Rising protectionism across the world presents threats to South Africa's agriculture

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South Africa's agricultural exports lack sufficient diversification. Outside of the African continent, they are heavily concentrated in a few Asian countries and the European Union (EU). Export diversification contributes to a country's economic resilience, especially in the face of disruptions in global supply chains or if one of the major markets imposes non-tariff barriers to protect its producers against the competition. More recently, we have seen how the covid-19 pandemic and the Russia-Ukraine war destabilized the global supply chains, with many countries relocating these domestically. The pandemic and geopolitical frictions have also raised a sense of protectionism, especially in the EU.

The EU recently imposed protectionist measures on agriculture by changing its regulations on plant safety for citrus without notifying its trading partners within a reasonable time. The new regulation purports to protect the EU from a quarantine organism, "False Codling Moth", by introducing stringent new cold treatment requirements, particularly on citrus imports from Africa, mainly impacting South Africa Zimbabwe and the Kingdom of Eswatini. These are the largest suppliers of citrus to the EU region. For example, over the past five years, South Africa has constantly been the leading supplier of citrus to the EU region, accounting for an average of 12% in value terms.

According to the Citrus Growers Association, South Africa has put in place rigorous measures to control the False Codling Moth, which the EU uses as a pretext to restrict citrus imports from Africa. Every country has a right to apply safety measures to agricultural products to protect the well-being of its consumers. However, in the case of the EU measures, there is no reasonable basis for this regulation.

The EU uses it as a cover to protect citrus-growing countries like Spain, which finds it hard to compete with products from Southern Africa. This measure will increase costs to the South African, Zimbabwe and the Kingdom of Eswatini citrus growers. It also strains the trust between the affected countries and the EU at a time when major power rivalries are forcing African countries to rethink their foreign economic relations.

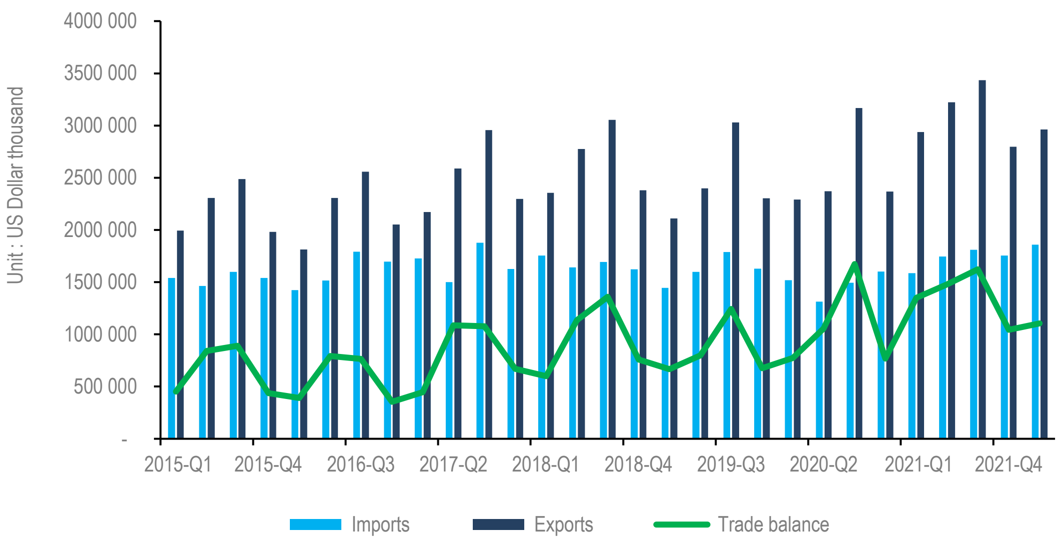
The immediate challenge for South Africa is that there are already shipments of citrus products on the way to the EU, which might be deemed non-compliant with arbitrary plant protection regulations on arrival in the coming weeks, hurting South Africa's economic interests and those of neighbouring countries.

In a scenario where the shipments are turned back or offloaded at discounted rates, Southern African growers will sustain immense financial pressure. These countries are already struggling with rising inputs such as fertilizer, agrochemicals and fuel. The citrus industry is vital in South Africa and broader Southern Africa's rural economy. The industry provides employment and economic vibrancy and brings export earnings. In 2021, citrus was the top exportable agricultural product in South Africa, valued at US$1,8 billion or 15% of the overall exports of US$12,4 billion. The EU was one of the leading markets, alongside the UK. Hence, we should be concerned as a country that the recent changes in regulations will likely have a detrimental impact on the industry.

While science should be at the centre of such developments, we believe a diplomatic solution between the South African authorities and the EU is urgent. Such an engagement should focus on ensuring that the citrus on the way to the EU is exempted. This engagement should be appreciative of the strategic partnership the EU and South Africa enjoy and consider the vital importance of preserving the goodwill built through the Economic Partnership Agreement between the EU and SADC countries. The EU, in particular, should consider the adverse impact of its protectionist measures on regional economies when many of these are still convalescing from the pandemic and countenancing the effects of ongoing geopolitical tensions.

These unpredictable times also mean South Africa should have a renewed urgent focus on broadening its export markets more aggressively within China, India, Bangladesh, the Gulf Cooperation Council (GCC) states, and Japan. These are important markets that we already have some marginal access to. The government and the industry should work on broadening access to all the major export-oriented products of South Africa: horticulture, beef and wine. We cannot afford to be concentrated in a few regions, however important and stable they are. The EU's example provides a glimpse of the risks of overexposure in one region for exports. This is urgent because South Africa exports roughly half its agricultural products yearly in value terms. Therefore, any improvement in production in the coming years will have to have an export market. For the citrus industry specifically, new trees are already expanding, which will help increase the export volume by roughly 50% of the current exports by 2030. These volumes will need new markets, even if we resolve the trade glitches with the EU. The Department of Trade, Industry and Competition, along with the Department of Agriculture, Land Reform, and Rural Development, should make export diversification one of the top priorities.

Exhibit 1: South Africa's agricultural trade



Source: Research Trade Map and Agbiz Research

Weekly highlights

South Africa's 2021/22 summer crop harvest is at decent levels, with soybeans reaching a fresh high

South Africa's 2021/22 summer crop harvest is in full swing across the country. The feedback from farmers about the yields they are receiving has been encouraging. Hence, we believe that the data that the Crop Estimates Committee (CEC) released this afternoon is unlikely to change much over the coming months. The CEC released its fifth production estimate and introduced minor adjustments from the previous month.

For example, South Africa's 2021/22 maize production is estimated at 14,68 million tonnes, down by 0,3% from last month. This is on the back of a slight downward revision of white maize estimates, which is now estimated at 7,47 million tonnes, while yellow maize was adjusted upwards and is currently at 7,21 million tonnes. Essentially, this is down by 10% from the 2020/21 season crop but well above the 10-year average maize harvest of 12,80 million tonnes and annual domestic consumption of 11,80 million tonnes. Importantly, this means that South Africa will remain a net exporter of maize, which we anticipate to be about 3,2 million tonnes in the 2022/23 marketing season (note: this marketing year corresponds with the 2021/22 production season).

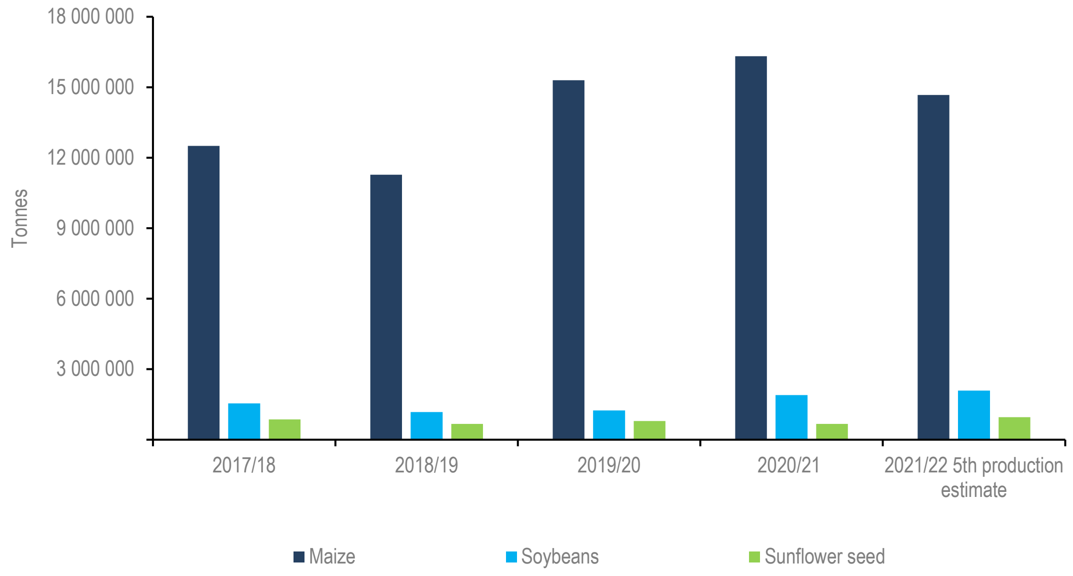
Another important and most welcome adjustment in the data released this afternoon was the 8% increase in South Africa's soybeans harvest for the 2021/22 season to a record 2,09 million tonnes. This will help lessen South Africa's reliance on soybean oilcake imports. As we pointed out in our note yesterday, in the week of 17 June 2022, about 1,9 million tonnes had already been delivered to commercial silos. Sunflower seed, unsurprisingly, was lowered marginally by 0,2% from last month to 961 350 tonnes. We suspected this would happen, given the relatively slow pace of producer deliveries. Still, the deliveries issue could be explained by the fact that the crop was planted late, and the harvest is in full swing. On 17 June 2022, about 594 236 tonnes had already been delivered to commercial silos. Aside from these major summer crops, the sorghum harvest is estimated at 140 820 (+3% m/m), dry beans harvest at 53 565 tonnes (-4% m/m), and groundnuts are at 54 900 tonnes (-22% m/m).

In sum, these mainly optimistic production data will have minimal impact on prices. As with the previous few years, the domestic grains and oilseeds prices primarily follow the global markets. The Russia-Ukraine war worries and concerns about 2022/23 global production continue to present upside support on prices, reflected in the South African grains market. Still, the fact that supplies improved provides comfort regarding the availability of essential grains and oilseeds. The upside price movements or elevated prices bode well for farmers in areas that didn't experience much crop damage. They stand to benefit from slightly higher grains and oilseeds prices.

Meanwhile, the consumers, livestock, dairy, sheep, goats and poultry producers will likely experience increased costs over the foreseeable future. For the livestock sector, this is at a time when the industry is also confronted by the foot and mouth disease, with economic impact that we discussed last week.

In the case of a consumer, we expect the grains-related food products and vegetable oils to remain elevated within the consumer food price inflation basket. The challenge is not the constraints on domestic supplies but the global dynamics and their impact on the South African agricultural market. The comforting point for the local consumer is that South Africa doesn't have supply shortage risks of staple grains over the foreseeable future. Moreover, some food products within the food price inflation basket will likely soften in the second half of the year. Such products include fruit and vegetables, due to improved supplies and the fact that their prices are not as strongly linked to the global market as the grains and oilseeds.

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



Source: CEC and Agbiz Research

Data releases this week

We start the week with a global focus, where, on Tuesday, the United States Department of Agriculture (USDA) will publish its weekly **US Crop Progress** data. With the planting activity having been completed, we now focus on the crop-growing conditions. In the previous release, in the week of 26 June 2022, about 67% of the maize crop was rated good/excellent, compared with 64% in the corresponding week in 2021. Moreover, about 65% of the soybean crop was rated good/excellent, compared with 60% in the same week last year. On Friday, the USDA will release the **US Weekly Export Sales** data.

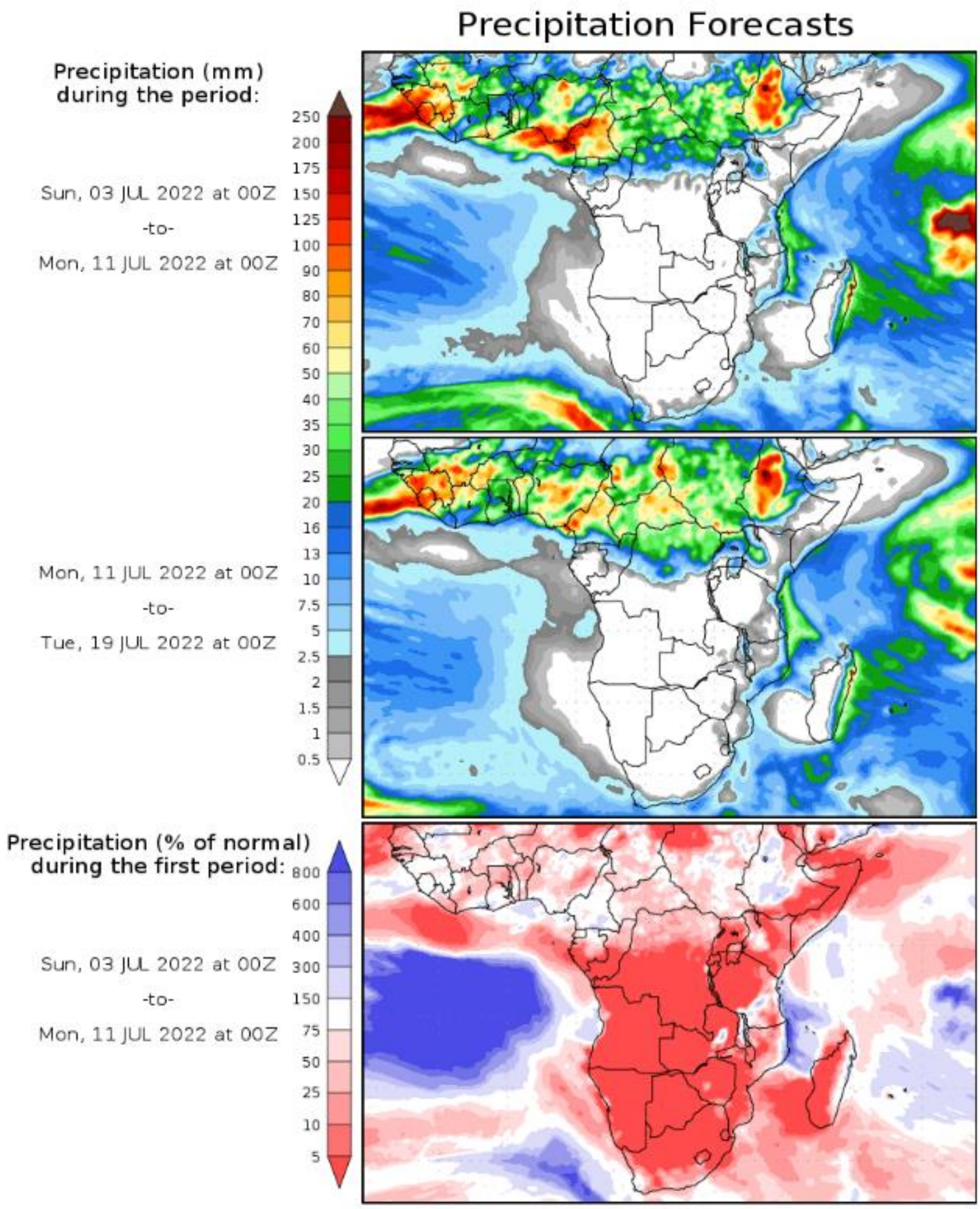
On the domestic front, on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for the week of 01 July 2022. This data will help us get insight into the progress of the maize harvest activity. In the previous release of the week of 24 June, about 3,60 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 14,68 million tonnes. Moreover, the soybean harvesting process is nearly complete. In the week of 24 June 2022, about 1,97 million tonnes had already been delivered to commercial silos, out of the expected harvest of 2,09 million tonnes. In terms of sunflower seed, in the week of 24 June 2022, about 623 343 tonnes had already been delivered, against an expected harvest of 961 350 tonnes (second largest on record).

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for the week of 01 July 2022. In the previous release on 24 June 2022, which was the eight week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 137 120 tonnes. The key markets were Japan, Taiwan, Vietnam and the Southern Africa region. This brought the total 2022/23 exports to 708 878 tonnes out of the seasonal export forecast of 3,20 million tonnes. This is slightly down from 4,10 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net importer of wheat, and 24 June was the 39th week of the 2021/22 marketing year. The total imports are now at 1,21 million tonnes out of the seasonal import forecast of 1,48 million tonnes (slightly below the 2020/21 marketing year imports of 1,51 million tonnes because of a large domestic harvest). The major wheat suppliers are now Argentina, Lithuania, Brazil, Australia, Poland, 4 Latvia and the US. But 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% a year. This has now been replaced by the above-mentioned suppliers.

Also, this week, we will likely receive **South Africa's agricultural machinery sales** data for June 2022 from the South African Agricultural Machinery Association. The sales have been robust since the start of the year. In fact, in May 2022, tractor and combine harvester sales were up by 36% year-on-year (y/y) and 51% y/y, with 662 units and 53 units sold, respectively. The generally healthy sales are welcome developments, as they indicate a primary agricultural sector that is still in a better financial condition and continues to invest in movable assets.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

Similar to the previous week, the weather forecast for the next two weeks show clear skies over most regions of South Africa.

This is with the exception of possible light showers in the western coastal regions of the Western Cape.

This drier weather outlook bodes well for summer crop harvest process that is currently underway.