

## What EU's Farm-to-Fork Strategy mean for South Africa's agriculture?

The EU's Farm-to-Fork Strategy is set to be implemented in 2022, and will come with an additional layer of regulations which have implication on South Africa. Hence, in this week's Market Viewpoint, we provide an elementary view on what the strategy means for South Africa. As a background, the SACU and Mozambique-EU Economic Partnership Agreement (EPA) of 2016 enhanced market access benefits for South Africa. These included fully or partially removed customs duties on 98.7% of exports, expansion of tariff rate quotas (TRQs) on key agricultural exports, and a more implementable agricultural safeguard mechanism, among others. Since the implementation of the agreement in October 2016, South Africa's exports to the EU have increased by 25%, from US\$2.2 billion (in 2017) to US\$2.8 billion (in 2020), according to data from Trade Map. But there are reasons for concern that this growth in exports could slow down as a new set of regulations, part of the EU Green Deal's Farm-to-Fork Strategy<sup>1</sup>, is implemented.

### The Farm-to-Fork Strategy

The EU and the rest of the world are seeking to implement urgent policy measures to combat the negative effects of climate change. In its 2030 climate target plan, the EU aims to reduce greenhouse gas emissions by 55% from 1990 levels. To that end, the EU has crafted the "Farm-to-Fork Strategy", a new approach that ensures that agriculture, fisheries, and the entire food system effectively contributes to achieving this target.

The Farm-to-Fork Strategy was launched in 2020 and it is at the core of a broader initiative called the "European Green Deal" whose aim is to reduce the environmental and carbon footprint in the way food is produced and consumed. The Farm-to-Fork Strategy lists 27 actions covering food production, processing, retailing, and waste. The strategy has four broad pillars:

- *Consumer demand* – which focuses on nutritional labelling and creating a sustainable labelling framework that covers nutrition, climate, environment and social aspects of food products. The labelling requirements are intended to empower consumers to make conscious decisions about health and sustainability.
- *Food production* – which sets out the fundamentals for sustainable production by setting targets to reduce the use of fertilizers and pesticides and the revision of legislation regarding feed additives and animal welfare.
- *Industry behaviour* – that seeks concrete commitments from agribusiness and other food-system actors concerning health and sustainability. To that end, the EU will develop a code of conduct on the development of business and marketing practices and require agribusinesses to integrate sustainability into their corporate strategies.
- *Trade policy* – which seeks commitment from third countries on the use of pesticides and animal welfare and the fight against microbial resistance. This raises the question of creating a fine balance between resilience without turning into protectionism.

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#### Disclaimer:

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<sup>1</sup> More information on the EU Green Deal's Farm-to-Fork Strategy is available [here](#).

With the EU seeking to compel third countries - such as South Africa - to adhere to new regulations to continue to access its lucrative market, questions have arisen about the capacity and potential for South Africa to adapt, as well as the risks and opportunities that these regulations present to future access into the EU market.

### **What are the challenges?**

South African producers – as well as those in the rest of SACU and Mozambique – may face several challenges. These include:

#### *Regulatory and policy uncertainty*

Regulations in the Farm-to-Fork Strategy are not expected to be implemented until 2022. However, it might take a bit more time for regulators and food-system actors to align their policy, regulations, and business decisions to the emerging requirements of the food system. Policy cycles and political processes can impose a lag-time of anywhere between three to five years, which will lead to a transition phase of regulatory and policy uncertainty.

#### *High costs of compliance*

Over the years, South African agribusinesses have had to conform to stringent EU regulatory standards, as well as an ever-increasing set of private standards related to traceability, authenticity, exposure to allergens, good farming practice, child labour, sustainable farming, sustainable farming practice, and various kinds of certification (e.g., Hazard Analysis Critical Control Points, Kosher, Halal etc.). An example is the requirement for South African citrus producers to comply with the citrus black spot (CBS) measures. With Fair Trade Certification costing over US\$1000 for smallholder farmers, resource-poor farming households can seldom afford such high costs of adopting new regulations and certification. Without financial support, most smallholder farmers will inevitably be excluded from participating in export markets.

### **What are the opportunities?**

#### *Shifting towards low levels of fertilizer and chemical use, and reducing soil contamination*

Some of the food produced in South Africa is genetically modified (GM), and produced under agricultural systems that intensively use fertilizers and chemicals.<sup>2</sup> Worth noting is that the EU is currently reviewing its GM regulations concerning production and importation of GM crops.<sup>3</sup> On 29 April 2021, the European Commission released a study confirming that new genomic techniques products have the potential to contribute to sustainable agri-food systems in line with the objectives of the European Green Deal and Farm to Fork Strategy. The study states that "...any further policy action should aim at enabling new genomic techniques for products to contribute to sustainability while addressing concerns...of [ ] food production [such as] organic agriculture. Still, there is growing evidence that countries that have embraced GM crops (such as the US, Ukraine, Argentina, Russia, Brazil, Canada etc.) are also experiencing lower insecticide use, practicing more environmentally friendly tillage operations, while achieving considerable crop yield improvement over time.

While South Africa has existing commercially driven export value chains that already conform to these emerging rules, it's important to point out that such food systems are still targeting niche markets in the EU. Questions remain around the economic viability of extensive, organic and low-input farm production systems that drive these niche food systems. With the Farm-to-Fork Strategy ultimately seeking to make these niche markets mainstream, it is

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<sup>2</sup> Maize is a primary example where 80% of the GM, also soybeans where over 90% is GM.

<sup>3</sup> More information is available [here](#).

an opportunity for South Africa only if farmers can begin to produce higher volumes at a relatively competitive price.

### *High and growing food demand*

There are studies that project that global food demand will increase by as much as 60% by 2050. The assumption is that the EU will increasingly depend on food imports. Few EU member states can allocate enough land to produce and match the level of food supply that can meet this demand growth. In South Africa, there is over a million hectares of additional available cropland that can be sustainably brought into production to expand and increase food output. Against this backdrop, South Africa can continue to expand its production to meet an increasingly significant portion of the EU's food needs, especially if local food systems adapt and align standards to meet the regulatory standards dictated in the Farm-to-Fork Strategy.

### *Technical change*

The EU is depending on the progressive technical change as a key driver that will re-set the agro-food system. The premise is that technological innovation will drive productivity increases, reducing food prices to reasonably affordable levels. In South Africa, technical change will involve adoption of technologies that will not only reduce the carbon footprint of the agro-food system but also increase yields in a sustainable way. Part of that process will be to expand the adoption of high-yielding, drought- and pest-tolerant, genetically engineered crops that will enable farmers to produce more food with less land. This will also allow for more land to be set aside for preservation and increase the potential for carbon sequestration.

### *Business model innovation*

Many commercially driven export-oriented value chains have well-established systems of traceability and food safety, as well as allergen control reporting, with audit processes that can identify, verify, and authenticate standards. However, adapting to the demands of the Farm-to-Fork Strategy will involve (multinational) agribusinesses making significant investments in smallholder production by expanding training and capacity-building programmes and corporate social responsibility (CSR) projects that can lead to an increase in the sourcing of farm production from smallholder farmers. Partnerships with smallholder farming communities and other environmental protection agencies and NGOs (such as African Parks) can lead to greater levels of accumulating carbon credits to increase market access into the EU.

## **What are the risks?**

### *Increased inequality*

Without deliberate and strategic interventions that support regulatory compliance, there is a real chance that resource-poor farmers will be left out of the new "sustainable agro-food system" due to their lack of financial and technical capacity to conform to new standards. This will only serve to deepen the inequality gap and widen the divergence between the informal and formal food systems. The first mover advantage for EU value-chain actors may potentially displace sub-Saharan African exporters in markets if adoption of regulations takes more time than initially envisaged.

### *Off-shoring of "bad production" to South Africa*

Those food actors that cannot comply with the provisions of the Farm-to-Fork Strategy could potentially relocate parts of their value chain in South Africa, targeting exports to the Middle

East, and the Far East and Asia where food standards are far less stringent. Without any pressure to comply to environmental sustainability, the types of technologies that will be implemented in South Africa may hurt the continent in the long run.

## Conclusion

The four key factors that will drive the re-set of the food system through the Farm-to-Fork Strategy will be (a) technical change, (b) business model innovation, (c) growing food demand, and (d) policy and regulation. The EU and the private sector may need to provide significant technical and financial support to facilitate South Africa's transition and align its regulatory environment with the focus on health and sustainability. In the long run, the expectation is that with the harmonization of standards and practices will also come structural change of the food system in such a way that value chain profits are not disproportionately accumulated at the expense of farmers. This will require higher levels of transparency across all parts and aspects of the food system.

## Weekly highlights

### Rising fuel prices to add pressure on SA's agriculture sector in 2021/22 season

The planting season for South Africa's 2021/22 summer grains and oilseeds started positively in the eastern and central regions with favourable rains that improved soil moisture. The weather outlook for the coming months is positive, with prospects of above-normal rainfall, which should support the crop in this new season. The one concern that farmers currently have to contend with is the rising input costs. We have recently written about the fertilizer and agrochemicals prices which in October 2021 were over 40% compared with 2020 levels. The rising fuel prices are an additional cost that farmers and agribusinesses currently face.

The preliminary estimates from the Central Energy Fund suggest that petrol (95 ULP Inland) and diesel (0.05% Wholesale Inland) prices could increase by 98 cents per litre (c/l) and R1,41c/l, respectively, on 03 November 2021. This adjustment means the retail price of petrol could increase to R19,31 per litre from the current level of R18,33. Simultaneously, the wholesale diesel price could rise to R17,12 per litre from R15,71 in October 2021. The key factors sustaining fuel prices at these higher levels are the somewhat weaker ZAR/USD, combined with the rising Brent crude oil prices. For context, fuel generally accounts for between 11% and 13% of grains and oilseeds production costs. The consumption is usually moderate throughout the year, with the highest periods being during planting and harvesting, and we are in such times at the moment. In terms of annual fuel usage, it is worth noting that South Africa transports 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.

### Exhibit 1: South Africa's retail petrol and wholesale diesel prices



Source: Central Energy Fund and Agbiz Research

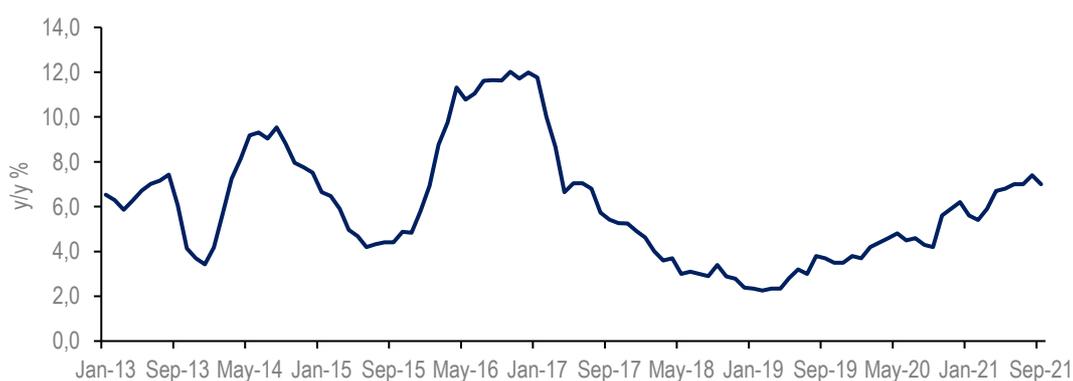
## SA consumer food price inflation moderated in September 2021

South Africa's consumer food price inflation moderated to 7,0% y/y in September 2021, from 7,4% in the previous month. The products prices underpinning this deceleration include 'bread and cereals', 'meat', 'fish', and 'vegetables'. While we expect consumer food price inflation to continue to slow in the coming months, we no longer think this will be significant. There will likely be upward cost pressures from 'meat' and 'oils and fats' to counter the expected decline in various products such as 'bread and cereals' and 'vegetables'.

For example, the cattle and sheep slaughtering activity remains at relatively lower levels compared to 2020, and this could provide mild upward pressures for meat price inflation in the near term. For example, in August 2021, cattle and sheep slaughtering activity was down by 1% y/y and 3% /y/y, with 207 449 and 293 883 head slaughtered, respectively. As we highlighted in the previous note, the livestock industry is still in the herd-rebuilding process that we have been in since the drought of 2015-16. Moreover, the continuous outbreak of foot-and-mouth disease in some provinces of South Africa, such as KwaZulu-Natal and Limpopo, has recently led to farmers slowing the slaughtering activity. This is slightly different from what we have observed in the past when such outbreaks and the temporary export ban would typically result in a somewhat increased meat supply and, consequently, softened prices. The excellent performance in crops production may have helped to provide some financial breathing room for some diversified farmers to rebuild herds rather than sell more meat to the domestic market.

In addition, South Africa is a net importer of oils and fats, and these product prices have remained elevated in the global market. For example, the FAO Vegetable Oil Price Index averaged 169 points in September, up 2% month-on-month and about 60% above its year-earlier level. This is underpinned by higher palm oil prices on the back of constrained supplies and the generally strong demand from China.

### Exhibit 2: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research

## Data releases this week

We start the week with a global focus. Today, the USDA will release the **US Crop Progress report** for 24 October 2021. In the previous report of 17 October, the US maize crop was rated 60% good/excellent, which is slightly below the last year's rating in the same week of 61%. Moreover, the harvest process of maize and soybeans is underway across the US. On 17 October, about 52% and 60% of the maize and soybeans, respectively, had already been

harvested. We will receive an update of the harvest progress today. On Thursday, the USDA will release the **US Weekly Export Sales** data.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 22 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 15 October, about 485 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 33 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, 670 742 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 24th 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.

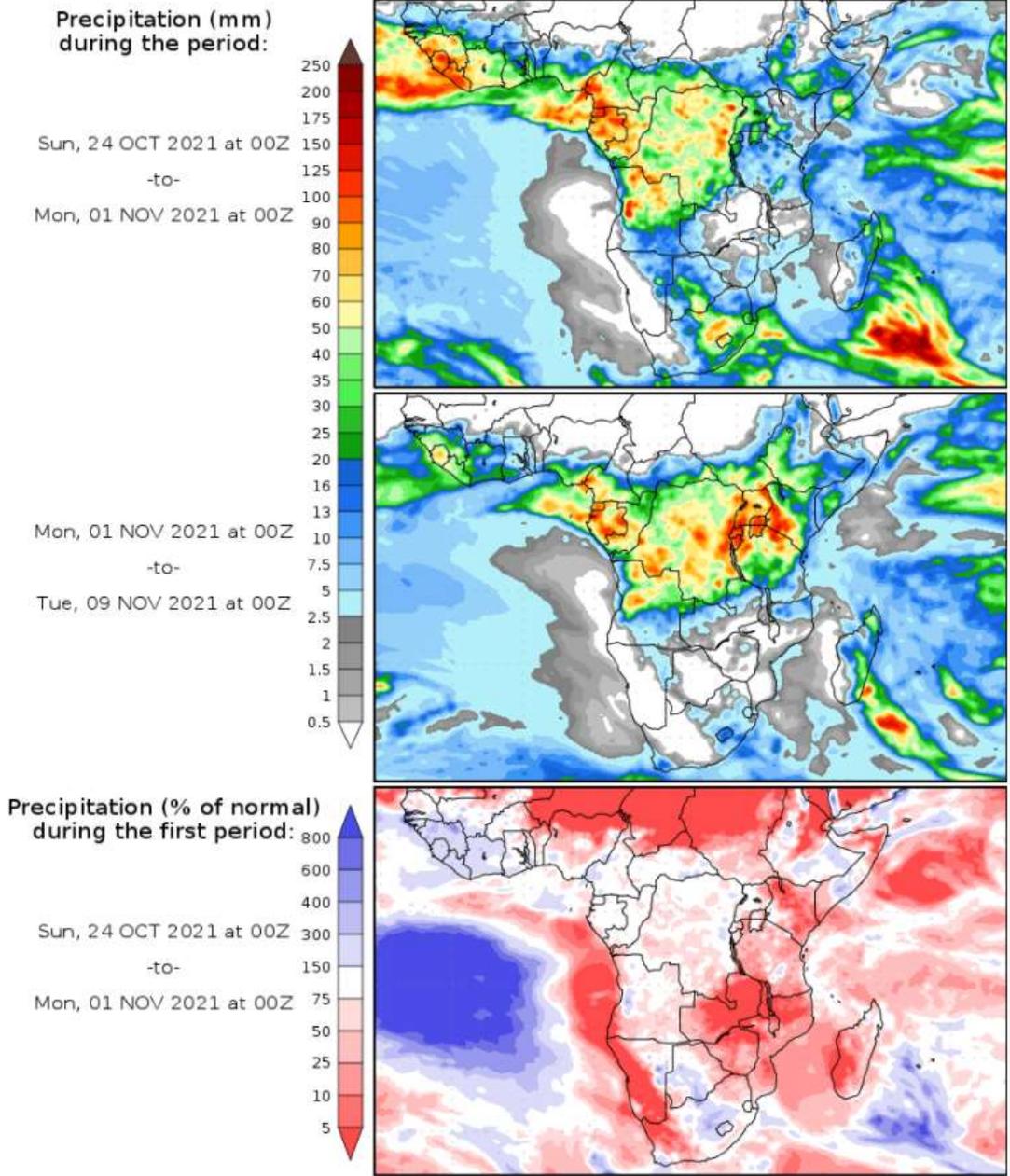
Also, on Wednesday, the **Crop Estimates Committee** will release the farmers' intentions to plant for the 2021/22 summer crop production season. The preliminary insights suggest that South Africa could have another good season, although rainfall might not be as abundant as in the 2020/21 season. The three critical indicators we have thus far, i.e., (1) the tractor sales, (2) weather outlook, and (3) grains and oilseed prices, paint a positive outlook that farmers could again plant just over four million hectares of summer grains and oilseeds, which will be in line with a long-term trend.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 22 October 2021. To recap, in the week of 15 October 2021, which was the 24th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 1,85 million tonnes, which equates to 61% of the revised seasonal forecast of 3,03 million tonnes (up by 6% y/y). South Africa is a net importer in terms of wheat, and 15 October 2021 was the third week of the 2021/22 marketing year. The total imports are now at 162 122 tonnes out of the seasonal import forecast of 1,53 million tonnes (slightly above the 2020/21 marketing year imports 1,47 million tonnes).

Also, on Thursday, Statistics South Africa will release the **Producer Price Index (PPI)** data for September 2021. To recap, the food producer's price inflation was at 7,1% y/y in August 2021, unchanged from the previous month.

Exhibit 3: South Africa's precipitation forecast

### Precipitation Forecasts



The weather forecast for the week shows prospects of widespread rains which should help improve soil moisture and support the planting activity for the 2021/22 crop.

The week thereafter will likely provide a breather, and allow for planting to continue with minimal interruption.

Source: George Mason University (wxmaps)