The growing SA agriculture export opportunities within the BRICS countries

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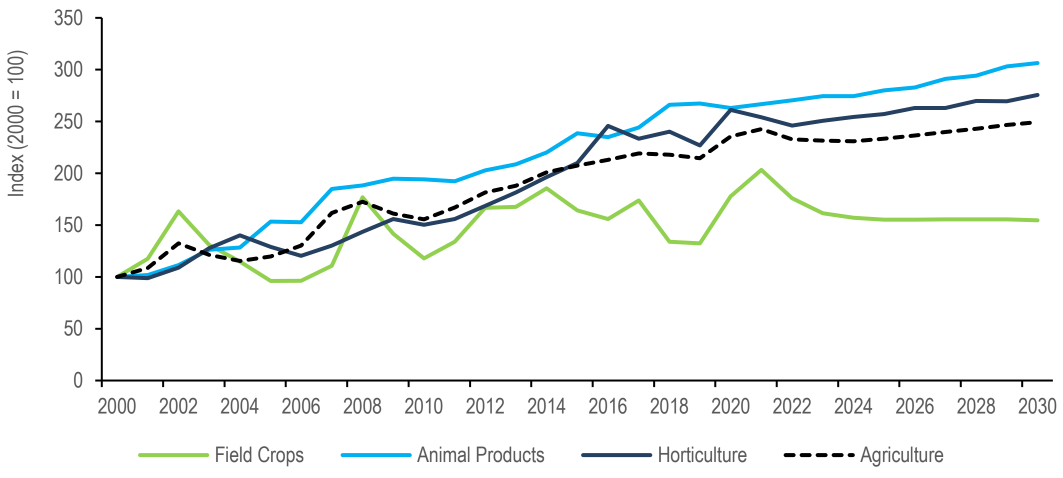
This past week, we held a hybrid session with some colleagues and Agbiz members joining us at Pretoria's offices, while others joined online. The event's primary focus was to explore how South Africa's agriculture and agribusiness sectors could gain more traction within BRICS. This theme is premised on the observation that South Africa's agriculture is expanding and is ripe to contest more international markets. In the next few years, the sector could enjoy a growth spurt, especially if the support by government policies, including the master plan on agriculture and agro-processing, come into play.

To get a sense of how South Africa's agricultural sector has expanded in the past decade, consider the sector's gross value-added since 2010, which has now expanded by 44%. In volume terms, South Africa's agricultural production has grown by 19% over the same period. Encouragingly, this expansion has occurred across all subsectors of agriculture and agro-processing value, i.e., horticulture (up 70%), animal products (up 43%), field crops (up 22%) and agro-processing (up 13%), according to data from the Bureau for Economic Research (BER) and Bureau for Food and Agricultural Policy (BFAP). Notably, the long-term projections from BFAP also present an optimistic picture of South Africa's agricultural output growth, as illustrated in Exhibit 1. The key message here is that South Africa's agriculture is growing, and export markets should be diversified and expanded to accommodate the fields' output volumes.

Exhibit 1: South Africa's agriculture gross value of production projections



Source: Bureau for Food and Agricultural Policy (BFAP)

Bolstering the proposal for export-market expansion is that some of South Africa's agricultural products outputs have already surpassed targets set out in the National Development Plan (NDP) in 2012. These include citrus, macadamias, dairy and pork, amongst others. Meanwhile, the soybeans, avocados, apples, and table grapes are fast approaching the NDP levels. This added production and normal growth in other major crops, fruits, vegetables, and livestock need new and growing markets. In our view, the new markets that the sector should be looking more at are in BRICS. The industry should hone a BRICS strategy that is complemented by robust bilateral engagements with each of the BRICS countries.

We highlighted in last week's note that 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). Notably, just last week, colleagues from the citrus industry announced that the "South African citrus industry would likely break all previous export season records with an estimated 158,7 million cartons in 2021. If the estimate is reached, it will represent a third consecutive season of record export volumes, with 130 million cartons exported in 2019, followed by 146 million cartons in 2020." Moreover, the industry estimates indicate that the available citrus for exports could increase by 300 000 tonnes over the next three years.

The expected growth in South Africa's agriculture sector and export markets also calls for increased attention to logistical efficiencies at the ports. South Africa has thus far managed to achieve some efficiency gains. The industry has been working closely with the government and other stakeholders, such as Transnet to smooth the flow at the ports. There is ongoing work at Transnet to decongest the Durban port. The multi-stakeholder cooperation was key to enabling higher export volumes during a pandemic, and this saw South Africa recording the aforementioned second-largest value on record of about US$10,2 billion in 2020. Export markets should be the main focus going forward.

Back to the BRICS story, the attractive markets within this grouping are China and India. This is because they account for large agricultural import volumes, have growing populations, and changing consumer taste. Economic recovery in these countries has been robust. As things stand, the BRIC(S) countries account for a relatively small share of South Africa’s agriculture exports – an average of 10% over the past 10 years in total agricultural exports of US$9,5 billion. In this respect, China, Russia, India and Brazil are the leading markets, mainly for citrus, wool, nuts, apples and pears, wine, grapes, sugar and jams, amongst other products.

Yet, BRICS countries account for an average of 12% (US$180 Billion) in global agricultural exports, which means South Africa could play a meaningful role in this market. China is the largest importer accounting for 68% of the total BRICS agriculture import of US$180 billion, followed by Russia (14%), India (10%), Brazil (5%) and South Africa (3%), according to data from Trade Map.

South African policymakers' engagements with their BRIC(S) counterparts are about lowering tariffs for certain agricultural products and addressing the non-tariff barriers. Consider wine trade in China – the likes of Australia and Chile accessed the Chinese market at 0% preferential tariffs. Meanwhile, South African producers face 14% import tariffs. Hence, competition has been challenging for the wine industry and a range of agricultural products. It is also important that the industry pays closer attention to geopolitical developments in this region. China has sanctioned Australia for criticizing some of its policy positions. These sanctions entail trade restrictions. Other countries have been able to take advantage of the gap left by Australia to meet China’s import demand.

To emphasize a point we made last week, we do not anticipate this being a smooth engagement. China and India will most likely want a reciprocal engagement with South Africa, which puts South Africa in a challenging position as the country is also pushing its localization strategy. This is a point that industry players should keep in mind when engaging with the local authorities about the export market aspirations. The policymakers will also need to make necessary trade-offs, weighing both our export ambitions and the localization strategy. Trade policies and sector development strategies will need to be calibrated in ways that take advantage of new market opportunities.

Weekly highlights

Rising fuel prices likely to add cost pressures on the SA farming sector

The lower oil prices in 2020 kept South Africa's agricultural input costs at reasonably lower levels in 2020. But this year will not be the same; the Brent crude oil price has recovered from lower levels last seen this period last year when the pandemic hit the world, and there was heightened uncertainty about the economic conditions. On 18 March 2021, the Brent crude oil price was up by 125% y/y, trading around US$63,48 per barrel.

South Africa is an importer of oil and fertilizer, and therefore at the cold-face of these price increases. The costs will be reflected in the diesel and fertilizer prices for South African agriculture and the agribusinesses sector. This also comes when the domestic agricultural industry is approaching a high consumption period for both fuel and fertilizer – planting period for winter crops and harvesting for summer crops, all will gain momentum from May 2021. Fuel generally accounts for between 11% and 13% of grain production costs, while fertilizer constitutes about 35% of grain farmers' input costs and a significant share in other agricultural commodities and crops. Also, it is worth noting that South Africa transport by road roughly 81% of maize, 76% of wheat, and 69% of soybeans. On average, 75% of national grains and oilseeds are transported by road. While grain transporting occurs throughout the year, the harvest period is hectic and involves increased fuel consumption. This means farm managers and agribusiness will have to plan for an environment different from last year, with prospects of increasing costs this time around.

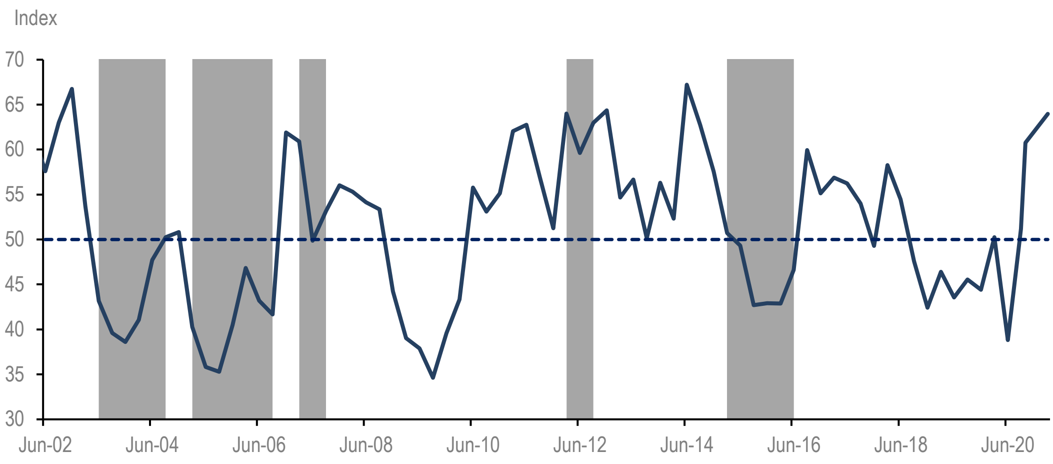
Exhibit 2: Brent crude oil price

Source: Bloomberg and Agbiz Research

Agribusinesses remained optimistic in the first quarter of 2021

Last week we released the first quarter of 2021 results of the Agbiz/IDC Agribusiness Confidence Index (ACI), which showed an improvement from 61 points in the fourth quarter of 2020 to 64. This is the highest level of the Agbiz/IDC ACI since the second quarter of 2014. A level above the neutral 50-point mark implies that agribusinesses are optimistic about operating conditions in South Africa. These results likely reflect not only the robust performance of South Africa's agricultural sector in 2020, where gross value-added expanded by 13,1% y/y, but also positive early signs for another season of large harvests in 2020/21 from most subsectors. This first-quarter survey was conducted in the first two weeks of March 2021 and covered agribusinesses operating in all agricultural subsectors across South Africa. The ACI comprises ten subindices, and most of these increased in the first quarter of 2021. More information on the ACI can be accessed by clicking here.

Exhibit 3: Agbiz/IDC Agribusiness Confidence Index[1]



Source: Agbiz Research and South African Weather Service
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

Data releases this week

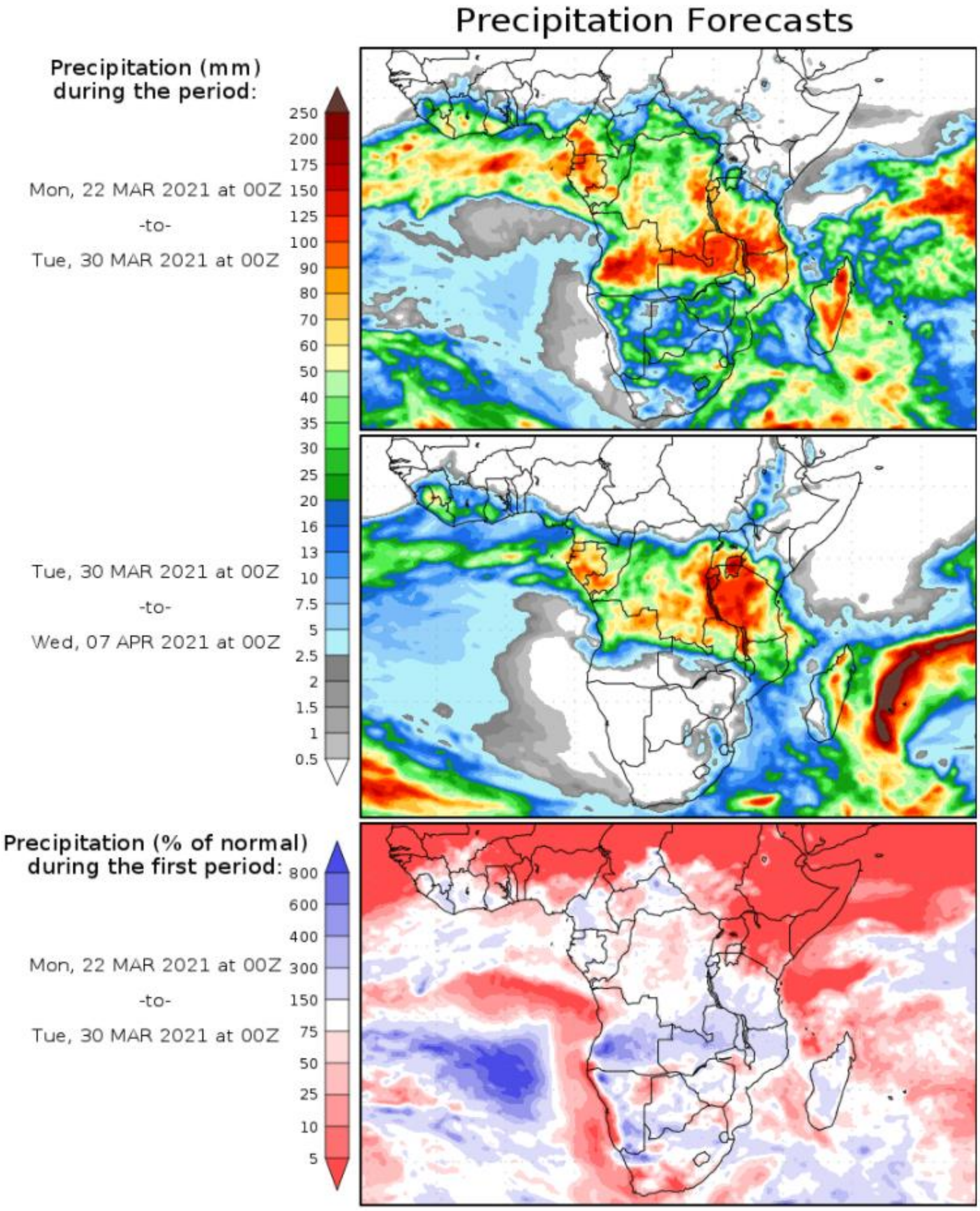
On Thursday the South African Grain Information Service (SAGIS) will release the **weekly grain producer deliveries data** for the week of 19 March. This data cover summer and winter crops, although the focus is still on winter crops whose harvest has recently been completed. On 12 March, about 5 484 tonnes of winter wheat were delivered to commercial silos. This placed the 2020/21 wheat producer deliveries at 1,99 million tonnes, which equates to 94% of the expected harvest of 2,11 million tonnes. From April onwards, the focus will shift to summer crops as the harvest process will soon be gaining momentum.

On Friday, SAGIS will release the **weekly grain trade data** for the week of 19 March. In the previous week of 12 March, South Africa's 2020/21 total maize exports were at 2,28 million tonnes, which equates to 85% of the seasonal export forecast of 2,69 million tonnes. In terms of wheat, South Africa is a net importer. On 12 March, imports amounted to 663 414 tonnes, which equates to 42% 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 Friday. Here, we will continue to monitor China's buying activity of US maize and soybeans.

[1] The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects influencing a business in the agricultural sector (i.e. *turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost*). It is used by agribusiness executives, policymakers and economists to understand the perceptions of the agribusiness sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions.

Exhibit 4: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for this week shows 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.