

From the desk of the CEO

Dear Agbiz member

The year 2022 has been a challenging for several agricultural industries. Despite good rains in the summer planting areas, high energy and shipping costs, growing protectionism, biosecurity issues, and disappointing autumn rains in the winter planting area have weighed on the sector's fortunes. This is evident from the latest Agbiz/IDC Confidence Index results, where the last quarter of 2022 fell by 4 points to 49. A score below the neutral mark of 50 points means that the sector's outlook has turned downbeat for the first time in some years.

In 2023, Agbiz and our various desks will try our utmost to find pragmatic solutions to the factors that weigh on the industry's confidence. Some global factors are beyond our sphere of influence as a country. Still, many, if not all, of our domestic challenges are related to a lack of capacity and service delivery by the institutions that the sector requires. Many of these issues cut across economic sectors, and as such, a collaborative approach focusing on strategic partnerships will be key. Included below is an update on some of the critical issues and the efforts underway to address them.

Logistics

Although the Interface Agreement with Transnet has taken longer than anticipated to finalise, both sides are comfortable with the contents of the latest version and we will look to arrange a small signing ceremony early in the new year. At the same time, three interface structures are being put together and will commence their work in January.

Bilateral meetings between Transnet Freight Rail and the grain sector are being scheduled to map out the volumes that could feasibly be moved from road to rail, conduct an audit of rolling stock and assess the status of infrastructure. Parallel meetings are being arranged for the fruit, nut and wine sectors to determine the capacity requirements on both rail and, importantly, within the ports. A third, smaller committee comprising Agbiz staff, Transnet, Infrastructure SA and financiers will meet to unpack the possible investment models. Proposals have already been made for private sector investment into critical equipment, and a suite of public-private partnership (PPP) options will be packaged to assist the other two clusters in moving with speed once the industries identify viable areas for PPPs.

Aside from the long-term initiatives outlined above, many agribusinesses and commodities have forged good working relationships with Transnet throughout

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the year. The indications are in favour of an improved state of readiness compared to the same time last year. Whilst activities at the Agbiz offices will ramp down in the coming weeks, it is the peak season for exports from the western areas of the country so we will be on standby to assist in whatever way we can. We wish these industries a fruitful export season. Multi-stakeholder initiatives are also underway to prioritise the repair of critical road infrastructure that the sector relies on.

Energy security

Energy security, both in terms of electricity and liquid fuels, is likely the single biggest hurdle to doing business in South Africa. It is a cross-cutting issue; as such, our strategic linkages into BUSA and B4SA are key. Through these platforms, skills and expertise are being sourced to support the National Energy Crises Committee (NECOM). NECOM looks at emergency interventions to assist Transnet, such as securing diesel supply, but longer-term interventions to get more capacity on the grid are also underway. This includes the sixth bid window for independent power producers as well as recent amendments to the Electricity Licencing Act Regulations and a simplified environmental authorisation process to promote embedded generation. Regarding liquid fuels, Agbiz is engaging with the South African Petroleum Industry Association and the Department of Minerals and Energy on diesel supply. We have also raised the matter at the Trade and Industry Chamber of Nedlac.

These initiatives require specialist skills that go beyond Agbiz's own capacity. However, through strategic partnerships, our inputs and support can assist.

State capacity

Declining state capacity may not grab the headlines the same way logistics and energy do, but it is steadily becoming a factor that hampers the sector's competitiveness. Delays in approving agricultural inputs, policing the movement of animals, and inspecting and grading products all fall under this category. The state is acutely aware of the challenges, and as a result, we have seen a wave of new institutional arrangements proposed. Many regulatory functions are being outsourced to assignees, whilst entire functions related to the maintenance of certain roads, water infrastructure, and land redistribution could be moved from government departments to state entities.

These proposals certainly have merit, but often it is accompanied by the user-pays principle or the concept of total recovery of costs. Stated differently, the function is moved to a new entity, but the new entity must fund itself through fees levied on the private sector. This is a growing trend that needs to be carefully unpacked and considered as it boils down to efficiency gains versus increased costs to the sector. Although it may not happen overnight, these additional costs slowly start to erode the competitiveness of the sector.

This will undoubtedly be a big focus area in 2023,. Agbiz will again partner with other institutions and interested parties to prevent duplication and ensure the optimal use of capacity.

Sustainability initiatives

Finally, readers will know that environmental sustainability is becoming an increasingly important aspect of agribusiness. Whether linked to the regulatory regime (carbon tax, for instance), ESG reporting, the sustainable finance imperative or the demands of export destinations, sustainability is the new global norm, and South Africa needs to adapt. Various efforts are underway, and to a degree, it is unavoidable as each commodity and section of the value chain has its own imperatives. That being said, there may be a large amount of overlap when assessing the baseline for sustainability, and collaboration will be critical. In this regard, we have been approached by BASA to join the work that they have commissioned from the financial sector's point of view.

Seasons' greetings

Finally, on behalf of the whole Agbiz team, I want to thank every member for their support this year. For those of you that may be travelling, we wish you a safe journey, and we hope that all members have a blessed and restful festive season.

Yours sincerely



Theo Boshoff
Agbiz CEO