

Thinking creatively about a strategy for the Karoo sheep industry

On invitation from our members - Cape Wools, BKB, and OVK - we attended the Karoo Winter Wool Festival over the weekend. The festival was hosted in Middelburg, the Karoo region of the Eastern Cape. It was an excellent event, showcasing not only the value chain activities of the South African sheep industry but also the rich Karoo heritage.

We got an opportunity to share views in the speaking sessions. We used the occasion to reflect on the growth prospects of South Africa's agriculture with a focus on the activities of the Karoo region. The outlook for South Africa's agriculture is positive in the near term, and we forecast a 3% growth in the sector's gross value added this year (from 0,9% in 2022). This is all because of favourable rains during the summer season that supported crop production and grazing veld.

However, the medium-term outlook is uncertain. We have an El Niño on the horizon, which we believe may not be as devastating as the 2015/16 episode. But more issues are conspiring against the sector. These include persistent episodes of load-shedding, higher input costs, rising protection in some export markets, animal disease outbreaks, rising interest rates, intensified geopolitical tensions, ongoing weaknesses in municipal service delivery and freight, rail and port networks, and the deterioration of rural roads. These issues have kept the sentiment in the sector downbeat for some time. For example, the Agbiz/IDC Agribusiness Confidence Index was unchanged at 44 points in the second quarter of this year. This marked the third consecutive quarter below the neutral 50-point level, implying that agribusinesses remain downbeat about business conditions. Therefore, we need to address these issues to ensure the sector continues to prosper in the medium to long term.

Karoo specific issues

Regarding the Karoo specifically, our message focused on how South Africa can promote agricultural growth in this sparse and very remote region by unlocking its natural assets and the heritage of the Karoo. There are various opportunities to pursue, including the region's food heritage, high-end fashion and agritourism. Exploring and expanding these opportunities would ensure that the farmers in the Karoo can diversify and improve their revenue streams by not solely depending on export markets of wool. High dependence on wool exports can come with challenges, such as when China temporarily banned the exports of South African wool, leading to a 22% y/y decline in South Africa's wool export earnings (see Exhibit 1).

So what to do? At the very basic level, we need to eat to live, and food carries the smells and tastes of places, families and histories. It matters to people what, when and how they eat, and sometimes where their food comes from. Thus, food heritage is linked to ecology, sustainability, health and origin. Exploring food in the context of heritage can raise interesting questions about identity, people's relationship to the land, the availability and quality of local produce, poverty and health. This would not be the first time such is done. Various countries in Europe continue to benefit from their food heritage. For example, in 2010, Spain, Greece, Italy, Morocco, France, and Mexico successfully nominated the

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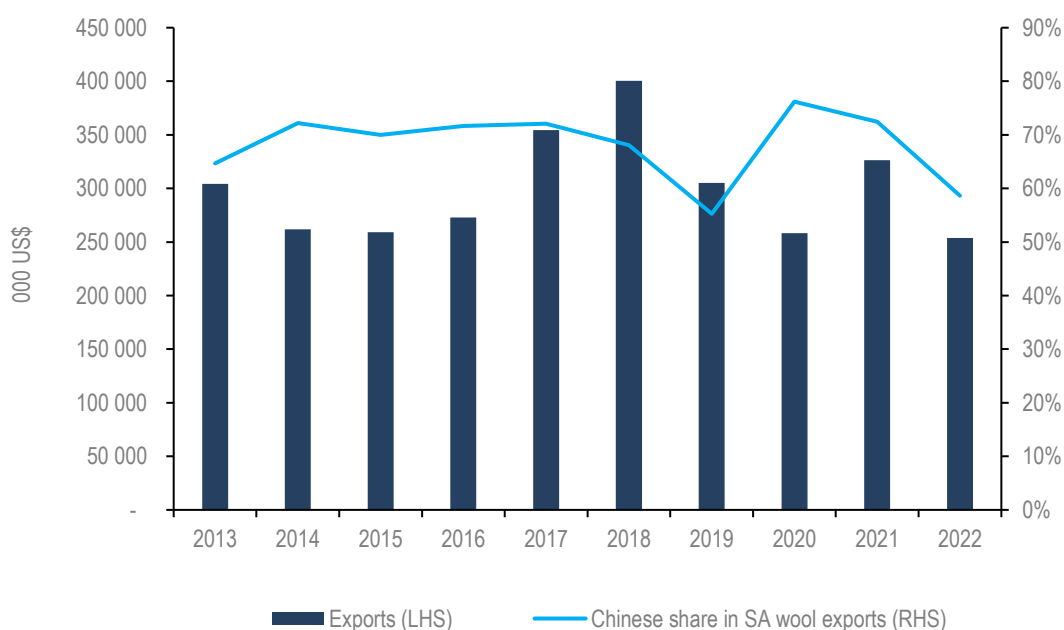
Mediterranean Diet, Mexican Cuisine and the Gastronomical Meal of the French as part of the Intangible Cultural Heritage of Humanity under the UNESCO Convention.

Therefore, food heritage offers obvious spin-offs in product development, economic value and tourism. We see elements of these foreign food heritage products on the shelves of our leading supermarkets, but somehow these same retailers do not showcase enough of our own heritage. The Karoo is South Africa's hinterland and one of the natural assets of the Northern, Eastern and Western Cape because of its pristine natural beauty, clean air, peace and quiet. It, therefore, has a strong commercial and marketing value which farmers can utilize. Still, the name "Karoo" has been widely misappropriated by various individuals and businesses, misrepresenting products such as "Karoo Lamb". Some retailers may be sourcing large volumes of lamb from the Karoo without acknowledging the origin and heritage of the product.

So, the Karoo region farmers should (1) reclaim the Karoo name by protecting the name and identity through the registration of a Geographical Indication (GI), (2) Lift Karoo Lamb out of the meat commodity mark and create its own pricing and distribution structure, (3) Create a different 'price point' for Karoo Lamb, (4) Enforce quality and food safety standards, (5) Ensure producer control of supply chain and form strategic partnerships with abattoirs, packers and wholesalers, (6) Prevent overdominance by major retail chains, (7) Educate consumers about quality and value of Karoo Lamb.

South African consumers are already buying European GI products in our supermarkets – many cheeses and hams carry the famous EU GI logo, and the retailers sell these famous names protected by EU legislation. South Africa also introduced similar regulations in 2019 and enabled Rooibos and now very soon Karoo Lamb as South Africa's first GI products. The ongoing efforts to promote Karoo Lamb as a GI have also brought about interesting spin-offs in relation to the fashion industry, which can add tremendous value to the Karoo. The global fashion industry, especially the luxury goods and clothing industry, is now demanding wool, mohair and leather from the Karoo because of the Karoo quality, reputation and heritage.

Exhibit 1: South Africa's overall wool exports



Source: Trade Map and Agbiz Research