What is the scope for South Africa's agriculture to unlock further trade gains in the African continent?

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There is optimism that the African Continental Free Trade Area (AfCFTA) is set to provide further opportunities for the expansion of South Africa's agricultural exports into the African continent. This view comes against the backdrop of Africa being the largest market for South Africa's agricultural sector - accounting for an average 43% (or US$4,1 billion) a year of all agriculture exports over the past decade (see Exhibit 1). So how much more potential can South Africa unlock in the African market? In this week's Market Viewpoint, we argue that the benefits of the AfCFTA are not as much as previously thought, due to structural limitations that will prevent the agricultural sector from expanding its exports into untapped markets.

Firstly, most of South Africa's agricultural exports into the African continent (89%) are concentrated within the Southern Africa Customs Union (SACU) and the Southern African Development Community (SADC) Free Trade Area (FTA). However, the product scope of exports into SACU and SADC is quite diverse and includes maize, processed food products, apples and pears, sugar, animal feed products, prepared or bottled water, fruit juices and wine are some of the key products exported to this region. With 90 cents out of every rand in agricultural exports earned within SACU/SADC under an expanded diverse set of products, it is important to diversify export markets beyond the region. The question is, just how much more can South Africa export beyond SACU/SADC? The most reasonable assumption is for South Africa to target West, East and North Africa.

Secondly, and given the forgoing, Africa north of the Saharan, more specifically the Maghreb region (i.e., Algeria, Libya, Mauritania, Morocco and Tunisia) is much closer to Europe, and thus its trade activity is more interlinked with the EU rather than sub-Saharan Africa. In addition, South Africa competes with this region for a number of products the country intends to increase its exports, primarily the high-value horticulture products. Penetrating and establishing a market presence in North Africa may prove challenging due to direct competition with well-established EU supply chains and competitive local produce. As such, South Africa's realistic opportunity within the African continent is more in East and West Africa.

Thirdly, with South Africa's opportunity set is clearly more defined in East and West Africa, leveraging the AfCFTA's tariff-free movement of goods would potentially boost the country's agricultural exports to these regions. But we are hesitant that the near-term would yield many benefits for South Africa due to at least three reasons. (a) East and West Africa regions are known for having a range of Non-Tariff Barriers (NTBs) which could remain a hindrance in boosting trade regardless of lower tariffs brought by the AfCFTA. (b) High levels of corruption in the inland borders which increase the costs of doing business have proven to be a major issue of consideration for business in South Africa. (c) Fragmented value chains owing to poor connectivity and infrastructure are also a major contributor to transport costs, which tend to increase significantly as goods are transported inland.

This narrow scope of expanding agricultural exports in the African continent is what typically leads to frustration amongst the business leaders, who continue to see improvement in production domestically, but limited avenues for sales. The major economies in the East and West of the African continent, Nigeria and Kenya, remain very small markets for South

Africa's agricultural exports, each accounting for a mere 2% a year. Still, Nigeria spends over US$6.0 billion on agricultural imports a year, despite its new policy of reducing food imports. The key beneficiaries in the Nigeria agriculture market are Brazil, the US, China, Russia, Canada, New Zealand and Germany amongst others. This is through imports of wheat, dairy products, sugar, processed food, palm oil and maize, amongst other products.

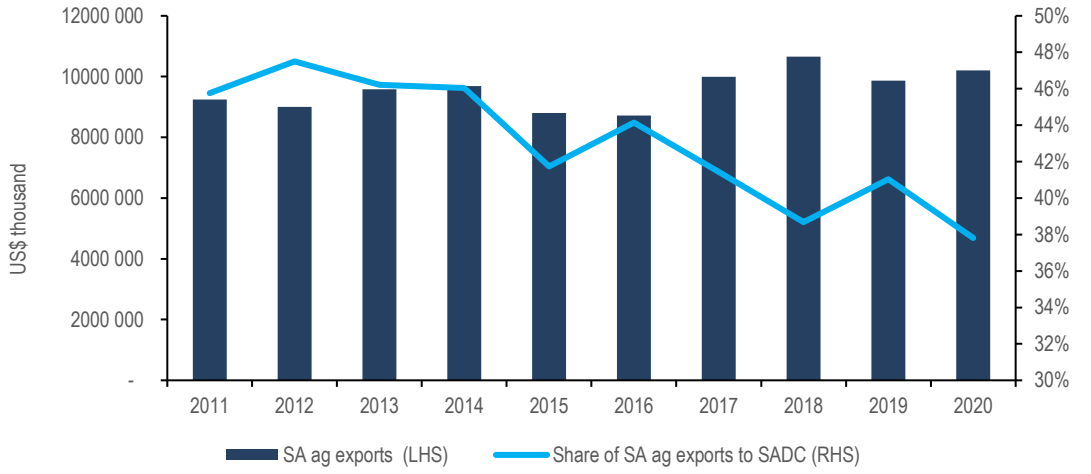
Meanwhile, Kenya is a relatively small market with just over US$2 billion worth of agriculture and food imports a year. The key suppliers are Indonesia, Malaysia, Argentina, Russia, Pakistan, Uganda, Tanzania, India and Egypt. The key agriculture and food products Kenya imports are palm oil, wheat, rice, sugar, processed food, maize, dairy products, pasta and sorghum, amongst other products.

The composition of food and agricultural imports into these two countries is also indicative that South Africa's scope to export high-value horticulture, meat and wine products is limited. These countries primarily import staple food products, and as such, they are a market that would have been worth pursuing for grain farmers. Still, the non-tariff barriers we referred to earlier remain a stumbling block even for grains as Kenya still prohibits the importation and growing of genetically modified (GM) maize. This is a significant hindrance for South Africa as roughly 80% of maize grown in the country is genetically modified.[1]

What is clear is that South Africa's agriculture export opportunities will not only be limited in general but also most likely be opportunistic and focused on specific commodities or products in the short to medium term. For instance, South Africa's maize exports have been relatively high during drought periods in East Africa, and under special circumstances that require short-term contingent policy measures to allow for GM maize exports.

Beyond maize, the approach will have to be more deliberate. For example, South Africa will have to consider a shift towards exports of processed food products. Data from Trade Map[2] shows that Africa's imports of processed food products grew by 25% between 2018 and 2020, which is an opportunity for South Africa to explore. The sector will have to develop markets for processed food in East and West Africa, which represents the remaining frontier to grow the African market further beyond current levels. From a policy perspective, the South African government may need to revise the Africa Strategy and establish task teams that can facilitate and broker market access for agribusinesses that seek to establish a market presence and investments in these key regions.

Exhibit 1: South Africa's agricultural exports and share of it to SADC region



Source: Trade Map and Agbiz Research

[1] Sihlobo, W., 2021. "*Africa is not a good maize export market right now - here's why*". Cape Town: News24
[2] The proper labeling of this category in the Trade Map data is "HS code: 2106", "Food preparations, n.e.s."

Weekly highlights

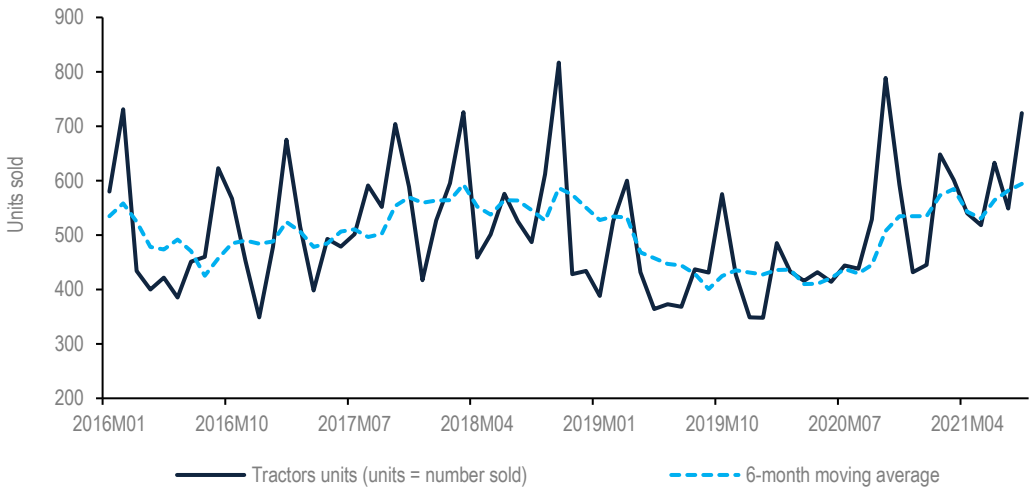
South Africa's agriculture machinery sales were robust in the first nine months of the year

This past week, the South African Agricultural Machinery Association indicated that tractor and the combine harvester' sales were up by 29% and 91% in September 2021 compared with the corresponding period last year, with 724 and 21 units sold. This placed the total tractor sales for the first nine months of this year at 5 382 units, up by 30% year-on-year (y/y). The combine harvesters' sales were also up 30% y/y over the same period with 197 units sold. As we noted in the previous commentaries, 2020 was also a good year in South Africa's agricultural machinery sales, so surpassing it means we are witnessing some good momentum this year. In 2020, the tractor sales amounted to 5 738 units, up by 9% from 2019. The combine harvesters were up 29% from 2019, with 184 units sold in 2020.

These robust sales were supported by the large summer grains, and oilseeds harvest in 2019/20. Yet, 2020/21 was another excellent agricultural season and coincided with higher commodities prices boosting farmers' finances and, subsequently, the machinery sales. Importantly, this year's data also points to the farmers' optimism about the 2021/22 summer crop production season, whose planting has recently started in the country's eastern regions. Moreover, the favourable weather outlook, prospects of a La Niña, and attractive grain prices are another catalyst for a potentially good season with a decent area planted in 2021/22.

Looking ahead, we think the agricultural machinery sales will cool off in the last quarter of the year. We fear that the rising input costs, such as fertilizers, herbicides and fuel, could add pressure on farmers' finances and thus lead to a change in machinery-buying decisions. Also, the planting will be in full swing, and there will be little incentive to invest in new machinery. Still, the pace of sales in the first nine months of the year convinces us that, in aggregate, the annual sales for 2021 could still be larger than the previous year.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

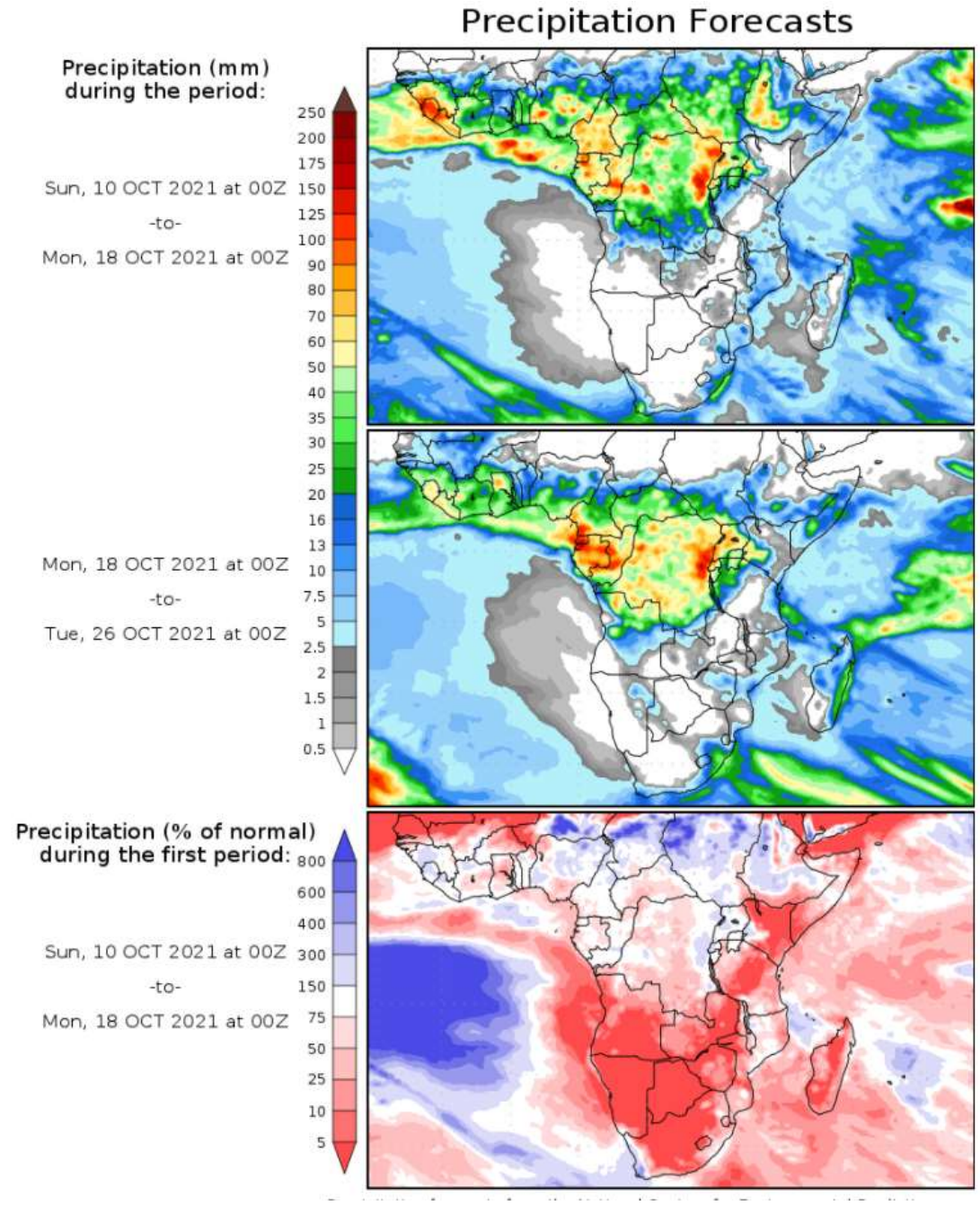
Data releases this week

We start the week with a global focus. On Tuesday, the USDA will also release the **US Weekly Crop Progress Report** for 10 October 2021 and the **World Agricultural Supply and Demand Estimates (WASDE)** monthly report. In the previous Crop Progress Report of 03 October 2021, the US maize crop was rated 59% good/excellent, which is below the last year's rating in the same week of 62%. In the same week of 03 October 2021, the US soybean crop was rated 47% good or excellent, which is also poorer than the rating of the same week last year of 64%. This somewhat poor crop rating reflects the dryness that parts of the US experienced in the past few weeks. Against this backdrop, the WASDE report will provide a view of the possible supply volumes of key grains and oilseeds, not only in the US but globally. The South American figures will be of particular interest to us, as we continue to monitor the prospects of a La Niña which could bring dryness in that region.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 08 October 2021. This data cover summer and winter crops, although we only focus on summer crops for now, where harvesting has recently been completed. To recap, on 01 October, about 948 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 31 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, 668 287 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 22nd week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 13,9 million tonnes, equating to 86% of the expected crop of 16,2 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 08 October 2021. To recap, in the week of 01 October 2021, which was the 22nd week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 1,70 million tonnes, which equates to 56% of the revised seasonal forecast of 3,03 million tonnes (up by 6% y/y). In terms of wheat, South Africa is a net importer. 01 October 2021 was the first week of the 2021/22 marketing year, and the weekly imports were 44 816 tonnes out of the seasonal import forecast of 1,53 million tonnes (slightly above the 2020/21 marketing year imports of 1,47 million tonnes).

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

After a good start of the planting season with widespread rains in the eastern and central regions of the country, the weather forecast for the next two weeks show clear skies.

This will permit farmers to continue with soil preparations in the summer crop growing regions.