

SA government should focus on the expansion of agricultural export markets

In our interactions with various agribusinesses since the start of the year, one issue that consistently comes up, in addition to the usual concerns around land reform policy, is trade. Whether one speaks to beef, wool, fruit or wine producers, increased access to new markets and efficiencies within the Department of Agriculture, Land Reform, and Rural Development in this regard is a constant theme. This is unsurprising as South Africa's agricultural sector is highly export orientated, with exports accounting for roughly half of the production in value terms, about US\$10,2 billion in 2020 (up 3% y/y). The increase in domestic agricultural output in the recent past and planned expansion in various subsectors in the coming years means that South African policymakers should focus on creating new opportunities in the export market. In citrus farming, industry projections suggest that by 2030, South Africa's output could increase by 76% from the 2021 expected harvest of 148.8 million of the standard 15 kg cartons. This means that South Africa should already be working on market access for the forecast citrus beyond the typical markets that the country is active in. The same is true, albeit to a lesser extent, for other fruits such as avocados, deciduous fruits, as well as the livestock and wine industry.

Notably, there is coherence in markets that the industry players are interested in. The BRICS countries, the Middle East and Japan are where the industry eyes are on. The BRICS countries are an essential agricultural market, accounting for 12% or US\$180 billion of global agriculture and agro-processing imports, according to data from Trade Map. Within this grouping of countries, China is the largest importer accounting for 68% of the total BRICS agriculture imports, followed by Russia (14%), India (10%), Brazil (5%) and South Africa (3%). The top imported products across the BRICS countries include wheat, wine, cheese, citrus, palm oil, bananas, rice, apples and pears, beef, coffee, chocolate, and milk. While South Africa is a major producer of some of these products, its exports to the BRICS region are meagre. The BRICS countries account for an average of 7% of South Africa's total agriculture exports over the past 10 years (see Exhibit 1).

The key markets that South African agricultural role players are interested in within this grouping of countries are India and China. These are countries that South African policymakers should engage with productively to benefit the domestic agriculture and food industry. Some products already have access, but increased tariff-free access for a wide range of agricultural products that are likely to see strong growth in the coming years should be a priority for market access. There is also increasing interest in Japan, which is an important agricultural market, the sixth-largest in the world, accounting for an average of US\$60 billion agricultural imports a year. The products Japan typically imports are pork, maize, sausages, tobacco, beef, fish, wine, wheat, soybeans, cheese, coffee, bananas, nuts, and a range of vegetables, amongst other products. Again, these are products that South Africa produces, and in some cases, exports. At the moment, Japan remains a small market for South Africa, accounting for 2% of South Africa's overall agricultural exports of the aforementioned US\$10,2 billion a year. Fruit juices, maize, beans, and citrus are among the top agricultural products South Africa currently exported to Japan. There is now a growing interest in the wine industry, which could be paired with the broader fruit and beef industry to seek market access for a wide range of products.

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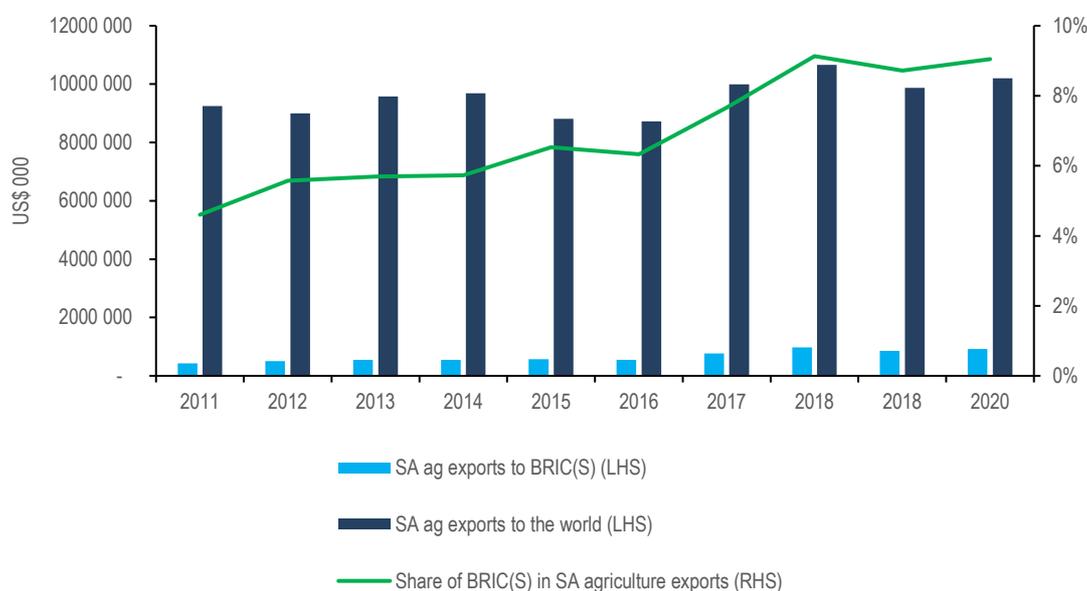
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Within the Middle East, Saudi Arabia is an important player in the global agricultural trade, being ranked the world's 20th-largest importer of agricultural products in 2019, valued at US\$20 billion, according to data from Trade Map. Of that, South Africa was a minor player, accounting for less than 2% of all the imports. Saudi Arabia's top imported agricultural products were meat and edible offal, rice, barley, milk and cream, cheese, live sheep and goats, sugar cane, maize, chocolate, citrus, palm oil, oilcake, bananas, tea, vegetables and fruit juices. These are also products that South Africa is a major producer of, and producers are looking at exploring export markets.

In sum, while South Africa's agricultural sector has enjoyed robust export activity in the recent past, there should be no complacency; there is a need for further expansion in export markets, and the industry players already know the markets they are interested in. These are the markets which government should prioritize in their engagement with their foreign equals in exploring trade opportunities. We are mindful that this is not an easy process as other countries would probably want a reciprocal arrangement when South Africa is pursuing a localization industrial and trade policy approach. Nevertheless, those are trade-offs for policymakers to balance; all the industry could do is express its views on export markets that will support the expansion in domestic agricultural output.

Exhibit 1: South Africa's agriculture trade with the BRIC(S) countries



Source: Trade Map and Agbiz Research

Weekly highlights

SA agricultural sector performed robustly in 2020

In our note last week, we indicated that South Africa's agricultural gross value-added probably grew by roughly 10-13% y/y in 2020. We based this view on our and the Bureau for Food and Agricultural Policy's estimates. The data released by Statistics South Africa confirmed this view, with official data showing that the sector's gross value-added expanded by 13,1% y/y, which is closely in line with the Bureau for Food and Agricultural Policy's estimate of 13% y/y, and far surpassed our estimate of 10% y/y.

To reiterate a point we made last week, the generally good performance of the agricultural sector in 2020 is, in part, because most of the sector was classified as essential and continued to operate during the strict lockdown period. But more importantly, 2020 was a recovery year in agricultural output across all subsectors (field crops, horticulture and livestock) due to

the 2019/20 season in the same season. The 2020/21 global maize production estimate was also lifted marginally from February 2021 to 1,14 billion tonnes, a 2% annual increase. However, the ending stocks could decline by 5% year on year to 287 million tonnes in 2020/21, in part, because of growing consumption, specifically in China where the pig industry has recovered from the devastation caused by the African swine fever outbreak in 2019. The relatively lower ending stocks mean that global maize prices could remain slightly elevated in the near term.

The USDA forecasts the 2020/21 global soybean production at 361 million tonnes, roughly unchanged from February 2021 estimates and 7% higher than the previous season. The expected large crop in Brazil and the US is behind the global soybean crop increase. Nevertheless, the 2020/21 global soybeans stocks could fall by 13% y/y to 84 million tonnes, primarily on the back of an increase in consumption by China. In rice, the 2020/21 production could amount to 504 million tonnes, also roughly unchanged from February up by 1% from the previous season. Meanwhile, the stocks are at the same levels as in the 2019/20 season, estimated at 178 million tonnes.

These global supply developments impact global grain and oilseeds prices, and in turn, on the South African grain market; hence we monitor them closely. South Africa is interlinked to the global grain and oilseeds market, both as an importer of some products such as wheat, soybean oilcake, rice, and a maize exporter. In sum, as in the previous month, the global grain and oilseeds supply is still in reasonably good shape. However, the commodity prices could remain elevated because of China's growing demand, not necessarily supply constraints.

Data releases this week

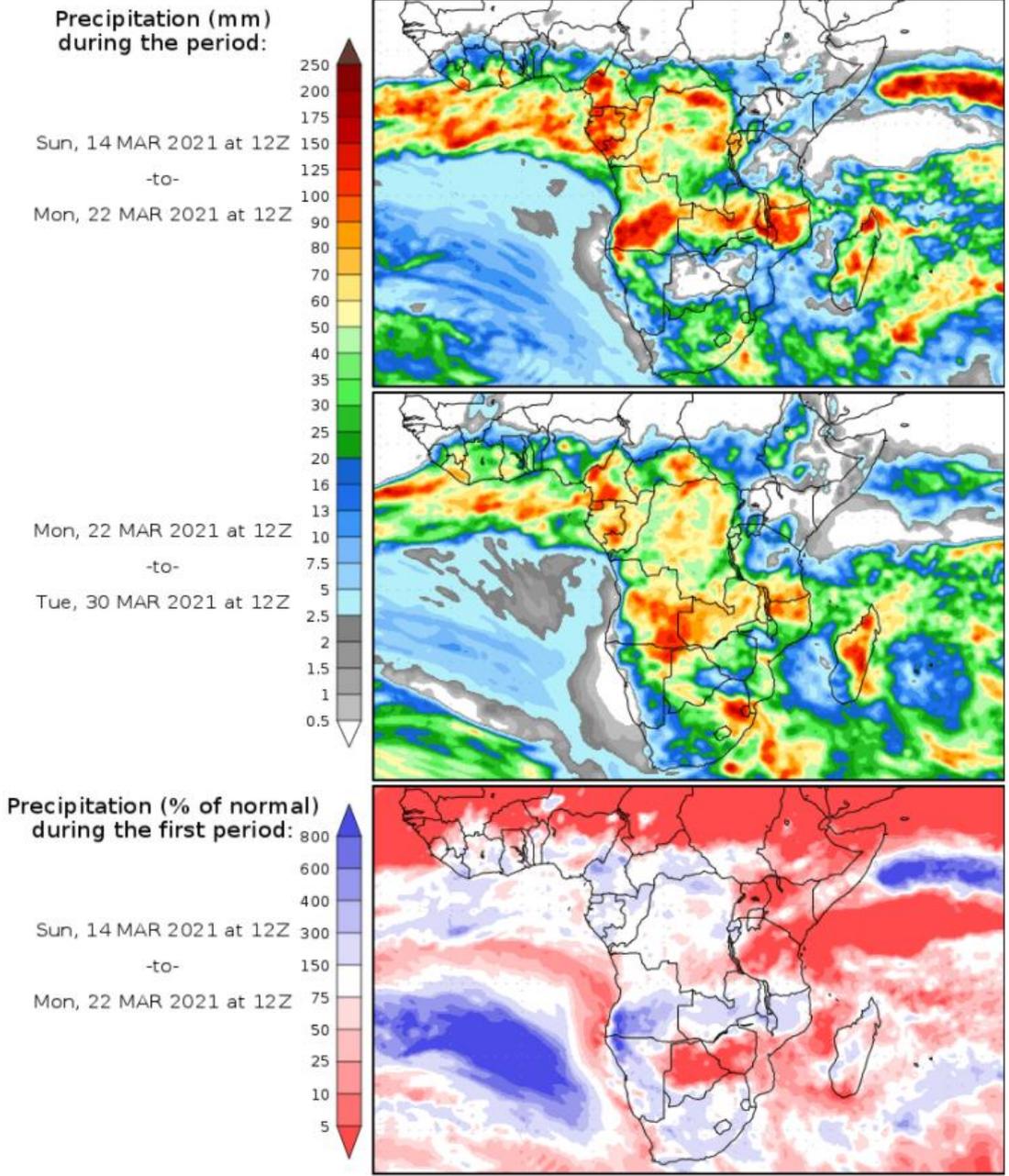
On Wednesday, the South African Grain Information Service (SAGIS) will release the **weekly grain producer deliveries data** for the week of 12 March. This data cover summer and winter crops, although the focus is still on winter crops whose harvest has recently been completed. On 05 March, about 6 990 tonnes of winter wheat were delivered to commercial silos. This placed the 2020/21 wheat producer deliveries at 1,97 million tonnes, which equates to 93% of the expected harvest of 2,11 million tonnes. From April onwards, the focus will shift to summer crops as the harvest process will be gaining momentum.

On Thursday, SAGIS will release the **weekly grain trade data** for the week of 12 March. In the previous week of 05 March, South Africa's 2020/21 total maize exports were at 2,24 million tonnes, which equates to 83% of the revised seasonal export forecast of 2,69 million tonnes. In terms of wheat, South Africa is a net importer. On 05 March, imports amounted to 631 391 tonnes, which equates to 40% of the seasonal import forecast of 1,58 million tonnes.

Globally, the notable data release will be the **US weekly export sales data** released by the United States Department of Agriculture on Thursday. Here, we will continue to monitor China's buying activity of US maize and soybeans.

Exhibit 3: South Africa's precipitation forecast

Precipitation Forecasts



The weather forecast for the next two weeks show prospects of rains over most regions of the country, which is not conducive for summer grain and oilseeds, which are currently maturing and require drier weather conditions.

Source: George Mason University (wxmaps)