Trade Intelligence Report

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South Africa's commercial and seed potato exports:
Identifying potential market opportunities in Africa

1.0 Introduction

South Africa is the second largest exporter of both potato and potato seed in Africa, accumulating over R2 billion in export revenues over the past five years. Overall, South Africa's potato and potato seed exports reached a record R583 million in 2014, up 33% from R438 million in 2013. In terms of export composition, commercial potato exports constitute 85% while potato seed accounts for 15% of total industry export revenue. In real terms, total industry exports grew by 34% - with 75% of this growth being attributed to potato seed and 25% to commercial potatoes.

Almost all of South Africa's commercial potato and potato seed exports are destined for the African market, making the continent an important source of growth for the sector. Export growth in SADC markets (excluding SACU) has exceeded that of the BLNS countries (Botswana, Lesotho, Namibia and Swaziland), by far. This means that the industry has been substantially growing its markets in the SADC region over the recent past. Exponential growth in Mozambique and Angola (commercial potatoes) as well as Zambia and Zimbabwe (potato seed), has driven the recent growth in exports, to a large degree. However, most of these markets are now becoming saturated, with South Africa accounting for over 95% of market share, on average. The question for the industry is; which countries represent the industry's next growth opportunities?

Like the rest of South Africa's agricultural sector, Africa remains the growth frontier for the industry's future exports of both commercial and seed potato, at least in the short to medium term. In light of the recently launched Tripartite Free Trade Agreement (T-FTA), emerging export opportunities have arisen beyond SADC countries such as Zimbabwe, Zambia, Angola and Mozambique. In fact, the T-FTA offers South Africa an additional R1.3 billion in both commercial and seed market across non-SADC and non-SACU countries that are part of the agreement.

1.1 Domestic market outlook and exports

According to the Bureau for Food and Agricultural Policy (BFAP) 2015 Baseline, South Africa's potato demand has been increasing by an average of 3% per annum since 2009. Meanwhile, potato production is set to reach 2.7 million tons over the next decade, up 23% from the current levels of 2.2 million tons. The additional half a million tons of potato output that will be produced will be driven more by yields, rather than area expansion.

Over the past decade, yields have increased by over 20%, rising from 34 tons/ha in 2005 to 43 tons/had in 2015. Under conservative assumptions, the potato yield could increase by a further 10% in the next decade, reaching 48 tons/ha by 2024 (BFAP, 2015).

The observed and projected expansion in yield means that the seed industry is going to play an increasingly pivotal role in growth of output and exports. Production growth has been, and will continue to increase well above local demand growth, providing further scope for exports into the region, and beyond.

South Africa's commercial potato exports have been growing at an average of 12% per annum. If the industry continues to grow at the prevailing trend export revenue will double within the next 5 years – reaching in excess of R1 billion by 2021. Potato seed on the other hand, has been growing at three times the rate of commercial potatoes – and exports can double in the next two to three years if this high growth level is sustained.

1.2 Export structure for SA's potato industry

Over the past 5 years, South Africa exported, on average, R363 million of commercial potatoes and R51 million of potato seed. Recent export data suggests that South Africa's commercial potato and potato seed exports are highly concentrated in the African market, with Asian markets accounting for a marginal share of the industry's exports.

1.2.1 Commercial potatoes

SACU Market

With regards to commercial potato exports, the SACU market (Botswana, Lesotho, Namibia and Swaziland) have averaged 52% (or R190 million) of the overall share of South Africa's exports. Namibia is the largest market among the SACU countries, accounting for an average of R115 million, or 60% of SACU's total, when one considers the period 2010-2014. Botswana is the second largest SACU market accounting for 23% of South Africa's total exports in the BLNS region. The smaller markets include Swaziland and Lesotho, which account for 9% and 8%, respectively.

Table 1: Summary of South Africa's commercial potato export markets, 2010-2014

		Average Exports Rand (millions)	Average Share of SA total (%)	Average growth (%)
BLNS	0%	R 190	52%	1.2%
Rest of Africa	0%-50%	R 168	46%	26.7%
Middle East	0%	R 3	0.7%	94.6%
Others (nes)	13%	R 2	0.5%	-26.5%
Total	-	R 363	100%	11.9%

Source: Calculations based on ITC (2015)

SADC market and the rest of Africa

SADC countries not only account for a relatively large share of South Africa's commercial potato exports, but also represent a fast growing market. After excluding all SACU countries, South Africa's commercial potato exports to SADC markets averaged R165 million between 2010 and 2014 – implying that SADC markets accounted for 98% of South Africa's potato exports to the rest of Africa, with these markets growing at 27% per annum, faster than the

SACU average of a little over 1% (see Table 1). Outside of SACU and SADC, West African markets such as Congo (Brazzaville), Gabon and Ghana have played a minor role, accounting for 2% of South Africa's commercial potato exports.

Other markets

The Middle East counties (i.e. United Arab Emirates, Qatar and Oman) and other regions (i.e. St. Helena, Philippines etc.) have accounted for a 1% of South Africa's overall commercial potato exports. While the former has grown exponentially, albeit off a low base, the latter has been declining. The past five years seem to suggest that some form of trade diversion has taken place, from traditional non-SACU markets to the Middle East and other African markets. In the Middle East, commercial potato exports trebled from 2013 to 2014, increasing from R2.9 million to R9 million, respectively.

1.2.2 Seed potatoes

South Africa exported roughly R85 million of potato seed in 2014, and this represented a 32% growth from the 2013 revenue of R64 million. In terms of structure the SACU market accounted for an average of 35% of South Africa's potato seed exports, while other African countries constituted 62%. Altogether, the African market dominates South Africa's potato seed exports, taking up 97%. Zambia has been the largest market, taking up an average of 20% of potato seed exports from South Africa between 2010 and 2014. Namibia (17%), Mozambique (16%) and Zimbabwe (15%) are among the larger regional markets over the same period, while Botswana (9%), Angola (8%), and Lesotho (5%) are also key, albeit smaller markets.

Table 2: Summary of South Africa's seed potato export markets, 2010-2014

	Tariffs	Average Exports Rand (millions)	Average Share of SA total (%)	Average growth (%)
BLNS	0%	R 18	35%	11.5%
Rest of Africa	10%-50%	R 31	62%	61.0%
Others (nes)	0%	R 2	3%	29.8%
Total	-	R 51	100%	35.9%

Source: Calculations based on ITC (2015)

The only market of significance outside of the African continent is China, where South Africa's potato seed exports were only recently established. Potato seed exports to China grew from R240 000 in 2013 to R890 000 in 2014. The future growth of non-African markets is uncertain, and it is expected that the African continent will remain the mainstay of the domestic industry's future export growth prospects.

1.3 Levers of global competitiveness

1.3.1 The Tripartite Free Trade Agreement (T-FTA)

The Tripartite FTA comprises of 26 countries that are affiliated to three Regional Economic Communities (RECs) (see Figure 1). The significance of the T-FTA for South Africa lies in industry being afforded preferential access to markets beyond SADC countries. In this regard, there are two issues of importance that relate to granting of preferential market access namely, (i) the reduction of import tariffs and (ii) Rules of Origin (RoO). Tariffs are the duties (or taxes) that commercial and seed potatoes would have to pay in order to enter into a foreign market, whereas RoO are meant to determine whether a particular product qualifies (in terms of its originating status as defined by the relevant ROO) to benefit from the preferential tariff treatment granted to that product in terms of the FTA. Rules of Origin are negotiated through respective blocs under SADC, EAC and COMESA. However, tariff negotiations are negotiated in a somewhat, different fashion. South Africa has been negotiating tariffs under SACU, rather than SADC. Thus, SACU is negotiating tariff offers with (i) the EAC, (ii) Egypt, and (iii) Ethiopia and the rest of the T-FTA. By extension, it implies that South Africa will bilaterally negotiate tariffs with other countries with which it has no existing reciprocal trade arrangements. Such markets include countries with non-overlapping memberships COMESA countries such as Djibouti, Eritrea, and Libya.

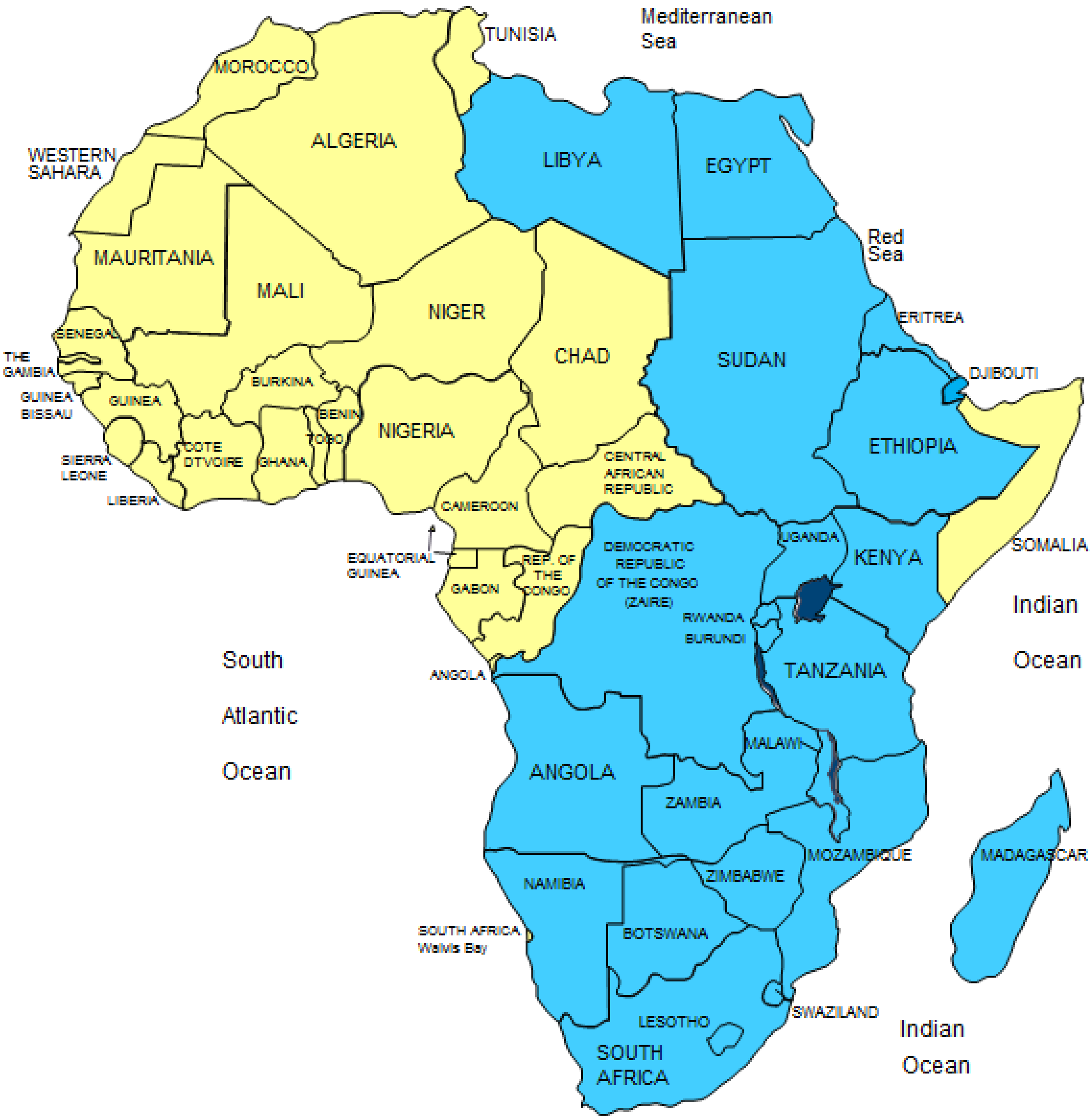

Figure 1: The Tripartite Free Trade Area (T-FTA) region

Source: www.mapsfordesign.com

The negotiating position of SACU regarding potatoes (commercial and seed), is that they be excluded from any tariff reduction concessions, as they are regarded a sensitive product. As such, potatoes from the F-FTA region will come into the SACU market at 18% *ad valorem* duty, or 0.44c/kg. Furthermore, South Africa does not allow for seed potato imports on SPS grounds, to avoid the risk of seed contamination. Meanwhile, under SACU's engagement with the EAC, South African seed and table potatoes are currently charged the EAC's common external tariff of 25% duty on both commercial and seed potatoes, with Tanzania being the only exception, providing duty free access to SACU due to also being a party to the SADC Protocol on Trade.

The RoO prescribe that potatoes sourced by industries within the T-FTA, whether for primary consumption or for use in processing and secondary manufacture (e.g. potato flour and meal, flakes etc.), should be wholly produced, and/or wholly obtained. What this means is that South Africa will get preferential market access across an entire region of 26 countries (see Figure 1) to the extent that other T-FTA parties are prepared to grant SACU tariff concessions on potatoes. However, the reality is that not all 26 countries are realistic market opportunities, regardless of whether these countries offer better market access.

The T-FTA region accounts for roughly 50% of Africa's R3 billion worth of seed potato imports in the past 2 years. Egypt is by far the largest importer on the continent, representing 83% of the total seed potato imported into the tripartite FTA region in 2014. Lybia (4%), Sudan (3%), Djibouti (2%) and Mauritius (1.5%) are the other top potato seed importers in which South Africa has no market presence. South Africa's key markets in the SADC region account for only 6% of the total imports into the T-FTA area. What this means is that South Africa can access the other 94% that the industry is yet to tap into.

In terms of commercial potatoes, the T-FTA region also accounts for an average of 50% of the continent's import demand. In 2014, R560 million of the continent's R1.2 billion commercial potato imports went into the 26 countries which are part of the FTA. Between 2010 and 2014, Angola was the leading importer of commercial potatoes, averaging 23% of the share of all imports into the tripartite region. Four of the top five largest importers of commercial potatoes are in the SADC region who, in addition to Angola, are Namibia (21%), Botswana (12%), Mozambique (8%) and Mauritius (6%). Not surprisingly, the SADC region (including Tanzania) has the largest import demand, accounting for 83% of the overall imports within the T-FTA. The only significant importer of commercial potatoes outside Southern Africa is Egypt, which accounts for 10% of the value of overall imports coming into the T-FTA.

1.3.2 Other exogenous factors

The industry's competitiveness is influenced by several cost variables which include fuel cost[1] (8%-10%), fertiliser costs[2] (15%-20%) and chemicals (12%-14%). The movement in global Brent Crude prices and the ZAR/US$ exchange rate has great implications on production costs, given that South Africa is a significant net-importer of both fuel (Brent Crude oil) and chemicals. Since August 2014, the Brent crude oil price has declined by 53%, from an average monthly price of US$103.50 to US$48.50 per barrel in August 2015 (Figure 2). Prices are expected to remain at low levels in the short to medium term, and this has positive impacts on the industry's competitiveness – as it reduces the input costs.

However, the industry has not fully realised the benefits of low Brent crude prices due to the continuously weakening Rand. As Brent crude prices halved over the past year, the Rand weakened against the US Dollar by 21%, from a monthly average of R10.67 to R12.93 over the same period (Figure 1). The Rand weakness has been attributed to a myriad of other forces, which include the unstable labour environment (emanating from rising concerns of strike action in the mining sector), rising expectation of a US interest rate hike, low global

[1] depending on the level of mechanisation
[2] depending on soil type and agro-ecological region

commodity prices on the back of weakening Chinese demand, and an increased risk of South Africa's credit rating downgrade.

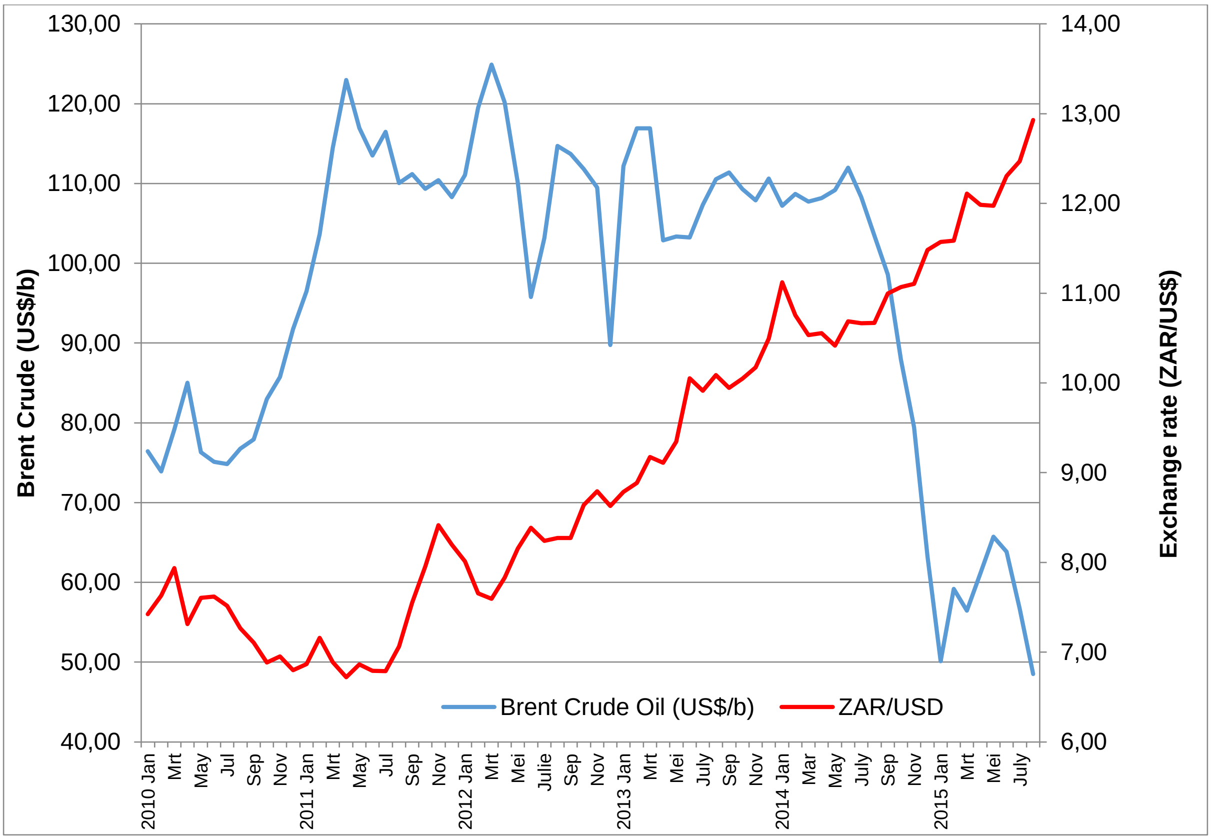

Figure 2: Trends in fuel prices and exchange rate (ZAR/US$), Jan 2010-Aug 2015

Source: Bloomberg (2015)

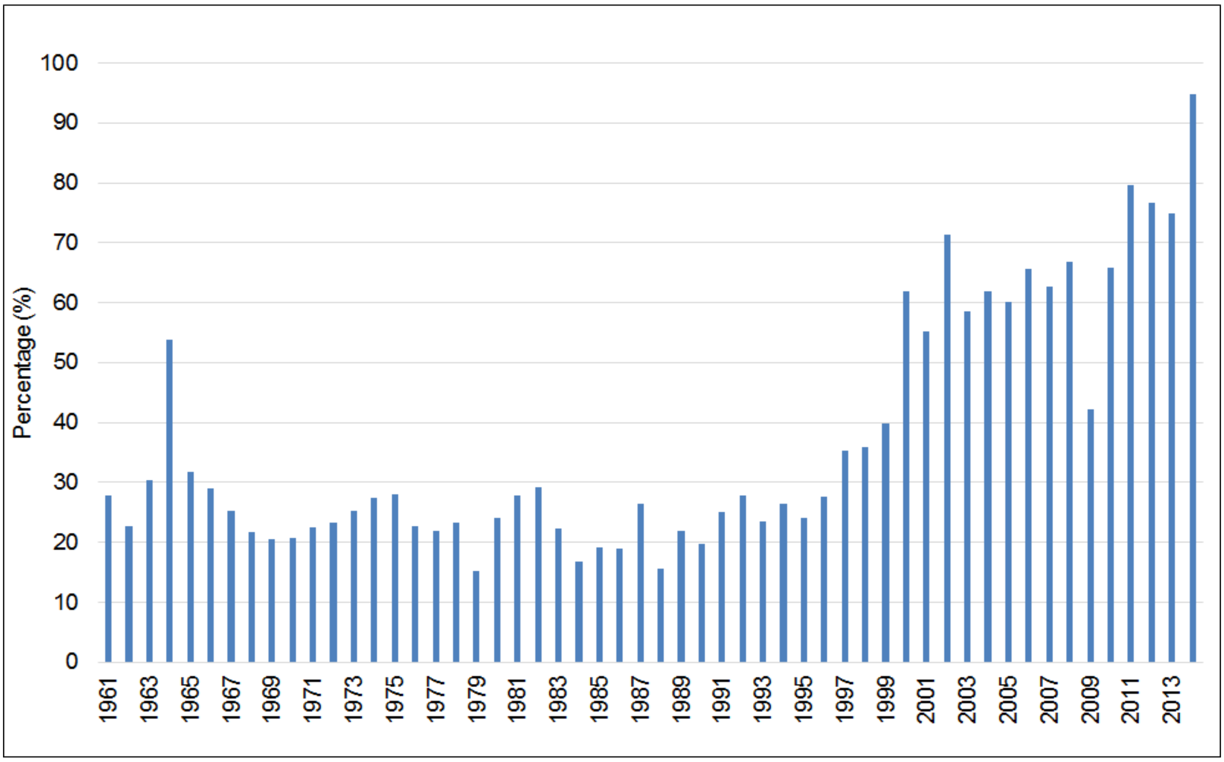

Figure 3: Trends in NPK imports as a share of total consumption (1961-2014)

Source: GrainSA (2015)

The depreciation of the Rand has been somewhat of a double-edged sword. On the one hand, a weaker Rand means South Africa's potato exports are cheaper to foreign buyers, and thus increasing competiveness, while at the same time making South Africa's production inputs more expensive to local farmers, and thus negating the industry's competitiveness, on the other. South Africa imports more than 75% of its annual fertiliser consumption and 98% of agro-chemicals (see Figure 3), thus, making the agricultural sector more exposed to the exchange rate volatility shocks. The competitiveness benefits of a weaker Rand have therefore been partially eroded by this trade-off. The net result of the "double effect" is not yet clear, and poses a critical question for future research.

1.4 Strategic markets for the industry

A reflection of what we have already discussed, shows that a major share of South Africa's potato (commercial and seed) exports are concentrated in the SACU region, and in four SADC countries (Zambia, Mozambique, Angola and Zimbabwe). Growth in the four SADC countries has been much higher than that of the SACU region, a signal of South Africa's growing influence in these markets. However, a closer look at the trade statistics shows that South Africa's market presence in these countries is approaching "near-saturation". For instance, South Africa supplied an average of 91% of the Zambian commercial potato imports over the past 5 years. The numbers are even higher elsewhere – South Africa supplies 96% of Angola's commercial potato imports and 100% in Mozambique and Zimbabwe. The question then is, with South Africa now almost filling up the import demand of the countries in the sub-region, where will the country export the additional half a million tonnes of output growth that we expect it to produce in the next 10 years? It is perhaps an opportune moment to start analysing future export markets that the industry can start considering as the next medium to long term growth opportunities through a strategic market analysis approach.

As industry grapples with the question of identifying alternative strategic markets, five questions are in order: (1) Where are markets growing? (2) What is South Africa's market share? (3) What is the market size, and what is South Africa's export potential? (4) What is the applicable tariff rate and RoO? and (5) Would South Africa be competitive in that market? In answering these questions, we can narrow down the industry's scope to focus in high potential strategic markets through which South Africa can sustainably grow its market base, and further increasing the growth prospects of the commercial and seed potato industry.

1.4.1 Commercial potato export opportunities

In mapping potential export opportunities, the analysis deliberately excludes those countries in which South Africa has a significant presence – which includes all SACU countries plus Zambia, Zimbabwe, Angola and Mozambique. Markets outside of these countries are mapped onto a matrix that identifies the countries share of imports in the region, and the growth of the markets between the period 2010 and 2014. From a market growth perspective, markets that have imports growing above 15% are regarded as high growth markets, and vice versa. In terms of the share, each market whose share is above 1.4% of overall imports into the T-FTA is regarded as a high share market, and vice versa. A benchmark of 1.4% for share is adopted on the premise that South Africa's exports of commercial potatoes to the world are 1.4% of the total global exports. Figure 4 outlines the market map which identifies countries which fall within each matrix.

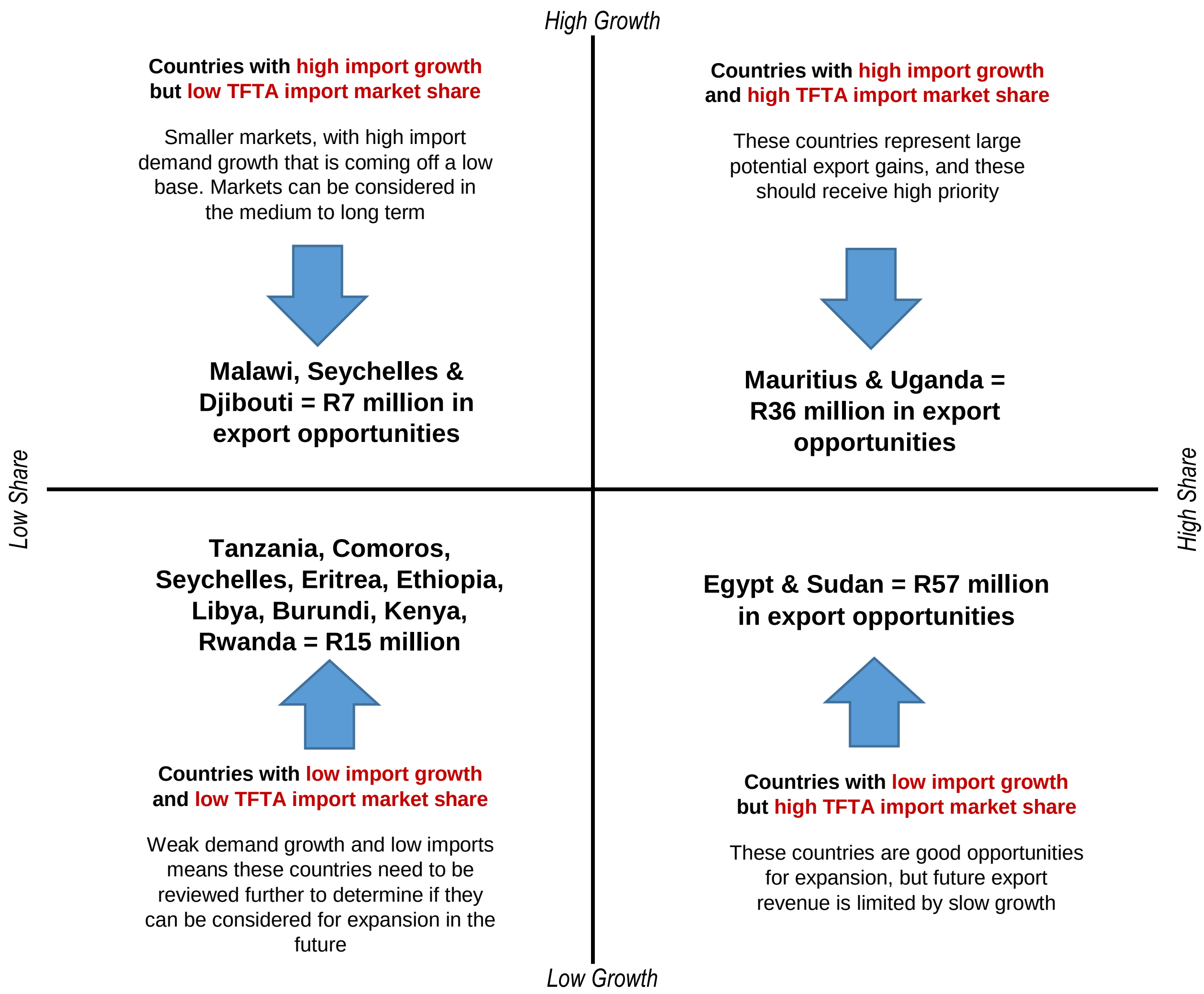

Figure 4: Mapping potential markets for commercial potatoes

Source: Analysis results

The dominance of the SADC region's position in import consumption means that South Africa's export opportunities elsewhere in the continent are relatively less significant. Nonetheless, there exists scope for diversification, with Mauritius and Uganda offering the most exciting prospects for the industry's future export growth. South African potatoes to Mauritius are duty free whereas those to Uganda would be charged a tariff of 25%. Other countries such as Egypt and Sudan are relatively larger markets, but the low import growth is a factor that would require some careful consideration. Egypt levies a 5% duty on South African potato exports, while Sudan charges 40%. The hope is that tariffs in these two markets would be reduced to zero.

1.4.2 Seed potato export opportunities

A map of strategic market opportunities for potato seed is given in Figure 5. Potential markets are designated into four categories that reflect how much they are growing and their relative share of overall imports. High (low) growth is defined as the Rand denominated import growth of more (less) than 15% - which is the world's five-year Rand denominated import average between 2010 and 2014. The share is bench marked against South Africa's Rand denominated export revenue as a share of global exports – South Africa's average potato seed exports are 0.6% of global average exports between 2010 and 2014. Therefore, a market exceeding 0.6% of the total share of T-FTA overall potato seed imports is regarded a high share market, and vice versa. The analysis deliberately excludes SADC and SACU countries in which South Africa already has a market presence, opting rather to focus more on alternative markets within the T-FTA.

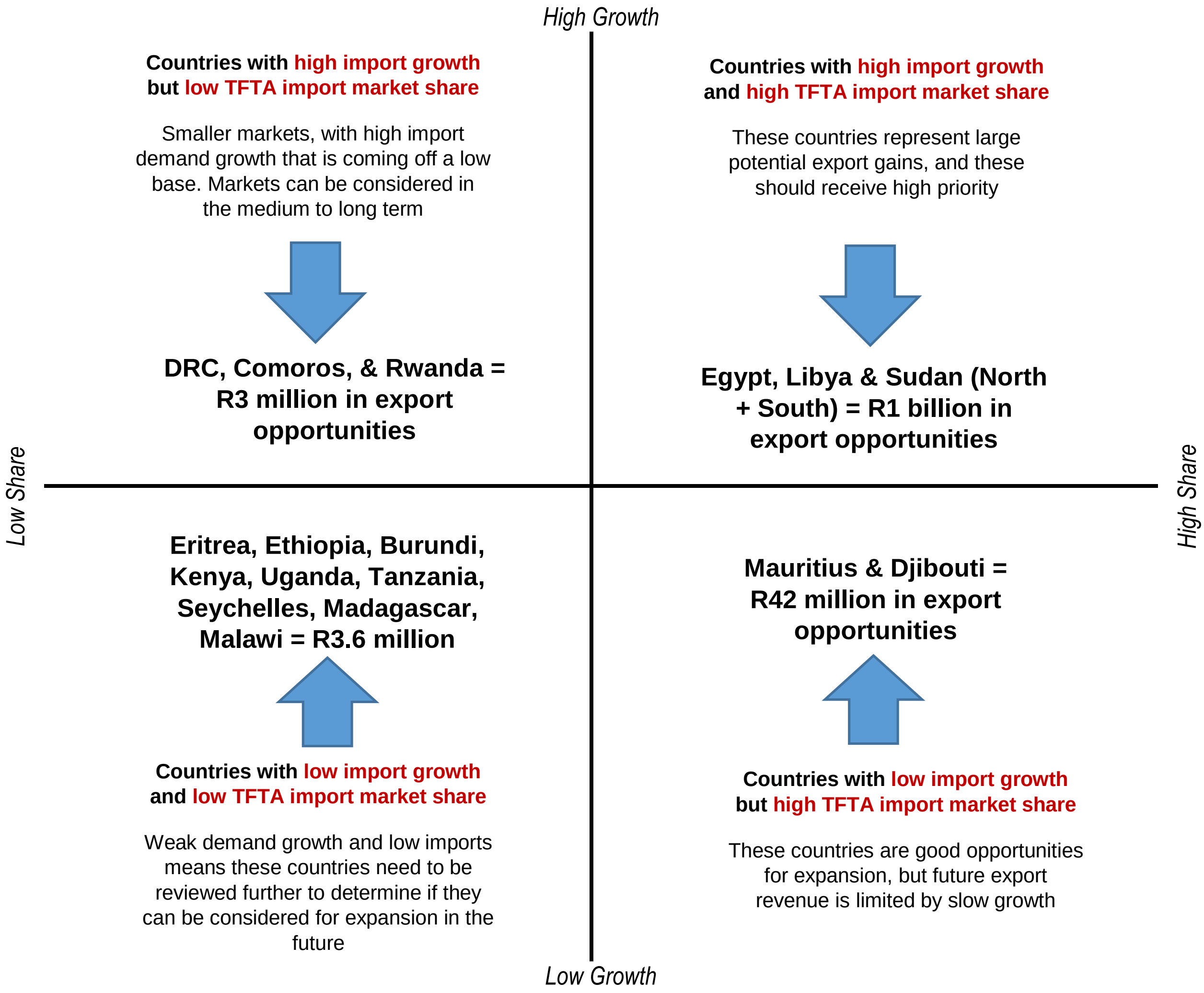

Figure 5: Mapping potential markets for potato seed

Source: Analysis results

The best prospects for export growth for the potato seed industry include Egypt, Sudan and Libya – all of which represent a combined R1 billion in export opportunities for South Africa. Import duties charged on South African potato seed in the three countries are: Egypt (2%), Sudan (10%) and Libya (0%). In the T-FTA negotiations, South Africa will negotiate with Egypt bilaterally, and this provides South Africa an opportunity to position the industry to capitalise on the huge market for seed (and commercial) potatoes. Libya and Sudan would fall under the negotiation with "the rest of the T-FTA" category, where negotiations would strategically place the industry to access these high value markets. Priority should also be given to Mauritius, because it has zero rated duty for South African potato seed, and has a reasonably high share of 6% of overall commercial potato seed imports in the T-FTA. Djibouti is a much smaller market with imports of R1.5 million, with growth only recently picking up over the past two years. South African potato seed exports are charged at a duty rate of 1%, and this will immediately go to zero duty once the T-FTA is formally implemented. Going forward, this is a market that would need to be monitored to see if growth and size would indeed be maintained or increased to higher levels.

1.5 Summary and Conclusions

The industry is operating within the context of a highly uncertain and volatile environment. Nonetheless, the growth seen in commercial and seed potato exports has been a defining factor to the industry's growth in the recent past. Apart from other exogenous factors such as the accelerated depreciation of the Rand, and the dramatic fall in oil prices, further opportunities for industry growth will be drawn from the T-FTA which was formally launched in Sharm El-Sheikh, Egypt, on the 10th June 2015. Under the on-going T-FTA negotiations, SACU's (and therefore South Africa's) position on commercial and seed potatoes have been to exclude them from any tariff concessions as they are regarded as sensitive products. Meanwhile, the preliminary tariff offer from the EAC (Kenya, Burundi, Rwanda and Uganda[3]) shows that the South African potato industry has to pay a 25% duty on commercial and seed potato exports into this regional market. However, this offer is still under negotiation, and a reduction of the tariff can offer South Africa's industry access to larger commercial markets like Uganda. The industry can look forward to South Africa's negotiation with Egypt – the largest seed import market and the fourth largest commercial potato import market in the T-FTA region – which is yet to provide a tariff offer to SACU. The tariff levied on South African commercial and potatoes into Egypt is 5% and 2%, respectively. The modalities of the T-FTA determines that all tariff duties of 5% and below levied against imports of products will become zero rated immediately upon entry into force. The expectation would therefore be that South African commercial and seed exports into Egypt will become duty free upon formal implementation of the T-FTA. The generic "wholly obtained" RoO position suggests that South Africa will, together with other members, receive preferential access to the T-FTA for all industries across the region that will look to source commercial and seed potatoes for either primary and/or secondary manufacturing. This places South Africa at a distinct advantage, providing the industry greater scope for future export grow into the African continent. A point to note is that the analysis here is focuses on market access as it relates to tariffs and ROO, but excludes any analysis of any potential SPS barriers that South Africa may face in the export market. This is also a matter that will need to be thoroughly interrogated as. South Africa itself does not allow imports of potatoes into the South African market for SPS reasons.

[3] Tanzania is another member of the EAC, and we omit it here due to the fact that it is also a member of but SADC.