

South Africa's agriculture export drive is not a straightforward path

There is consensus amongst agricultural role players that sustainable growth in South Africa's agricultural sector cannot only be achieved through the expansion of production. An expansion of export markets should be a key support pillar for growth. This has been well-understood for many years. For nearly three decades, South Africa excelled at opening various export markets, supporting the growth the sector has witnessed since 1994. South Africa has successfully negotiated several free trade agreements (FTAs) over the past few decades with critical regional and international markets. These include the following:

- (1) Southern African Development Community (SADC) FTA,
- (2) SADC-European Union (EU) Economic Partnership Agreement (EPA),
- (3) SACU/Mozambique-United Kingdom (UK) EPA,
- (4) The African Continental Free Trade Area (AfCFTA)
- (5) and SACU-MERCOSUR Preferential Trade Agreement (PTA).

As we have noted in these pages before, all the agreements highlighted above were concluded over the past 16 years, which is quite a considerable feat given the technical and institutional demands that must be committed to negotiating and successfully implementing trade agreements. We should note, however, that the actual free trade agreements are in only two of South Africa's biggest markets – Africa and Europe – which collectively account for two-thirds of the country's total agricultural exports in value terms. The SACU-MERCOSUR preferential trade agreement (PTA) is a narrowly focused and low-ambition trade arrangement and has not had a significant impact. That said, it could be argued that the opening of markets through these agreements has indeed deepened, consolidated and improved South Africa's position in the EU and Africa.

Recently, we have seen a rise in the use of non-tariff barriers in these critical markets, such as the regulation of citrus exports in the EU and the ban of vegetable imports from South Africa in Botswana and Namibia. This means the South African authorities and industry will need to collectively work towards strengthening our relations in these markets and restoring the export position the country has enjoyed for some time.

Simultaneously, South Africa would be best served by diversifying its export markets beyond Africa and Europe. The Middle East, the Far East (Asia), and North and South America currently account for roughly a third of South Africa's agricultural exports. This is perhaps where most of the attention and pursuit of free trade agreements would be more beneficial. Some of South Africa's fiercest competition amongst various products is from Chile, Peru, Australia, Argentina, New Zealand, and Uruguay. They have struck trade agreements with most markets in Asia, the Middle East, and the Americas. Meanwhile, South Africa has not and faces higher tariffs against the key competition and local producers have to overcome these tariffs primarily through farm-level technical efficiency.

Still, South Africa does not have to follow the same path as the countries above and open various free trade agreements. South Africa is an industrializing economy with a unique set of challenges and with various domestic industries requiring some protection. South Africa could target low-ambition trade agreements with specific countries, primarily Preferential

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Trade Agreements, which focus on liberalizing a specific set of commodities and agro-processed products. There is very little chance of South Africa embarking on deep and extensive tariff cuts on goods and services, especially given that the costs of opening up markets cannot be determined with certainty.

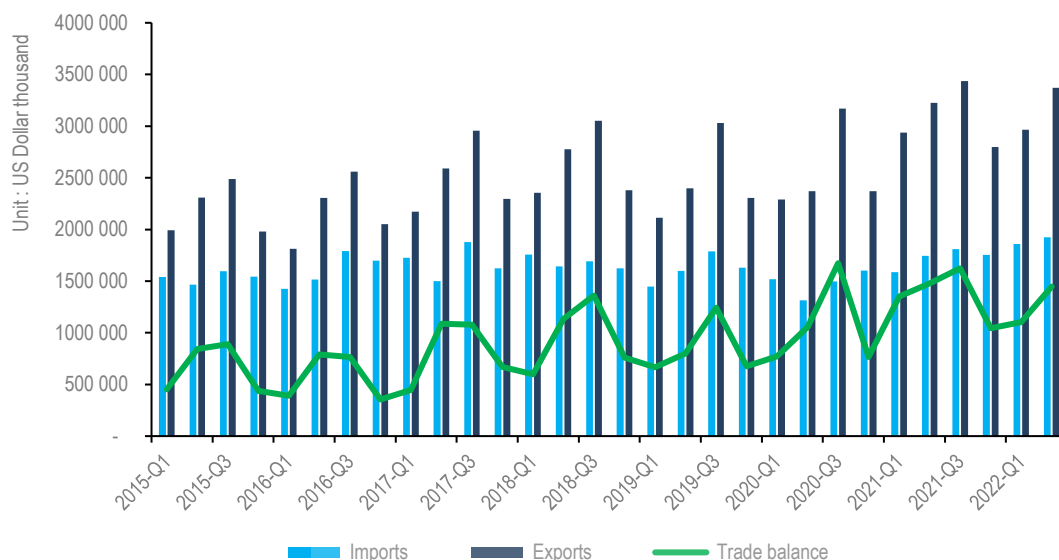
In this quest to widen South Africa's agricultural exports, even within a narrow path, the priority countries should be China, South Korea, Japan, the USA, Vietnam, Taiwan, India, Saudi Arabia, Mexico, the Philippines and Bangladesh. These countries have a sizable population and large imports of agricultural products, specifically fruits, wine, beef and grains. These countries are already on the radar of the South African authorities. At the same time, South Africa should not neglect the continuous constructive engagements with Europe and the African continent as we search for new markets.

Aside from the broad trade policy themes, efficiency in the logistics industry remains a crucial area. The sector engages with Transnet and Infrastructure South Africa and various government departments responsible for roads for this particular goal. There also needs to be increased security within the logistics as we see increased reported cases of criminality against South Africa's infrastructure.

Despite all these challenges, the interventions made by Transnet, industry and government have again yielded positive results on agricultural exports thus far. In the data we have for the first eight months of this year, South Africa's agricultural exports amounted to US\$8,9 Billion, up by 6% from the first eight months of 2021. The generally higher commodity prices have also contributed to this increase in export values. In these months, the African continent and Europe remained vital markets, underscoring the points we argued above. Citrus, maize, nuts, wine, sugar, apples and pears, and grapes were among the key exports, especially in the latter months under consideration. South Africa's agricultural trade approach is not one-sided. The country also imports a range of products. The imports for the first eight months of 2021 amounted to US\$5,1 Billion, up 13% from the same period in 2021. Palm oil, rice, wheat, and spirits were amongst the essential imported products, specifically in the later months of this measured period. The key suppliers included the likes of Indonesia, Thailand, Romania, China, Argentina, Poland and Germany.

Overall, South Africa's agricultural growth path needs a focused trade policy strategy, but this should not be at the expense of existing agreements that have sustained the sector over the years. The industry and government should work collaboratively on strengthening the current markets through continuous engagements at the political and business level while simultaneously exploring new and promising markets. Ongoing conversations and collaboration between industry and logistics entities like Transnet are also crucial for the success of the export strategy. Logistics efficiency improvement is an integral part of the agriculture growth agenda that will ultimately deliver jobs and economic activity in rural South Africa.

Exhibit 1: South Africa's agriculture trade



Source: Trade Map and Agbiz Research

Weekly highlights

South Africa's consumer food price inflation remained unchanged from the previous month in October 2022

South Africa's consumer food price inflation was at 12,3% year-on-year in October 2022, roughly unchanged from the previous month. The products that continued to present upside price pressures were mainly "bread and cereals", "meat", and "milk, eggs, and cheese".

As we stated in the previous notes, the general consumer food price increase mirrors the surge in agricultural commodity prices over the past few months. The agricultural commodities price increase emanates from various factors such as the drought in South America, higher shipping costs, strong agricultural product demand in China, and, most recently, the Russia-Ukraine war.

More specifically, the higher global grain and oilseed prices for much of this year have been the core drivers of the costs of "bread and cereals" and "oils and fats" in the consumer food price inflation basket. "Bread and cereals" are also amongst the key drivers of the price inflation in October. Notably, these are also products with a relatively higher weighting within the food basket. For example, within the food basket, the essential products are meat (35%); bread and cereals (21%); milk, cheese and eggs (17%); vegetables (8%); sugar, sweets and desserts (4%); oils and fats (3%); and fruit (2%). Regarding meat, the outbreaks of foot-and-mouth disease are vast, to the extent that we are observing a slight decline in slaughtering in some feedlots, which has ultimately kept red meat prices at relatively higher levels; the opposite of what we initially anticipated. For example, in August 2022, cattle slaughtering was down by 2% y/y, with 206 052 head of cattle slaughtered.

In sum, the global grain and oilseed prices, which have been the major drivers of the surge in inflation, are starting to soften, which shows in the global indices. The FAO's Global Food Price Index has dropped by 15% from its peak in March 2022. These global developments will, with time, also reflect in South Africa, and this could also be mirrored in the consumer food price inflation data in the coming months.

Exhibit 2: South Africa's consumer food price inflation



Source: Stats SA 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 20 November 2022, about 96% of the maize crop had already been harvested. This is slightly ahead of last year's pace of 94% in the same week. At the same time, the sunflower seed harvest is nearly complete, with 95% of the crop already collected on 20 November 2022. This is way ahead of last year's pace of 89% in the same week because of drier weather conditions earlier in the season, accelerating the crop's maturity. The soybeans harvest is completed. Moreover, the USDA will release **the US Weekly Export Sales** data on Thursday.

On the domestic front, on Tuesday, the Crop Estimates Committee (CEC) will release the **final production estimate for summer field crops for 2022**. On the same day, the CEC will release the **fourth production forecast for winter cereals for 2022**.

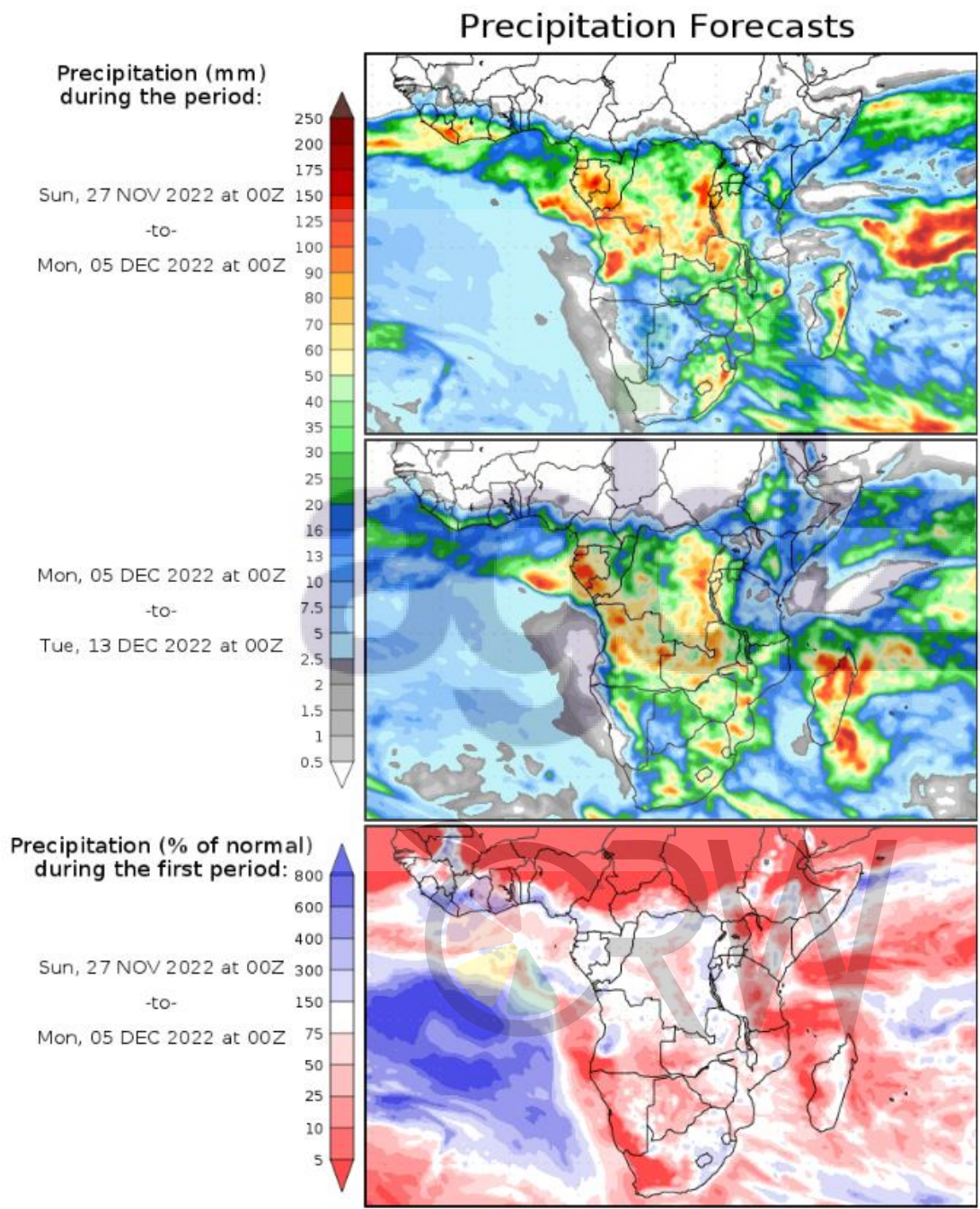
On Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 25 November 2022. In the previous release of the week of 18 November, about 13,9 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 15,3 million tonnes. In the same week, about 2,1 million tonnes of soybeans had already been delivered to commercial silos out of the expected harvest of 2,2 million tonnes. Moreover, 835 570 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 25 November 2022. In the previous release on 18 November 2022, which was the 29th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 36 481 tonnes, about 56% to Mexico and the rest to the Southern Africa region. This brought the total 2022/23 exports to 2,14 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 18 November was the seventh week of the 2022/23 marketing year. The weekly imports amounted to 34 023 tonnes, from Latvia and Russia. This puts the total imports for the 2022/23 season at 305 002 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. We will closely monitor Russia's presence in the 2022/23 season.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for the next two weeks show prospects of rainfall over the summer crop growing areas of South Africa.

While the rains are generally a welcome development, an increase in moisture could delay plantings in areas where there is already high moisture levels.