Effective communication of the Master Plan is vital for implementation

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Most of the national government's agricultural policies and programmes depend on implementation by the provincial governments and municipalities for their success. The policies crafted in Pretoria have to find their way in various local agricultural strategies to materialize. The same goes for organized agriculture structures such as Agbiz. The engagements about multiple issues that constrain agribusinesses can be discussed with government leadership in Pretoria. Still, the execution is typically dependent on the cooperation of the provincial government and various municipalities. This doesn't mean that the national government is not impactful, quite the opposite. It sets the tone and focus for policy and takes the lead in important programmes such as land reform and blended finance. But on most other policies, the details are often left to the provinces to execute. The levels of administrative efficiencies amongst the provinces are typically displayed through the implementation rate of various programmes.

The key to this process, aside from the technical competence of each provincial government or municipality, is communication. We discussed this point earlier this year. It bears emphasizing as the government pushes to complete its Agriculture and Agro-processing Master Plan process by the end of the year and move towards implementation. The implementation of the Master Plan will primarily depend on the collaboration of provincial governments, farmers and agribusinesses. This means all parties involved should have a shared understanding and buy-in of the Master Plan. The private sector players have been represented in the drafting and consultation process over the past year, primarily interacting with the national government. The national government then has the responsibility to effectively communicate the Agriculture and Agro-processing Master Plan to all provincial governments. This helps in the near term and ensures that when the provincial government reviews their agriculture strategies, they align them with the Master Plan and allocate spending accordingly. This also means when the agribusinesses consult with the local government offices in various country regions, there could be a common understanding about the agriculture development focus of the country.

In communities with agriculture potential but limited or no organized agriculture, such as various regions (former homelands) of Limpopo, Eastern Cape and KwaZulu-Natal, it is the government's responsibility to communicate with community leaders in such areas. The Master Plan is centred on a joint-venture approach to development. The communities are crucial to forming the shared vision and sense of responsibility in the implementation process.

In areas with organized agriculture groups, the provincial government should be encouraged to interact with various agribusinesses in their regions as they identify the potential projects of collaboration and areas of critical interventions to improve the ease of doing business. The government should lead this process, assisted by the national structures of various farmer groupings and Agbiz. Such interactions would also help cover farmers and agribusinesses that are crucial in some towns, yet not members of established organized farmer and business groupings. All hands should be on deck during implementation. Roles and responsibilities should be communicated when agreed upon by the social partners. This requires effective communication from the government's side.

Agriculture is a local government task. The challenges that various agribusinesses and farmers face, such as poor road maintenance, electricity supply, and water interruptions, are primarily critical local government competencies. These are also vital hindrances to investment and growth in the agriculture and agribusiness sector and are identified in the Master Plan.

As the technical work of the Master Plan draws to a close, the communication strategy should be drafted to nudge the provinces to budget along with the Master Plan objectives and interventions for their regions. The government should lead this communication effort, utilizing all possible cost-effective avenues, while organized agriculture and agribusiness also play a role through doing provincial visits. Agbiz has already embarked on such a task through our recent visits to the Western and Eastern Cape and parts of Gauteng. We plan to proceed to other parts of Gauteng before year-end and other provinces next year. Our stakeholder engagement visits are not limited to the Master Plan but include a range of agriculture policy matters. The Agbiz office has communicated to our members that we are yet to visit.

Weekly highlights

Mixed picture on SA's 2021/22 winter crop production forecast

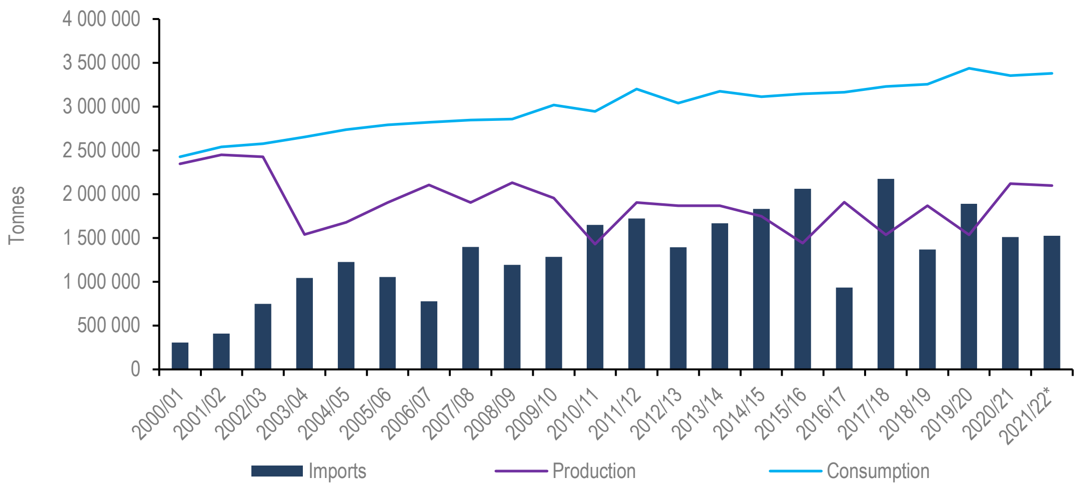
Last week, the Crop Estimates Committee (CEC) released its third production forecast of the 2021/22 winter crops. There were minimal changes from the previous update of the end of September, with wheat production forecast up by 0,2% to 2,09 million tonnes. Meanwhile, barley, canola, and oats production forecasts were respectively down by 2%, 3%, and 2% from the previous forecast to 348 200 tonnes, 190 000 tonnes, and 80 473 tonnes.

For wheat, this production estimate is roughly in line with the previous season's crop of 2,12 million tonnes, while for oats and canola, this is the largest crop on record. The Western Cape, which is the region that grows more than two-thirds of South Africa's winter crops, has received favourable rainfall since the start of the season. These favourable weather conditions supported the planting activity and crop-growing conditions and resulted in higher yields in the province. Nevertheless, this could not overshadow the decline in production in other provinces. Hence, the national wheat production estimate is down by 1% from the 2020/21 production season, estimated at 2,09 million tonnes. This is primarily underpinned by a decline in area plantings and lower yields in the Free State, Northern and Eastern Cape.

The implication is that South Africa will remain a net importer of wheat. Still, even if the 2021/22 harvest could be lifted from the current forecast in the coming months or be slightly larger than the previous season, this would remain a reality of South Africa (see Exhibit 2). The import requirements for the 2021/22 marketing year, which started on 01 October 2021, is 1,53 million tonnes. This is up by 1% from the 2020/21 marketing year. This uptick is on the back of the slight decline in production, combined with a marginal increase in domestic consumption.

As indicated in our previous commentary, the only winter crop that experienced a decline in planting is barley; farmers cut its area sharply by 33% y/y to 94 730 hectares. Consequently, the production figures are also down. This is partly because of lower demand for barley following temporary bans in alcohol sales at various intervals since the pandemic, combined with a large harvest in the previous season that boosted supplies.

Exhibit 1: South Africa's wheat market



Source: CEC, SAGIS and Agbiz Research

SA farmers' intentions to plant data point to prospects of yet another large crop in the 2021/22 season

We have long held an optimistic view about the 2021/22 production season. The robust tractor sales since the start of the year, prospects of yet another La Niña, and relatively higher commodity prices convinced us that South African farmers would likely maintain an area planting for summer grains and oilseeds of over 4,2 million hectares. The data released by the CEC last week concurs with this view. The CEC indicates that South African farmers intend to plant a total area of 4,34 million hectares of summer grains and oilseeds. This is up by 5% from the 2020/21 production season.

A deep dive into the numbers show a mixed picture, albeit broadly positive. For example, the 2021/22 maize planting intension is 2,73 million hectares, down by 1% y/y (but well above the 10-year average area of 2,53 million hectares). Sorghum area is also set to fall by 9% y/y to 45 000 hectares (well below the 10-year average of 52 237 hectares). The groundnuts area is set to decline by 4% from the 2020/21 production season to 37 000 hectares (lower than the 10-year average of 43 348 hectares). Meanwhile, sunflower seed, soybeans, and dry beans area plantings are set to increase by 16%, 12% and 14% from the 2020/21 production season to 555 800, 924 800, and 54 250 hectares, respectively.

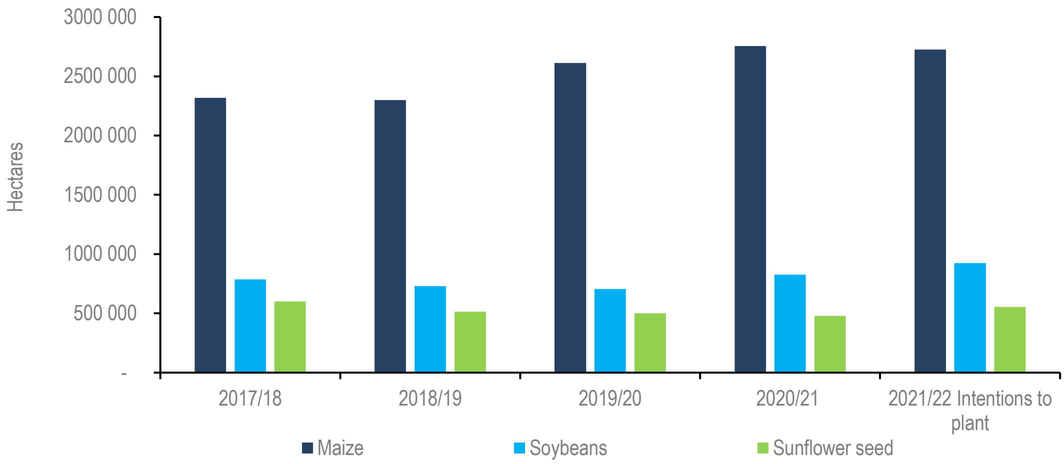
These are welcome developments as some feared that the rising input costs – fertilizer and agrochemicals – would potentially discourage plantings. Admittedly, as promising as the planting intentions data are, the higher input costs will pare the farmers' profits this year from the past season. To illustrate the rise in input costs, consider the herbicides such as glyphosate, atrazine, and metolachlor; their prices were up by 99%, 33% and 32%, respectively, in September 2021, 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 107%, 58% and 125%, respectively, in September 2021 compared with the same time last year.

These overall increases are on the back of supply constraints and disruptions in production lines in major global fertilizer and agrochemical producing countries like China, India, the United States, Russia, and Canada. The rising shipping costs and oil prices have also contributed to these price surges, along with firmer global demand from an expanding agricultural sector.

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 yet another good crop in the 2021/22 production season.

Exhibit 2: South Africa's major summer grain and oilseeds plantings



Source: CEC and Agbiz Research

Latest views on the La Niña forecast in 2021/22 summer season

In its latest Seasonal Climate Watch report on 31 October 2021, the South African Weather Services indicated that "the El Niño-Southern Oscillation (ENSO) is currently in a weak La Niña state and the forecasts indicate that it will most likely remain in a weak La Niña state during early-summer. As we move towards the mid-summer season, ENSO starts playing an important role in our summer rainfall. As such, the increased likelihood of a weak La Niña during early and mid-summer is expected to be favourable for above-normal rainfall in that period." The weather bureau further added that "the multi-model rainfall forecast indicates mostly above-normal rainfall for the most parts of the country throughout the early-summer (November to January) through to the late-summer (January to March) season.

This sentiment aligns with the view we have emphasized since the start of the season and bodes well with the agricultural activity in the country and the broader Southern Africa community. These rains come on the heels of another rainy season in 2020/21 summer, which boosted the soil moisture and agricultural production. Thus, we have consistently expressed an optimistic view about the 2021/22 agricultural season for South Africa. Notably, other global institutions, such as the Australian Bureau of Meteorology, currently forecast the chance of a La Niña forming during the coming months to around 70%, which is roughly three times the normal likelihood of an event forming in any year.[1]

[1] The Australian Bureau of Meteorology stated that "ENSO Outlook remains at La Niña ALERT. This means that the El Niño-Southern Oscillation is currently neutral, but the chance of La Niña forming in the coming months is around 70%. This is roughly three times the normal likelihood of an event forming in any year." This statement is accessible here.

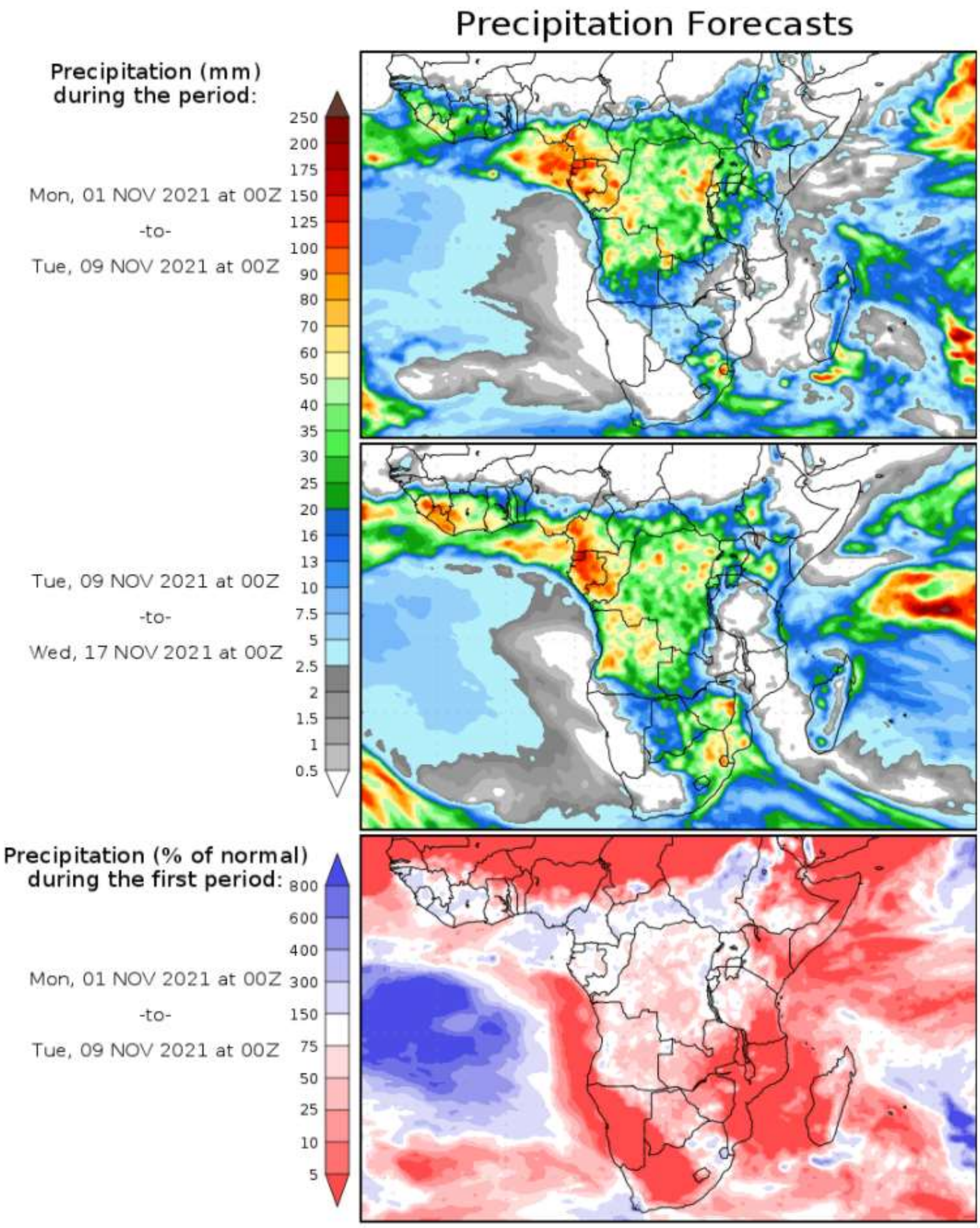
Data releases this week

We start the week with a global focus. The United States Department of Agriculture (USDA) will release the **US Weekly Export Sales** data on Thursday.

Domestically, on Thursday, we will release the **Weekly Grain Producer Deliveries** data for 29 October 2021. This data cover summer and winter crops. We only focus on summer crops for now and will switch to winter crops when harvest gains momentum in the coming months. To recap, on 22 October, 760 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 34 weeks of the 2021/22 marketing year at 1,83 million tonnes, which equals 97% of the expected harvest of 1,89 million tonnes. Moreover, 670 777 tonnes of sunflower seed for the 2021/22 season had already been delivered to commercial silos in the same week, out of the expected crop of 677 240 tonnes. In maize, the marketing year is different from oilseeds; we are still in the 25th week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 14,1 million tonnes, equating to 87% of the expected crop of 16,2 million tonnes.

On Friday, SAGIS will release the **Weekly Grain Trade** data for the week of 29 October 2021. To recap, in the week of 22 October 2021, which was the 25th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 1,92 million tonnes, equating to 56% of the revised seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and 22 October 2021 was the fourth week of the 2021/22 marketing year. The total imports are now at 187 548 tonnes out of the seasonal import forecast of 1,53 million tonnes (slightly above the 2020/21 marketing year imports 1,51 million tonnes).

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for the week shows prospects of light showers in the northern, central and eastern regions of South Africa. This should help improve soil moisture and support the planting activity for the 2021/22 crop.

The week thereafter shows prospects of widespread rains which also bodes well for agricultural activity.