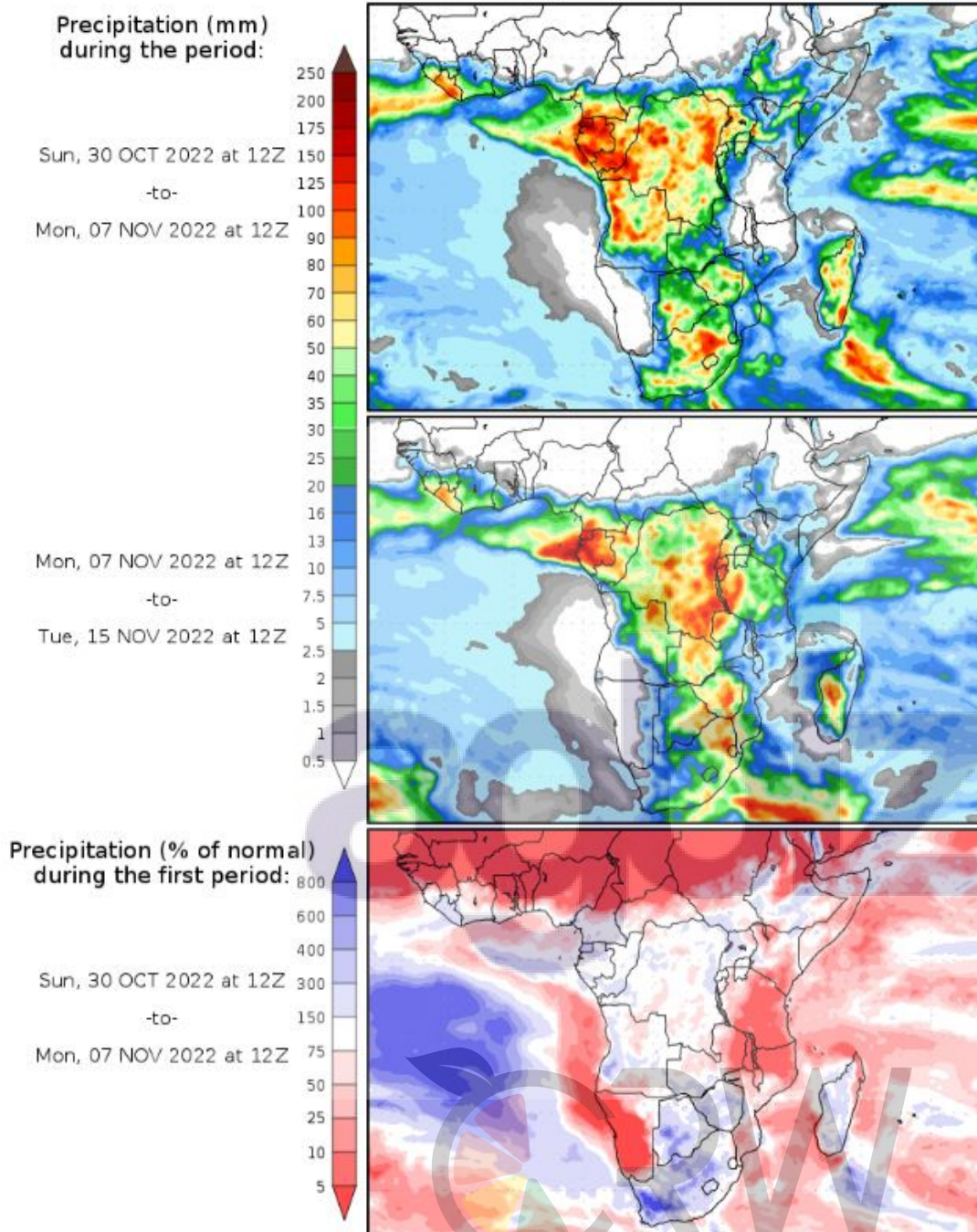
On the domestic front, on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 28 October 2022. This data will help us get insight into the crop size as harvesting has been recently completed in most regions of the country. In the previous release of the week of 21 October, about 13,8 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 15,3 million tonnes. In the same week, about 2,1 million tonnes of soybeans had already been delivered to commercial silos out of the expected harvest of 2,2 million tonnes. Moreover, 833 281 tonnes of sunflower seed had already been delivered on the same day out of the expected harvest of 845 550 tonnes.

Also, on Wednesday, Statistics South Africa will release the **Consumer Price Index: Sources and Methods for 2022**.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 28 October 2022. In the previous release on 21 October 2022, which was the 25th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 66 953 tonnes. About 79% of this went to Vietnam, 4% to Taiwan, and the rest to the Southern Africa region. This brought the total 2022/23 exports to 1,97 million tonnes out of the revised seasonal export forecast of 3,40 million. This is slightly down from 4,14 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net wheat importer, and 21 October was the third week of the 2022/23 marketing year. The weekly imports amounted to 18 016 tonnes from Germany and Lithuania. The total imports for the 2022/23 season are now 138 566 tonnes. The seasonal import forecast is 1,53 million tonnes, slightly down from 1,58 million tonnes in the previous season. In the 2021/22 season, the major wheat suppliers are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. As we stated in our previous notes, if one looks into South Africa's wheat imports data for the past five years, Russia was one of the major wheat suppliers, accounting for an average share of 26% yearly.

Precipitation Forecasts



Source: George Mason University (wxmaps)

The weather forecast for the next two weeks currently shows prospects of widespread rains across the summer crop growing regions of South Africa.

The rains will help improve soil moisture, and subsequently, enable farmers to continue with summer crop plantings.