

PO Box 76297, Lynnwood Ridge, South Africa, 0040

Grain Building, 1st Floor, 477 Witherite Street
The Willows, Pretoria, South Africa, 0184

Tel. +27 12 807 6686, Fax. +27 12 807 5600
admin@agbiz.co.za, www.agbiz.co.za

Vat nr. 4920204684

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MEDIA RELEASE

Agribusiness Outlook for 2017

As predicted, 2016 has been an extremely challenging and tumultuous year for the agribusiness environment and farmers alike, Agbiz CEO, Dr John Purchase, said today at a media briefing in Pretoria.

“Not only did the prevailing drought of the previous years continue its devastation over much of the country, but a declining economy and resultant constrained consumers led to dampened demand and declining output.”

Tinashe Kapuya, head of international trade and investment intelligence at Agbiz adds: “In real terms, South Africa’s overall agricultural trade balance, despite remaining positive, fell sharply by as much as 22% and 11% in the first and second quarter of 2016, respectively.”

Political economy

Dr Purchase says that given additional policy uncertainty and the country’s deteriorating political economy, agricultural Gross Domestic Product (GDP) and agribusiness confidence were in significantly negative territory for the most part of the year.

In addition to domestic uncertainty were unexpected international events, such as Brexit and the election outcome in the United States, both of which will likely carry longer term implications for South Africa’s key agricultural export markets.

However, Dr Purchase says in the last quarter of 2016 there was evidence of some recovery in the Agbiz/IDC Agribusiness Confidence Index, and with good rains falling in key production areas, this has indicated a potential turnaround situation. The situation around the country's broader political economy however remains a major concern.

Given deep and fundamental political divisions in government and the governing party, threats of rating agency down-grades to sub-investment grade, as well as given an especially uncertain global political and economic environment, these 'green shoots' could prove to be but an empty promise. Thus, the agro-food food system and consequently also the country's food security, remains at risk.

Wandile Sihlobo, head of economic and agribusiness intelligence at Agbiz, says political and policy uncertainty are likely to remain key concerns in the agricultural sector over the foreseeable future.

Industry growth

Sihlobo says: "Prospects emanating from the Agbiz/IDC Agribusiness Confidence Index suggest that confidence in the sector may remain in positive territory for the first six months of 2017, largely driven by expected improvement in agricultural conditions and production.

"Moreover, this Index serves as a leading indicator for the contribution of the agricultural sector to the Gross Domestic Product (GDP), therefore positive improvements suggest that the agricultural sector could finally escape the current mediocre growth path in the fourth quarter of this year to 2017.

"More importantly, the agricultural sector constitutes roughly 6% of South Africa's total employment. Therefore, expected growth in the sector could possibly have positive spill-overs on the agricultural labour market. This would be a welcomed recovery, following significant job losses in the earlier part of 2016, as farmers and agribusiness were constrained by the effects of the 2015/16 El Niño induced drought."

Legislation

In his forecast for 2017, Dr Purcahse says the agribusiness environment will be faced by various challenges in terms of engagement with key land reform legislation.

“These challenges include:

- Revision of the Expropriation Bill in Parliament, following the Bill’s return to Parliament;
- The possible introduction of the Regulation of Land Holdings Bill, which proposes land ceilings and the prohibition of agricultural land ownership by foreigners, into the legislative process; and
- Revision of the Restitution of Land Rights Amendment Bill by Parliament, after having been suspended by the Constitutional Court.
- Finalisation of the Extension of Security of Tenure Amendment Bill currently in Parliament.

“Other critical pieces of legislation that will feature in the legislative process and impact on the agribusiness environment will be:

- The Carbon Tax Bill;
- The National Skills Development and Sector Education and Training Authorities (SETA) policy revision;
- The Border Management Agency Bill;
- The Liquor Amendment Bill;
- New legislation governing the water environment and giving effect to the cabinet-adopted National Water Resource Strategy Version 2 (Water Amendment Bill & Revision of the Pricing Strategy for Water Use Charges in terms of the National Water Act, 1998);
- The implementation of the new and more onerous AgriBEE Sector Code, once finalised and that will replace the 2012 Sector Code; and
- Implementation of the recently announced national minimum wage.

“Additional and critical policy and legislation impacting on the agro-food industry will no doubt surface in 2017 and will be addressed by Agbiz. A positive aspect is that the so-called CEO Process, initiated by Minister Pravin Gordhan, can assist in creating an environment for strong and inclusive growth in the broader agro-food sector,” Purchase says.

Trade negotiations and relations

Kapuya is of the opinion that 2016 will go down as one of the most fruitful in South Africa’s trade policy, with several milestones attained.

- In March 2016, South Africa avoided suspension in the Africa Growth Opportunity Act (AGOA) preference programme, ensuring that duty free quota free market access is retained for a number of agricultural products such as oranges, mandarins, macadamia nuts, and wine.
- In April 2016, the SACU-MERCOSUR Preferential Trade Agreement was concluded, and came into force later on in the year, in October 2016. This has paved the way for preferential market access into South America, while offering prospects of much needed relief for feed manufacturers who will be able to import soybean cake at a preference margin.
- In June 2016, the Economic Partnership Agreement (EPA) was officially signed off, opening up new market access for a range of agricultural products such as wine, sugar, ethanol and fresh fruit, effective 1st November 2016.

“Looking ahead to 2017, a rebound of domestic production will expectedly boost agricultural exports going forward, with increased growth prospects to be expected in the EU. As the Brexit debate takes shape in early to mid-2017, deliberations on that front are not expected to have any impact on South Africa’s exports. However, we expect the diversification of exports to continue, particularly for fresh fruit into Asia and the Middle East.

“There is no expectation that AGOA will be repealed in the USA, and a Trump Administration will likely not change the current SACU-SA relations in a fundamental way. However, uncertainty remains in the manner and extent to which the new Administration will push for

reciprocity going forward. The expectation is that SA will retain its market access in the medium to long term, notwithstanding the possibility of out-of-cycle reviews.

“The African market will remain the centerpiece of South Africa’s agricultural export growth in 2017, especially against the backdrop of a recovery in domestic production. The Tripartite Free Trade Agreement (T-FTA) negotiations will resume in February 2017, with the expectation that progress towards its conclusion will pick up speed in the new year. “However, the T-FTA will not likely be concluded in 2017. Meanwhile, the Continental FTA discussions will expectedly gain momentum as modalities are laid out towards its negotiation,” Kapuya says.

Grain industry

Mariana Purnell, general manager at Agbiz Grain, says role players in the grain industry collectively decided to come together and discuss action plans to revive the South African wheat industry. The Wheat Forum and its Steering Committee supported these efforts and have been working with industry role players in this regard since the beginning of 2014.

“The whole industry is in dire straits, not just farmers. The survival of the local wheat industry is important for the whole value chain, from the producer to the processor. Several changes have been made during 2016 to help farmers produce wheat more sustainably and to also address other issues of concern along the value chain,” she says.

The Agbiz Grain desk will host a **Wheat Indaba** in February 2017. The main focus of the Indaba is to communicate all the changes aimed at reviving the wheat industry, as well as indicate new regulatory requirements that impact the industry. One event will be held in Pretoria and one in Stellenbosch. The Agbiz Grain Wheat Indaba 2017 in Pretoria will take place on Friday, 17 February, and in Elsenburg on Tuesday, 21 February 2017.

ENQUIRIES:

Dr John Purchase: Agbiz CEO, 082 441 2308, john@agbiz.co.za

Mr Tinashe Kapuya: Head: International Trade and Investment Intelligence, 063 377 8780

tinashe@agbiz.co.za

Mr Wandile Sihlobo: Head: Economic and Agribusiness Intelligence, 084 572 3485,

wandile@agbiz.co.za

Ms Mariana Purnell: General Manager at Agbiz Grain, 082 3368 534,

mariana.purnell@agbizgrain.co.za