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South Africa's agricultural sector: Current realities and future prospects[1]

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Often said is the statement that the macroeconomic standing of the agricultural sector has diminished – and this argument is supported by the sector's declining share of GDP, which has declined from 4.2% in the 1996 down to 2.3% in 2015. What is not captured in this narrative, however, is the fact that the value of the agricultural sector has grown by 40%, from R50.5 billion to R71.4 billion over the same period. The phenomenal growth of the sector against its declining relative share to the economy only means that other sectors – particularly the manufacturing and services sector – have grown at a much faster pace from a higher base.

At this juncture, the sector has just come out of one of the worst droughts in history, following two consecutive years of progressively drier seasons. As a result, the period 2015 through 2016 saw the agricultural sector enter into a protracted recession, enduring eight consecutive quarter-on-quarter GDP declines over the period.

The contraction of the sector has been observed through a number of commodities – for instance, maize production declined by 30% year-on-year (YoY) in 2015, and by a further 22% YoY in 2016, to reach 7.8 million tons, the lowest output in a decade. Sorghum touched its lowest level on record, while high value commodities such as peanuts reached their lowest level in seven decades.

Overall agricultural exports declined by 10% YoY in 2015, and then further by 1% YoY in 2016, in real terms. However, the trade balance for the sector remained positive, as agricultural exports continued to trend above imports.

On the back of the impact of the weather, the sector has been in a perpetual state of uncertainty, emanating from a lack of clear and consistent policy direction. The country's politics has, by and large, contributed to this policy vagueness and inconsistency, which has been exemplified by land reform policy discussions – with mentions of expropriation without compensation, land ceilings etc. – all of which add weight to uncertainty, and in turn affect production and investment decisions.

In 2017, we are seeing signs of a strong production recovery across all agricultural commodities in the country, with the exception of the Western Cape province, where dry conditions have persisted for some time.

For instance, South Africa is expected to harvest the second largest maize crop on record, estimated at 14.5 million tons – which is an YoY increase of 86%. The soybean crop is expected to increase by 66% YoY to reach 1.2 million tons, the highest output in history.

[1] Extract from a presentation to IDC on the 18 May 2017.
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Even though a strong recovery is expected, there are concerns that it may be short-lived as the risks to El Nino are set to increase the possibility of dryness towards the end of the year.

Amid the uncertainty posed by domestic factors – such as politics, policy, and weather events – the country's trade policy has presented both opportunities and threats to the industry.

One the one hand, the SACU-EU Economic Partnership Agreement (EPA) has seen South Africa's market access being expanded for fresh fruit, sugar, wine, and ethanol – among other agricultural products. However, as the United Kingdom (UK) negotiates to leave the EU, there is some degree of uncertainty over the impact of the Brexit negotiated deal on South Africa's market access to the UK, post 2018.The UK represents a quarter of the value of South Africa's fruit and wine exports to the EU, respectively. However, a SACU-UK transitional arrangement could potentially see an expansion of South Africa's fresh fruit and wines in the UK.

On the other hand, the Africa Growth Opportunity Act (AGOA) has seen a continued growth of South Africa's exports of macadamia, citrus fruit and wine, among other products to the United States (US). Additional market access for other commodities for South Africa – such as avocadoes, litchis, and lamb – are expected to become eligible for export in the near term.

The AGOA poultry rebate which came into effect in December 2015 has seen South Africa importing 56 700 tons of bone-in chicken from the US between January 2016 and March 2017. Nonetheless, South Africa has imported 47 000 tons in the first annual quota – between 1 April 2016 – 31 March 2017. Even though the 65 000 tons AGOA rebate for US bone-in chicken, is subject to an annual adjustment, the quota will not growth over the period 1 April 2017 – 31 March 2018.

Over the foreseeable future, South Africa's agricultural sector will continue to operate within the context of increasing uncertainty due to policy, politics, climate change, as well as global trade developments. The performance of the sector in 2017-18 production season will depend on the interplay of the aforementioned factors.