

SA agriculture policy agenda ahead of the ANC's conference

We are a month away from the 55th National Conference of the governing African National Congress (ANC), where new leadership will be elected and resolutions will be adopted on critical policy matters. Agriculture policy, food security and land reform will likely be among the crucial topics for the conference. The outcomes of the party's policy conference held in July this year give us some insight into the ANC's broad approach to agriculture, food security, and land reform. The policy papers from the July conference have championed agriculture as an important sector of the South African economy, with the potential to uplift many South Africans out of poverty through increased food production, vibrant economic activity and job creation. This perspective gives one hope that the policy approach towards this sector will be constructive, demonstrating an understanding of the need for a stable environment and increased investment to sustain the country's gains thus far on the food security front. The latest Economist's Global Food Security Index, a measure of the food security conditions of surveyed countries relative to the world, ranks South Africa at 59 out of 113 countries, an improvement from the 70th position in 2021. This places South Africa as the most food-secure country in the African continent, followed by Tunisia at 62nd.

Admittedly, these are admirable results at a national level. That said, there is still a need for massive improvement at the household level, and this is an area the ANC will likely be engaged in at its December conference. Still, agriculture cannot solely shoulder the responsibility of household food insecurity. There is a need for an economy-wide approach, including reforms to stimulate job creation.

Fundamentally, a critical part of the improvement in food security will have to be through expansion in agricultural production and job creation in various sectors of the economy. This was evident in the National Development Plan as far back as 2012¹. This view was again highlighted in the 2019 National Treasury paper² and, most recently, in the 2022 Agriculture and Agro-processing Master Plan.³ The clear focus on agriculture across all these policy documents is largely motivated by the understanding that, on average, growth in agriculture is more poverty reducing than an equivalent amount of growth outside agriculture.

We believe that growth in agriculture will have to come through the expansion of agricultural activity in the former homelands and government land, enhancing government-commodity organizations' partnerships in extension services, investment in the network industries (water, electricity and road infrastructure), port infrastructure, and state laboratories. This puts the Land Reform and Agricultural Development Agency, first announced by President Ramaphosa in 2021 and more recently in the State of the Nation Address in 2022, at the centre of the policy coordination. The ANC's policy papers also emphasised this agency as a potential vehicle for land reform. However, they offered limited insight into how the agency should operate, a function that was probably left for the government bureaucrats to outline. To ensure its effectiveness, we think the agency should ideally focus on the land redistribution pillar.

¹ Chapter six of the National Development Plan which focuses on agriculture and land reform is available [here](#).

² The National Treasury economic policy paper can be accessed by [clicking here](#).

³ The signed Agriculture and Agro-processing Master Plan are available [here](#).

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In contrast, all other pillars of land reform should remain with the Department of Agriculture, Land Reform and Rural Development, in our view. This would ensure that the agency focuses on distributing the available land in the state to the carefully selected beneficiaries through the Beneficiary Selection and Land Allocation policy.⁴ The agency would also be a vehicle for administering land donations by mines, churches, SOEs, etc. The details of this agency are yet to be outlined. We understand that the work to structure it is near completion under the leadership of the Minister of Agriculture, Land Reform and Rural Development.

The ANC policy papers also outlined the failing network industries and their impact on agriculture. This will hopefully remain a key part of the discussions in December. Without the significant improvement in the road, rail, water, electricity and ports, the transaction costs to markets for farmers will remain high, affecting the sustainability of businesses. The ANC policy papers in July 2022 highlighted that a few critical preconditions need to be in place to advance transformation and support growth in the agricultural sector, which the ANC will prioritize. These include a comprehensive, well-maintained infrastructure, electricity, water, roads, rail and ports, and well-functioning local municipalities with reliable service delivery.⁵ This is a critical acknowledgement and need not remain on policy papers only but be adopted as a critical resolution at this December conference and provide a mandate to the next administration. The South African economy is hobbled by extreme forms of economic sabotage and vandalism through the network industries that need urgent attention.

The point not reflected fully in the ANC policy papers about agriculture is the urgent need for export-led growth, which underscores the focus on the need for adequate ports, rail and roads. An uncertain geopolitical environment also means South Africa should strategically position itself to protect its economic interests. Regarding agriculture and the broader export sector, the EU, UK, US, and the African continent remain important regions in which South Africa should maintain positive relations. Additionally, China, South Korea, Japan, Vietnam, Taiwan, India, Saudi Arabia, the Philippines and Bangladesh are growth areas for South Africa's agricultural exports.

Aside from the broad policy matters, there are other regulatory interventions which we have highlighted before for the government to prioritize and additional measures to boost growth in agriculture. This includes modernizing regulations such as the Fertilizers, Farm Feeds, Seeds and Remedies Act 36 of 1947⁵, with which many role players in agriculture continue to express dissatisfaction. The Agricultural Product Standards Act's enforcement to ensure that the Department of Agriculture, Land Reform, and Rural Development leads the implementation and does not assign it to third parties is another critical intervention that could be explored.

Ultimately, the agricultural sector holds growth potential, but a supportive and stable policy environment is needed to attract long-term investments. Additionally, there needs to be an increased focus on improving the service delivery at the local government level, as some of the policy aspects of the ANC, and indeed, its government, would be decided at a national level, but the implementation is a local function. Therefore, effective coordination between national and local governments is vital for supporting the sector.

Weekly highlights

SA tractors sales remain robust

We have been closely following South Africa's monthly tractors sales data, and the results remain encouraging. Since April 2020, the monthly sales have remained positive, registering

⁴ The draft of this policy can be accessed by [clicking here](#).

⁵ More information about Act 36 is available [here](#).

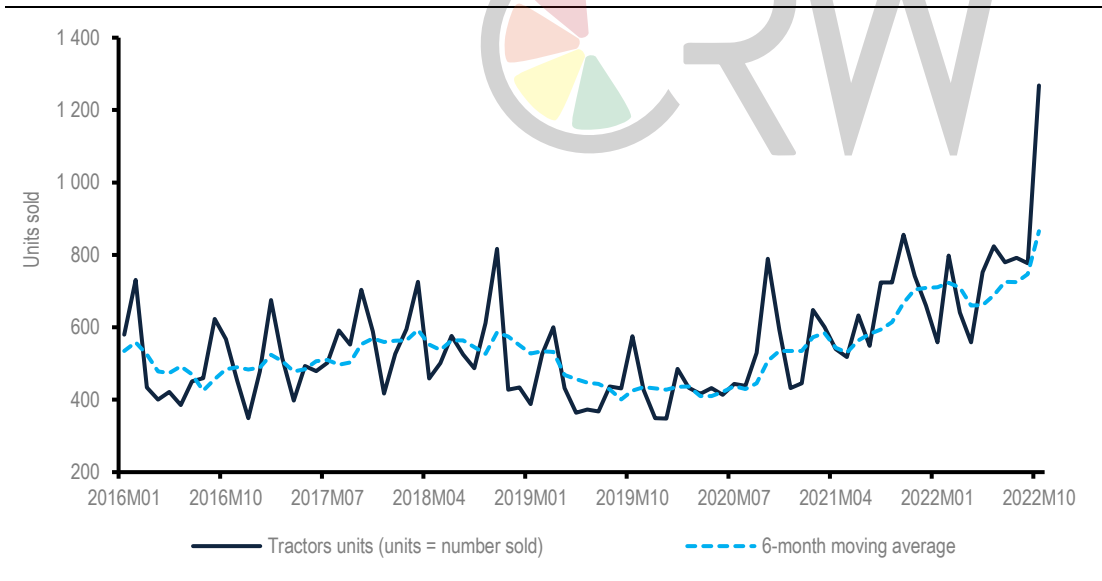
an average of 26% y/y growth over the past 31 months. When this year started, we thought the farmers would reduce spending on agricultural machinery as fertilizer, agrochemicals and fuel prices increased aggressively along with a rise in the interest rates, all of which added financial pressure on farmers. We also assumed that the two years of solid sales – 2020 and 2021 – would mean farmers would see a limited need to replace the tractors. But the data tells a different story; with tractor sales seeing an average of 20% y/y growth over the past ten months of 2022.

The major surprise came with October 2022 tractor sales data released this past week. The sales were up 48% y/y from October 2021, amounting to 1 268 units, the highest in 40 years. Several factors explain this solid activity. But at the core, it's the reasonably healthy financial condition of some farmers, specifically the grains and oilseeds. This is the main subsector of agriculture that has experienced better conditions over the past three years. Grain and oilseed prices were higher even before the Russia-Ukraine war. The drought in South America and rising demand for grains and oilseeds in China were the key factors underpinning the surge in grain and oilseed prices pre-war. Had it not been for higher global agricultural prices, the local grains and oilseeds prices would have softened due to large harvests. Consequently, we had a couple of seasons of large grains and oilseeds, coinciding with higher prices, which boosted the farmers' incomes.

The growers in horticulture have experienced various challenges ranging from trade restrictions in critical markets – such as the EU trade friction in citrus and vegetables regional trade issues -- to logistical challenges and supply chain disruptions, all of which have negatively impacted their profitability. The livestock industry has also had its fair share of challenges, including temporary blockage in essential markets such as China (in the case of wool), widespread animal disease (foot-and-mouth), and generally higher feed costs (maize and soybeans).

Overall, these robust tractor sales this year also signal an environment where farmers are optimistic about the future and investing in movable assets. Even indicators such as the Crop Estimates Committee's farmer intentions-to-plant data show that South African farmers plan to increase the area plantings for summer grains and oilseeds by 0,2% y/y to 4,35 million hectares in the 2022/23 season. With favourable rains across the country, this area will likely materialize. Ultimately, while South Africa's agricultural sector faces various challenges, these solid tractor sales provide glimpses of optimism amongst farmers about the near-term prospects of the sector.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

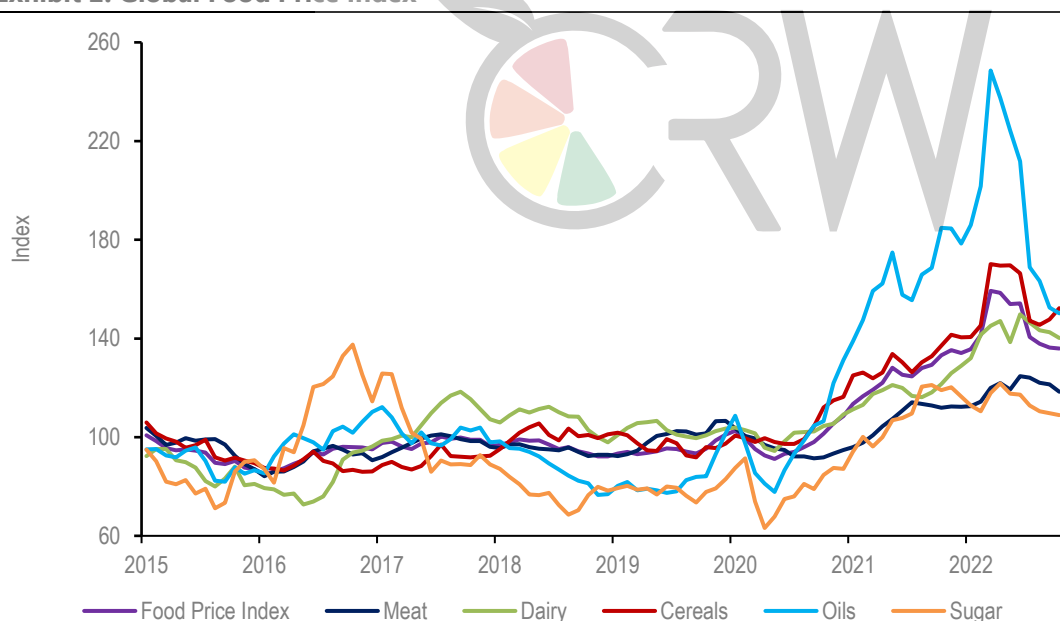
USDA maintained a broadly unchanged view in global grains and oilseeds production forecasts for 2022/23

This past week the United States Department of Agriculture (USDA) released its monthly flagship report, the World Agricultural Supply and Demand Estimates report. This report provides insight into the production conditions of the major grains and oilseeds. While there have been some changes in production conditions in various countries, the overall estimates remain broadly unchanged from the forecasts released in October 2022. For example, the USDA forecasts 2022/23 global wheat production at 783 million tonnes, up by 0,1% from October 2022. This is mainly because of improved production conditions in Australia, Brazil and Kazakhstan, which overshadowed the decline in crop conditions in Argentina, amongst others. Notably, the current forecast is up by 0,4% from the 2021/22 global wheat harvest, supported by expected large yields in Russia, the US, Canada, Kazakhstan, China, Turkey, and the UK.

Moreover, the USDA maintained its 2022/23 global maize harvest estimate broadly unchanged from October figures, at 1,17 billion tonnes. This is down by 4% from the previous season, mainly due to an expected smaller crop in the US, Ukraine, EU, and India. 2022/23 global rice production is estimated at 504 million tonnes, marginally down by a tonne from October estimates. The current estimate is down by 2% from the 2021/22 season due to anticipated poor yields in parts of rice-producing regions of Asia.

Unlike the other crops, the 2022/23 soybeans production prospects remain positive, at 390 million tonnes. This is unchanged from October 2022 but 10% higher than the 2021/22 season. The anticipated large harvest in Brazil, Argentina, China, Paraguay, Canada, Russia, and Ukraine compensates for the expected decline in the US, India, and Uruguay. These deviations in crop expectations are a function of weather and area plantings variations. Overall, the 2022/2023 global grains and oilseeds season presents an encouraging picture of supplies. These forecasts will probably be sufficient to provide relief from the levels the grains and oilseeds prices were at in the weeks after the start of the Russia-Ukraine war. Still, one will have to keep a close eye on the South American crop conditions over the coming months as the season is still at inception, and there are growing fears of drought because of the La Niña weather event. We will also keep monitoring the impact of these developments on food prices (see Exhibit 2).

Exhibit 2: Global Food Price Index



Source: FAO and Agbiz Research

Data releases this week

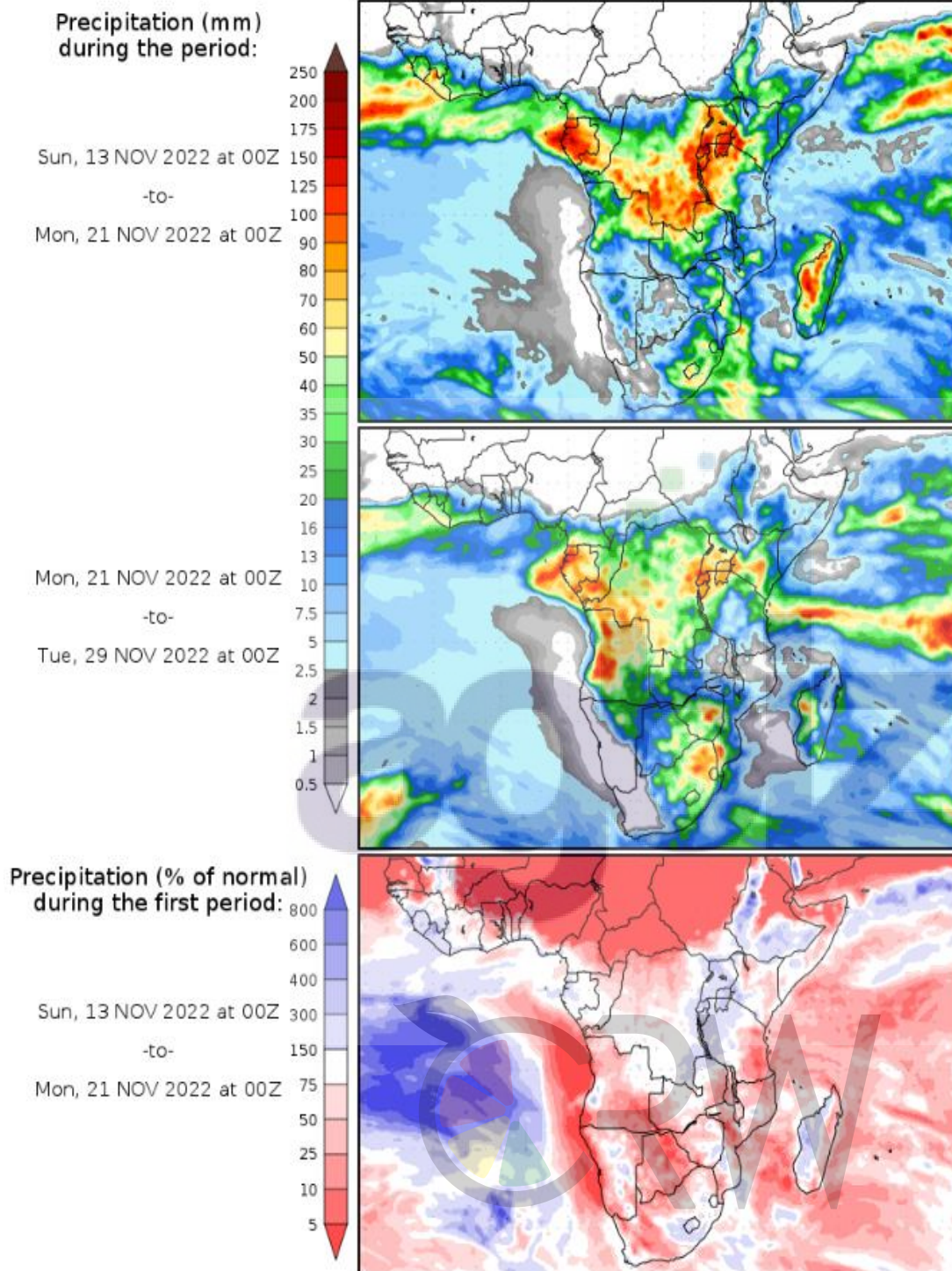
We start the week with a global focus, and today the United States Department of Agriculture (USDA) will publish its **Weekly US Crop Progress** data. In these data, our focus is on the US grains, and oilseeds harvest progress, specifically maize and soybeans. In the previous release, in the week of 06 November 2022, about 87% of the maize crop had already been harvested. This is slightly ahead of last year's pace of 83% in the same week. At the same time, the soybeans harvest is nearly complete, with 94% of the crop already collected on 06 November 2022. This is way ahead of last year's pace of 86% in the same week because of drier weather conditions earlier in the season, accelerating the crop's maturity. Moreover, 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 11 November 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 04 November, about 13,9 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, 834 118 tonnes of sunflower seed had already been delivered on the same day out of the expected harvest of 845 550 tonnes.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 11 November 2022. In the previous release on 04 November 2022, which was the 27th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 61 844 tonnes. About 83% of this went to Taiwan, and the rest to the Southern Africa region. This brought the total 2022/23 exports to 2,09 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 04 November was the fifth week of the 2022/23 marketing year. The weekly imports amounted to 52 976 tonnes, all from Latvia. This puts the total imports for the 2022/23 season at 224 264 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. This was replaced by Argentina and Brazil in the 2021/22 season.

Precipitation Forecasts



Source: George Mason University (wxmaps)

After a week of heavy rains in some regions of the country, the weather forecast for the next two weeks currently shows prospects of continuous 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.

With that said, there remains a risk of excessive rains in some regions which could delay plantings. This is an issue we will keep a close eye on in the coming weeks.