

AGBIZ MEDIA DAY

South African Agriculture and Agribusiness: Outlook 2018

4 December 2017

By: Dr John Purchase

For today.....

1. **Political economy: Challenging and complex environment evolving**
2. SA Agricultural Economy and Agbiz/IDC
Agribusiness Confidence Index
3. Trade and competitiveness
4. Legislation environment
5. Wrap up

Challenging and complex environment evolving

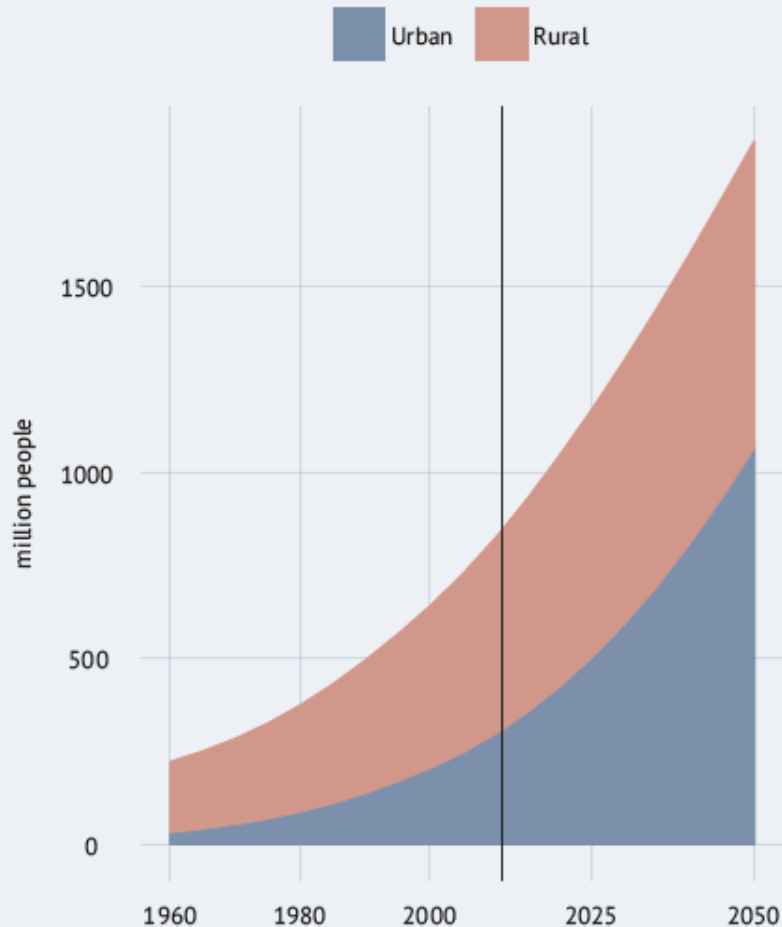
- Global socio-political environment
- Local socio-political environment
- Consumer trends and activism – need to analyse and note
- Technology dynamic – 4th Industrial Revolution: Jobs dynamic
- Climate Change – adaptation and mitigation: Western Cape impact?
- Increased regulation of agro-food system: Food safety & health
- Sustainable use of, and rights allocation to, water and land as critical natural resources
- Utilisation of renewable energy sources – energy security
- Trade agreements – “Trade wars are the wars of the future”
- Big Data – mine and analyse to drive efficiency
- Human capital and skills – the talent factor NB!

Global Socio-political Developments

- Multi-polar global power dynamic – economic power shift to Asia
- Middle East catastrophe – migration effect to Europe
- Religious fundamentalism, e.g. ISIS, Boko Haram, Al Qaeda, etc.
- Brexit and European Unity: uncertainty
- President Trump dynamic
- Ambitions of China & Russia, their geo-political positioning?
- North Korea a real nuclear threat?
- Africa's demographic dividend and food insecurity?
- Globalisation and Interconnectivity still massive driver
- Blockchain and Bitcoin – IMF CEO quote

More interconnected → greater uncertainty → less control → more risk
→ greater opportunity!

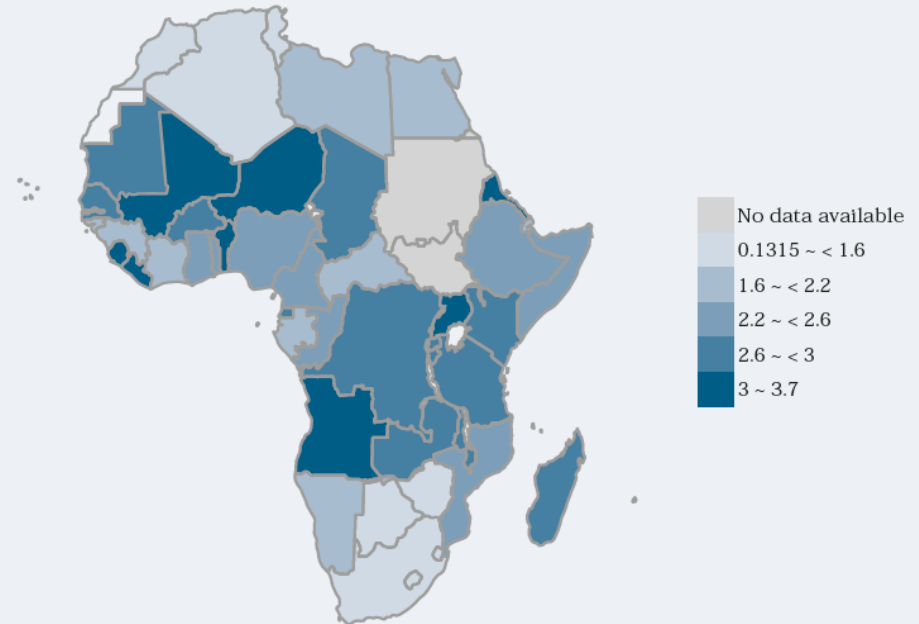
CHART 1: Africa rural and urban population
(1960-2050)



Source: United Nations Population Division.
Data after 2011 are projections.

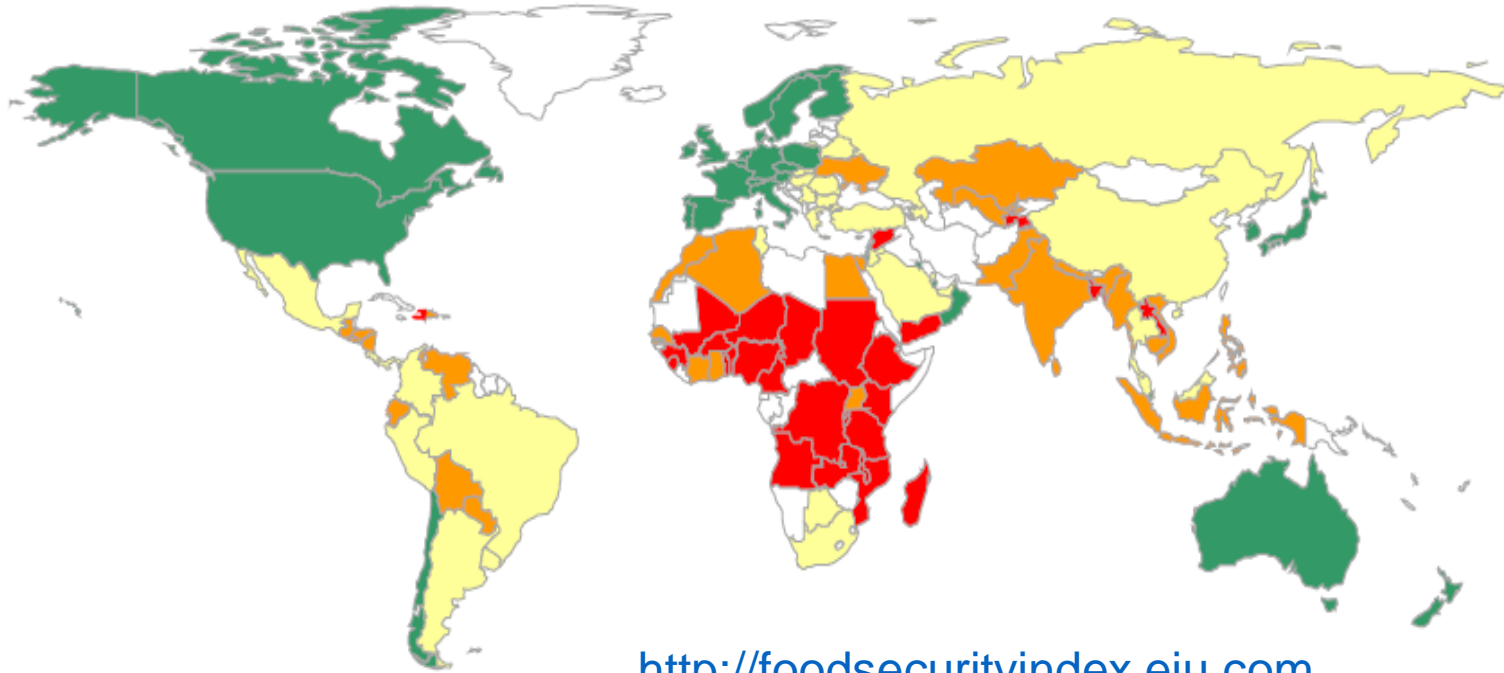
Demographics.....

MAP 1: Population annual growth (percent, 2000-2012)



Either massive opportunity,
or a critical risk.....!

2017 Global Food Security Index



<http://foodsecurityindex.eiu.com>

Score = Score in 2017, 0-100 where 100=best

Δ = Change in 2017 score compared with 2016

Green= score improved this year

Red = score deteriorated this year

South Africa ranks 44th

VERY GOOD (TOP QUARTILE)
Score Δ

GOOD (3RD QUARTILE)
Score Δ

MODERATE (2ND QUARTILE)
Score Δ

WEAK (BOTTOM QUARTILE)
Score Δ

Source: Economist Intelligence Unit/DuPont



Global Socio-political Developments

- Multi-polar global power dynamic – economic power shift to Asia
- Middle East catastrophe – migration effect to Europe
- Religious fundamentalism, e.g. ISIS, Boko Haram, Al Qaeda, etc.
- Brexit and European Unity: uncertainty
- President Trump dynamic
- Ambitions of China & Russia, their geo-political positioning?
- North Korea a real nuclear threat?
- Africa's demographic dividend and food insecurity?
- Globalisation and Interconnectivity still massive driver
- Blockchain and Bitcoin – IMF CEO quote

More interconnected → greater uncertainty → less control → more risk
→ greater opportunity!

Local Socio-political Developments

- Deep divisions in ANC – pro-Zuma and anti-Zuma factions.
- Division manifested in ANC loss of three major Metros, viz. Johannesburg, Tshwane and Nelson Mandela Bay, to coalitions.
- New and courageous approach by certain current and ex ANC Ministers and MP's (e.g. Eskom, SABC, State Capture & Vote of no confidence)
- Bitter ANC succession race and elective conference – Dec 2017
- June ANC Policy Conference resolved very little – positions only hardened
- DA & EFF viable opposition parties and ruling coalitions?
- Major political uncertainty – Zim effect? Not necessarily all bad though.
- Lack of GDP growth and Competitiveness (WEF) decline a real concern
- Massive unemployment (>27%), especially amongst the Youth (>50%)
- Crime & Security factor, including corruption and farm safety concern.
- Calls for radical economic transformation (RET) will not abate.
- Land & water reform will be at the centre of demands.
- HLP Report on Key Legislation and Fundamental Change
- South Africa needs a turnaround strategy.

For today.....

1. Political economy: Challenging and complex environment evolving
2. **SA Agricultural Economy and Agbiz/IDC**
Agribusiness Confidence Index
3. Trade and competitiveness
4. Legislation environment
5. Wrap up

AGBIZ MEDIA DAY

SA agricultural economy: Current conditions

Wandile Sihlobo (wandile@agbiz.co.za)

04 December 2017

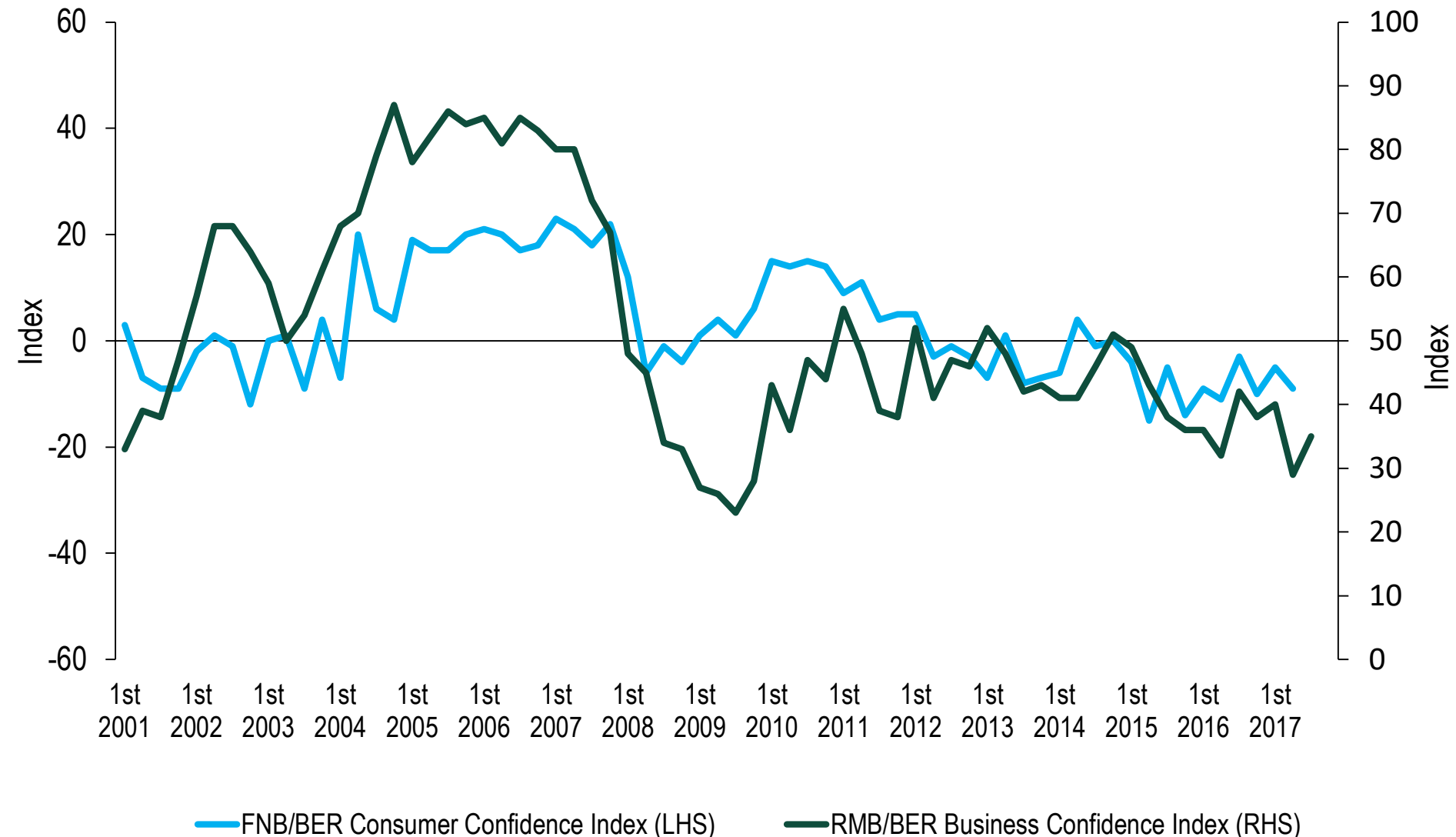
Pretoria, South Africa



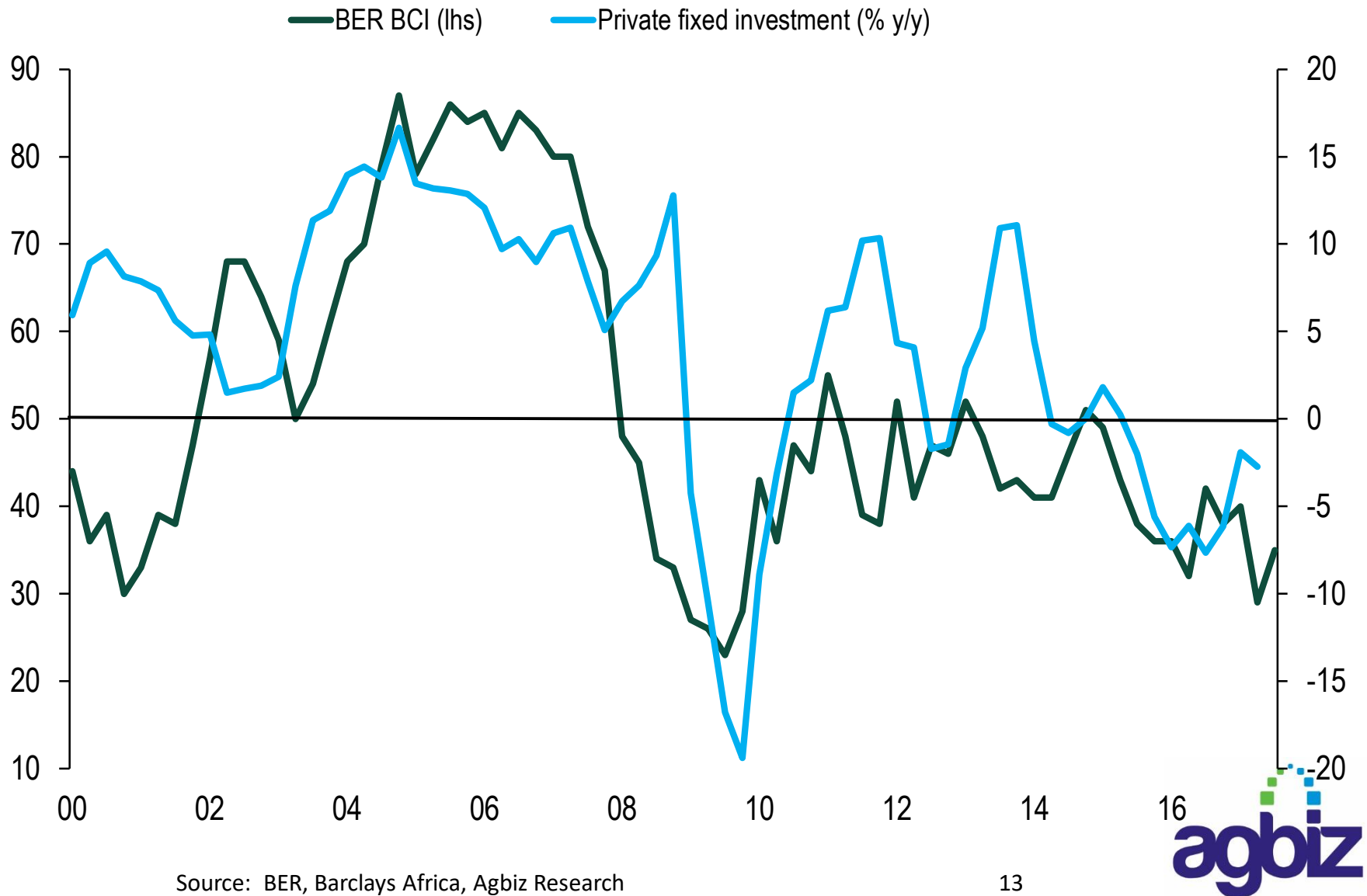
Overview...

- **Confidence (business and agribusiness) and growth in the sector**
 - Business and consumer confidence remain low
 - Agribusiness confidence index also in a contractionary terrain
- **Weather outlook for the upcoming summer season**
 - Conditions remain favourable - with prospects of good rainfall until February 2018
- **Crop forecasts and equipment sales performance**
 - We expect a y/y percentage decline in maize, but still good performance
 - Equipment sales have been solid due to increased area plantings
- **Agricultural labour market**
 - The past 3-quarters have been on a declining trend due to reduced activity in the WC

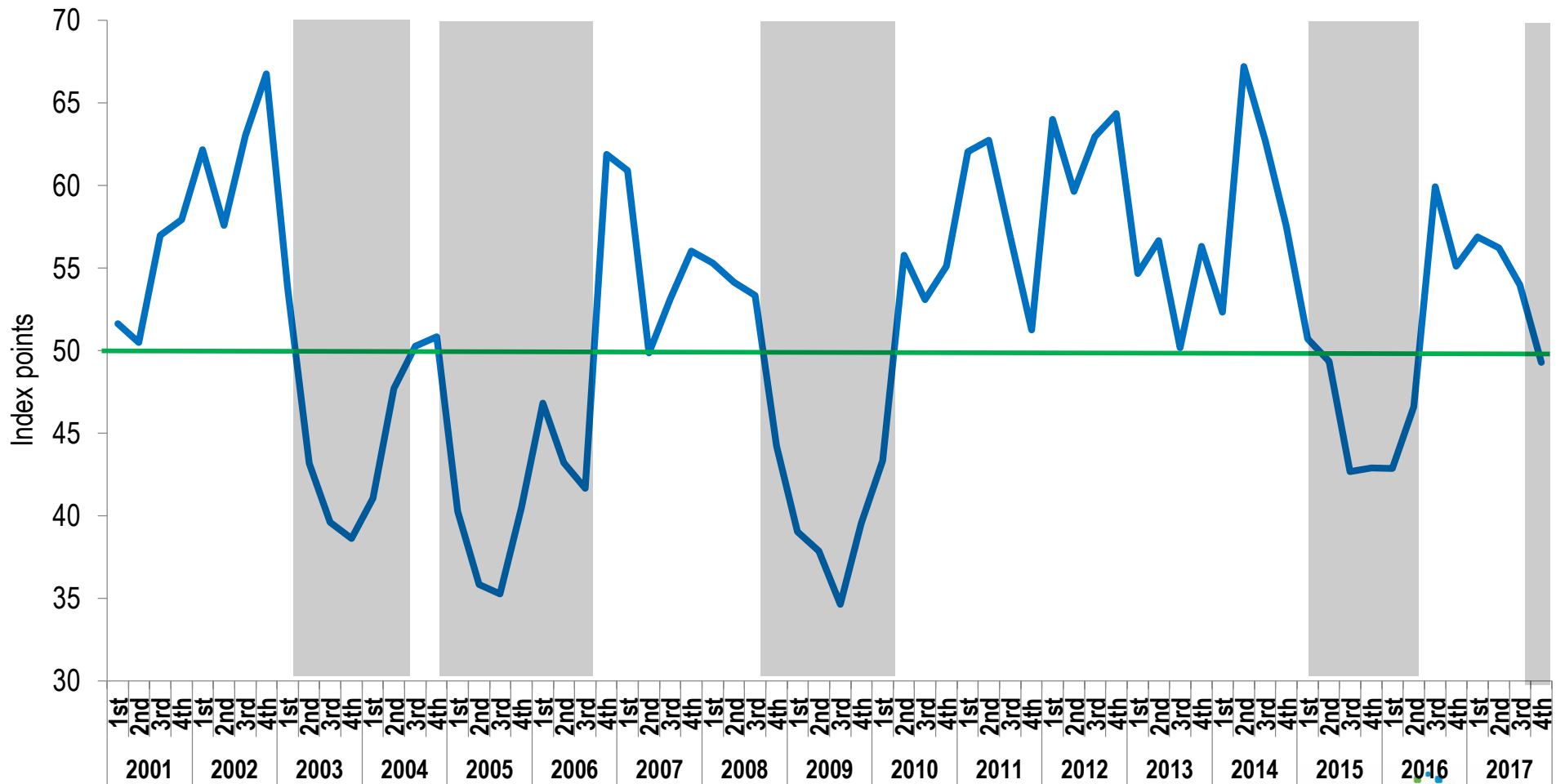
General SA business and consumer confidence remain depressed...



Why is business confidence important?...



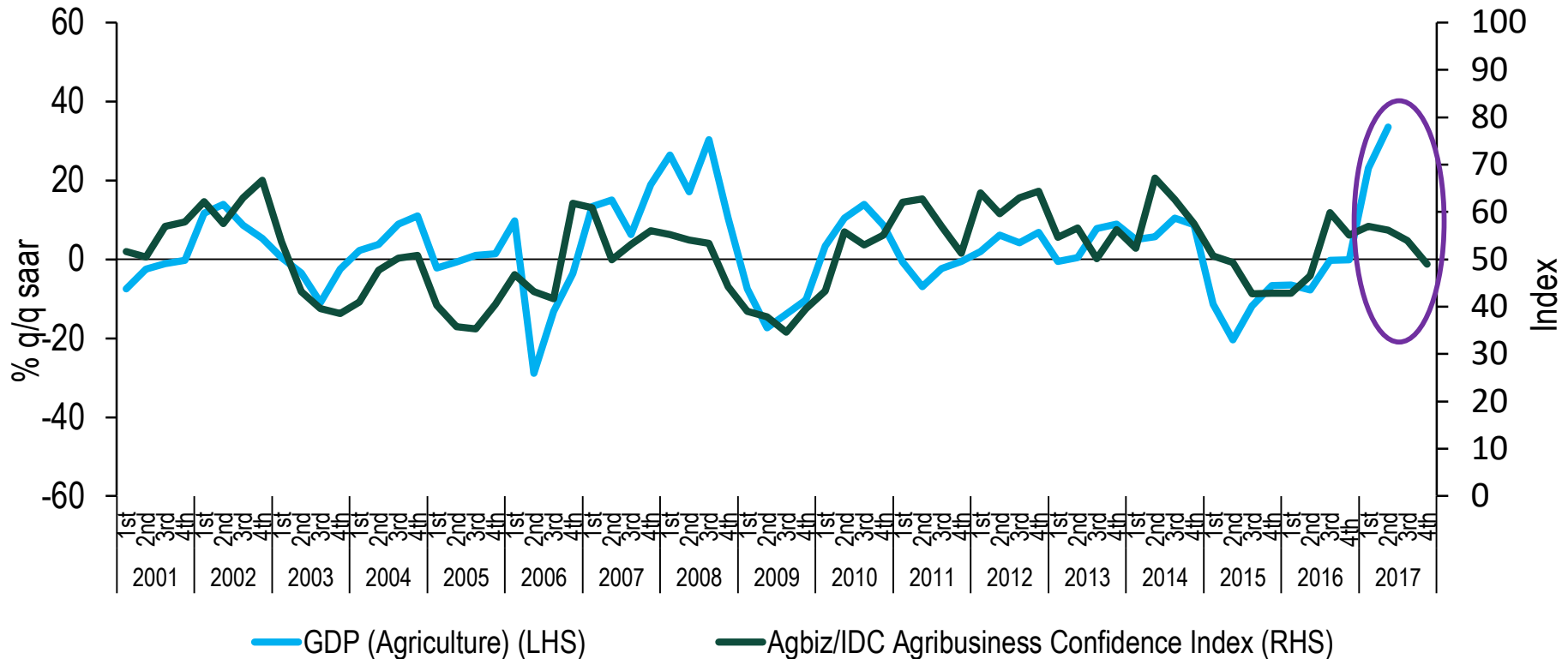
Agribusinesses' Confidence is also in contractionary terrain and could lead to a decline in GDP (agri)....



*Agbiz/IDC Agribusiness Confidence Index

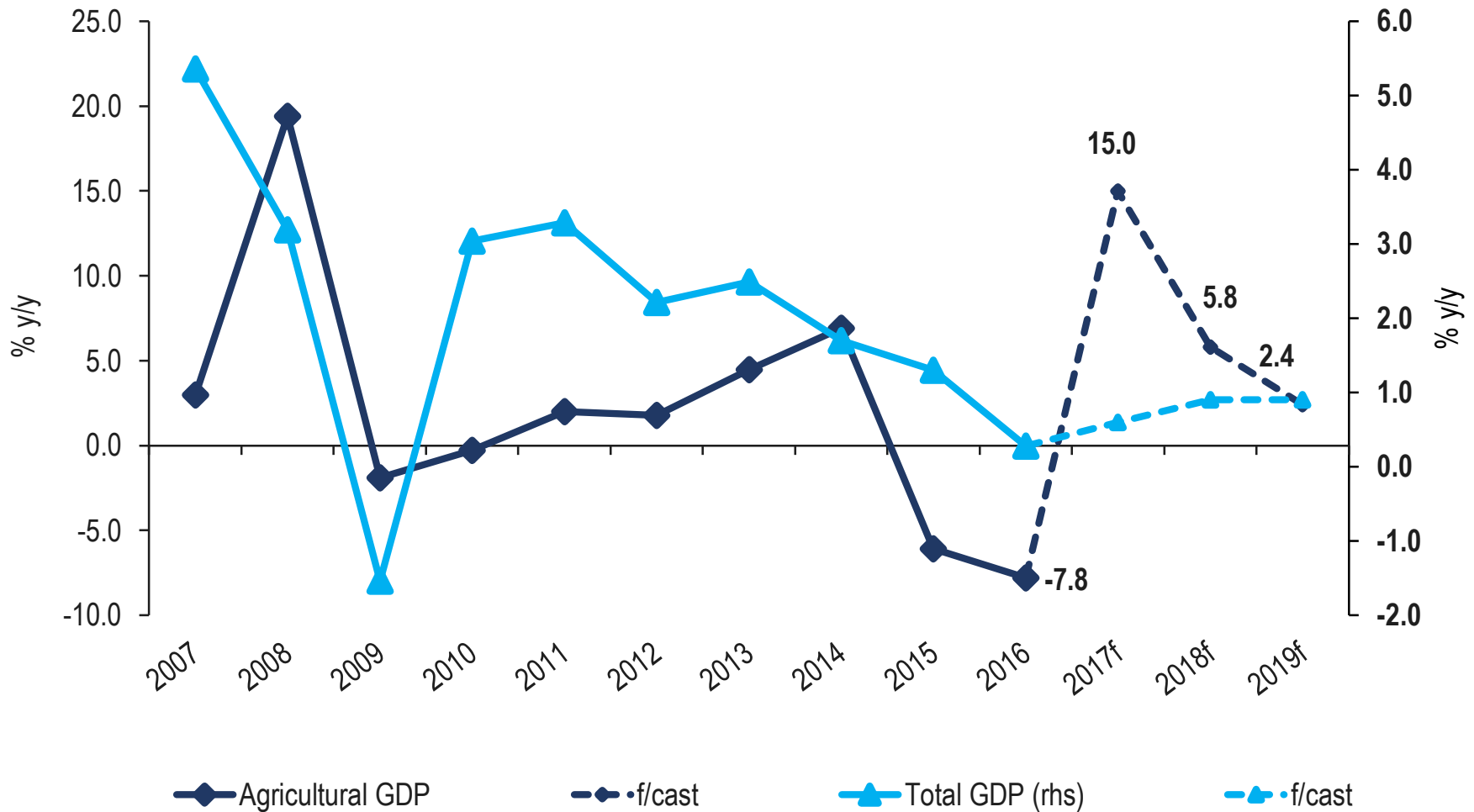
Source: Agbiz Research

Agbiz/IDC Agribusiness Confidence has proven to be good directional indicator for agri. GDP growth (but now?)...

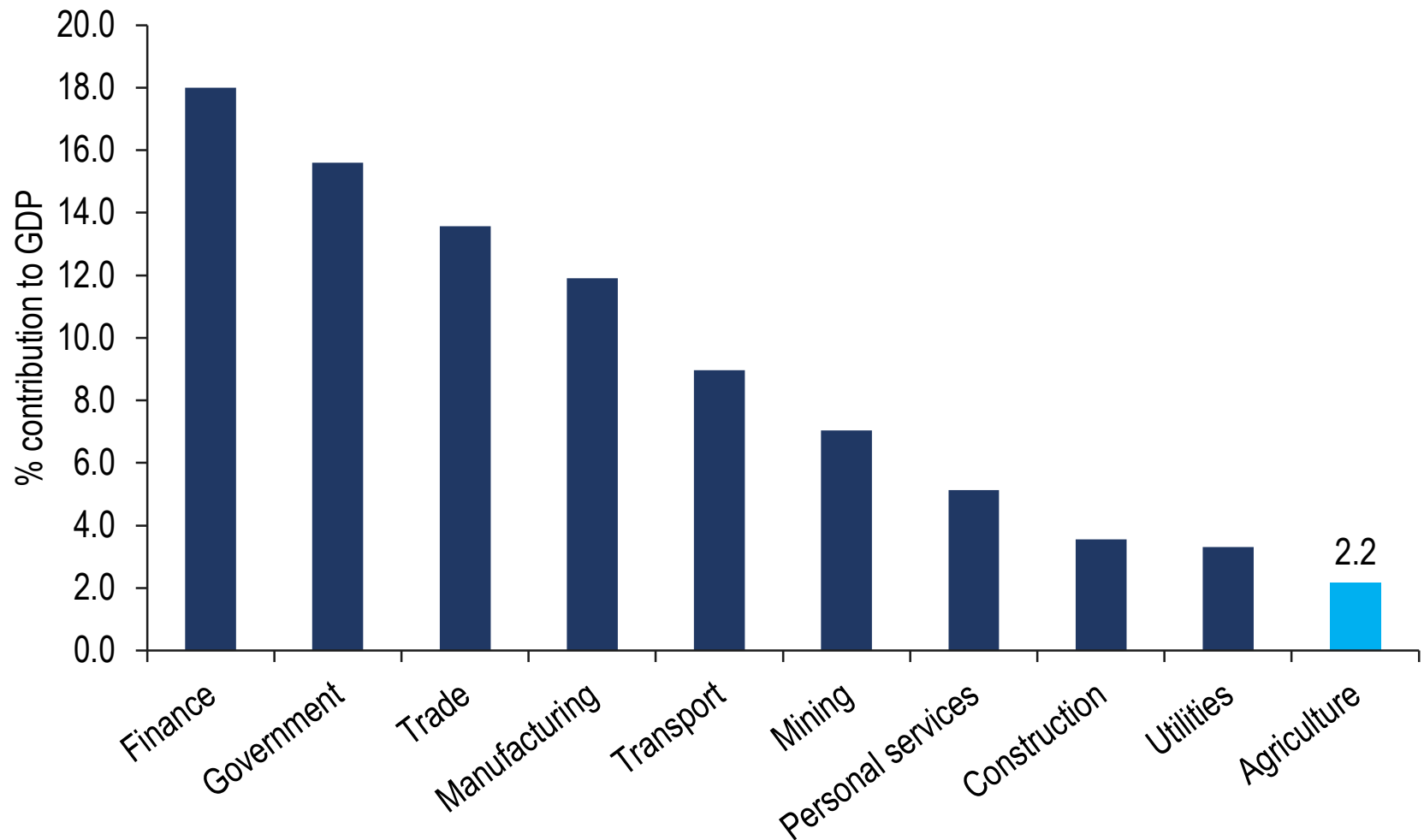


- The shift between the “emotional side of agriculture and hard data” can partly be explained by policy uncertainty, particularly Land Reform ahead of the ANC conference...
- The survey respondents from the WC region were also pessimistic due to dryness – this too partly explains the shift between confidence and agricultural GDP growth...

SA economy and agricultural economy growth forecasts...

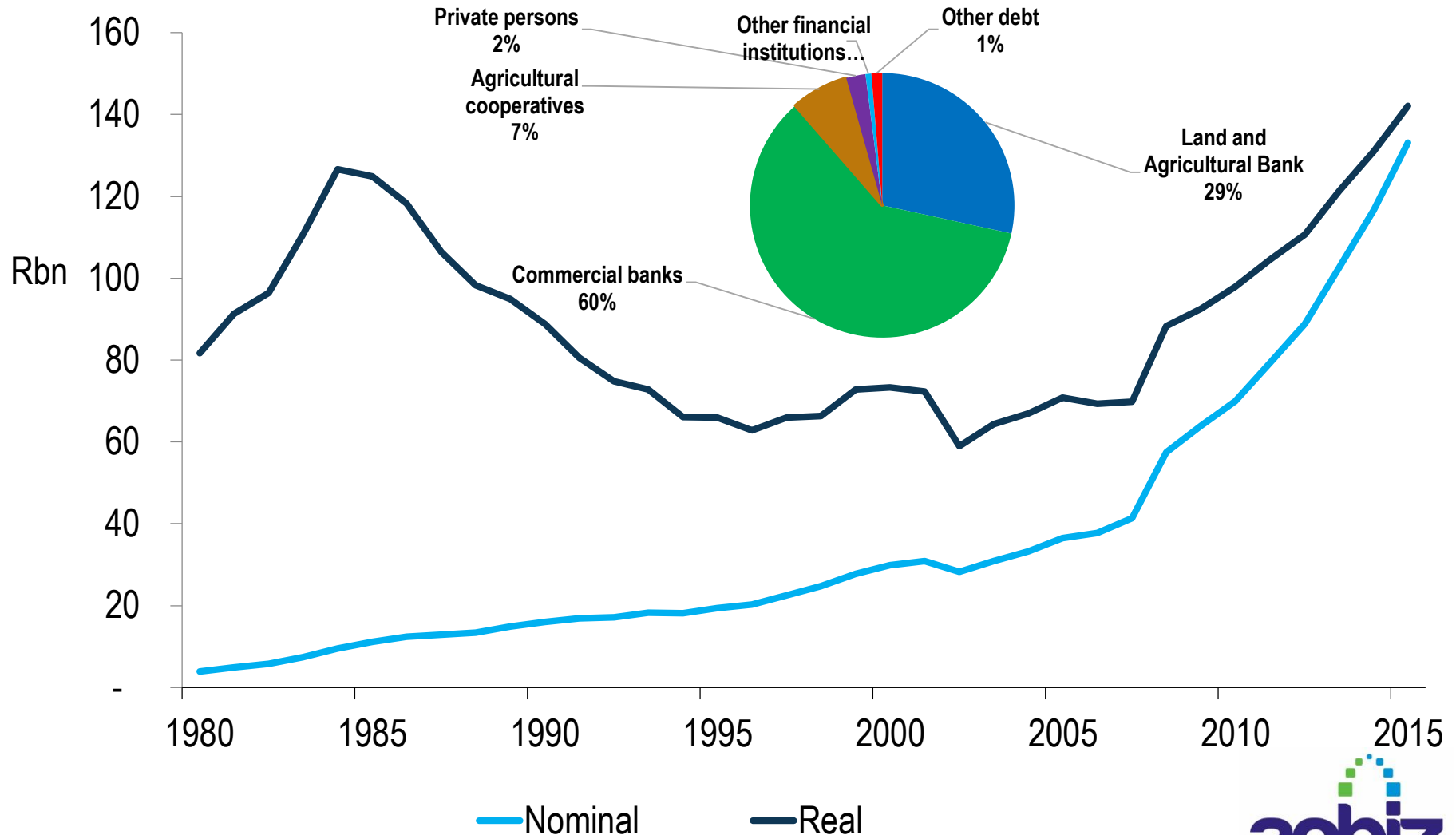


Agriculture's share in the economy is small and has declined over time...



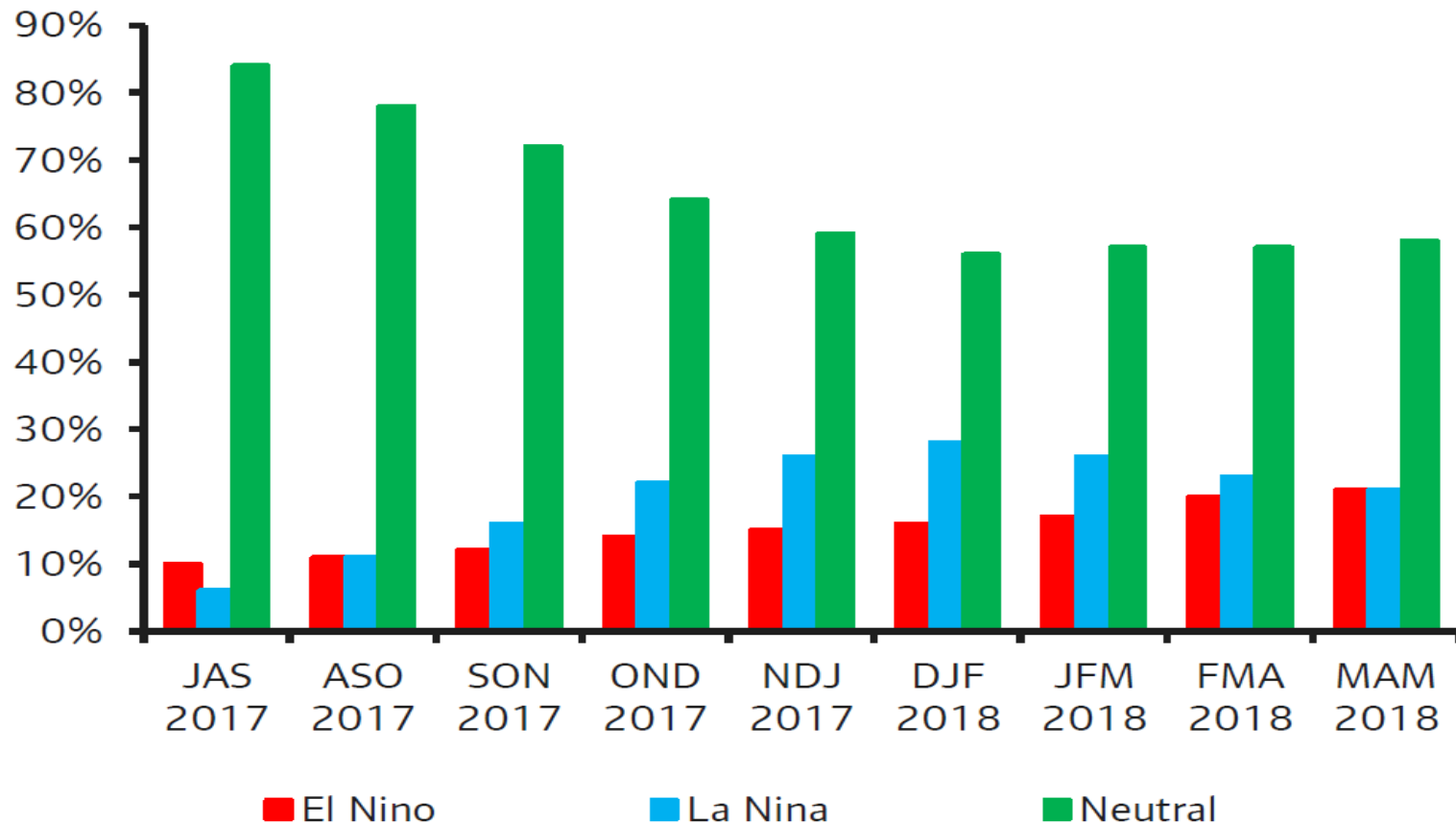
While the agri sector's share in SA economy is relatively small....risk to collateral, “expropriation without compensation”

- Total agriculture farm debt

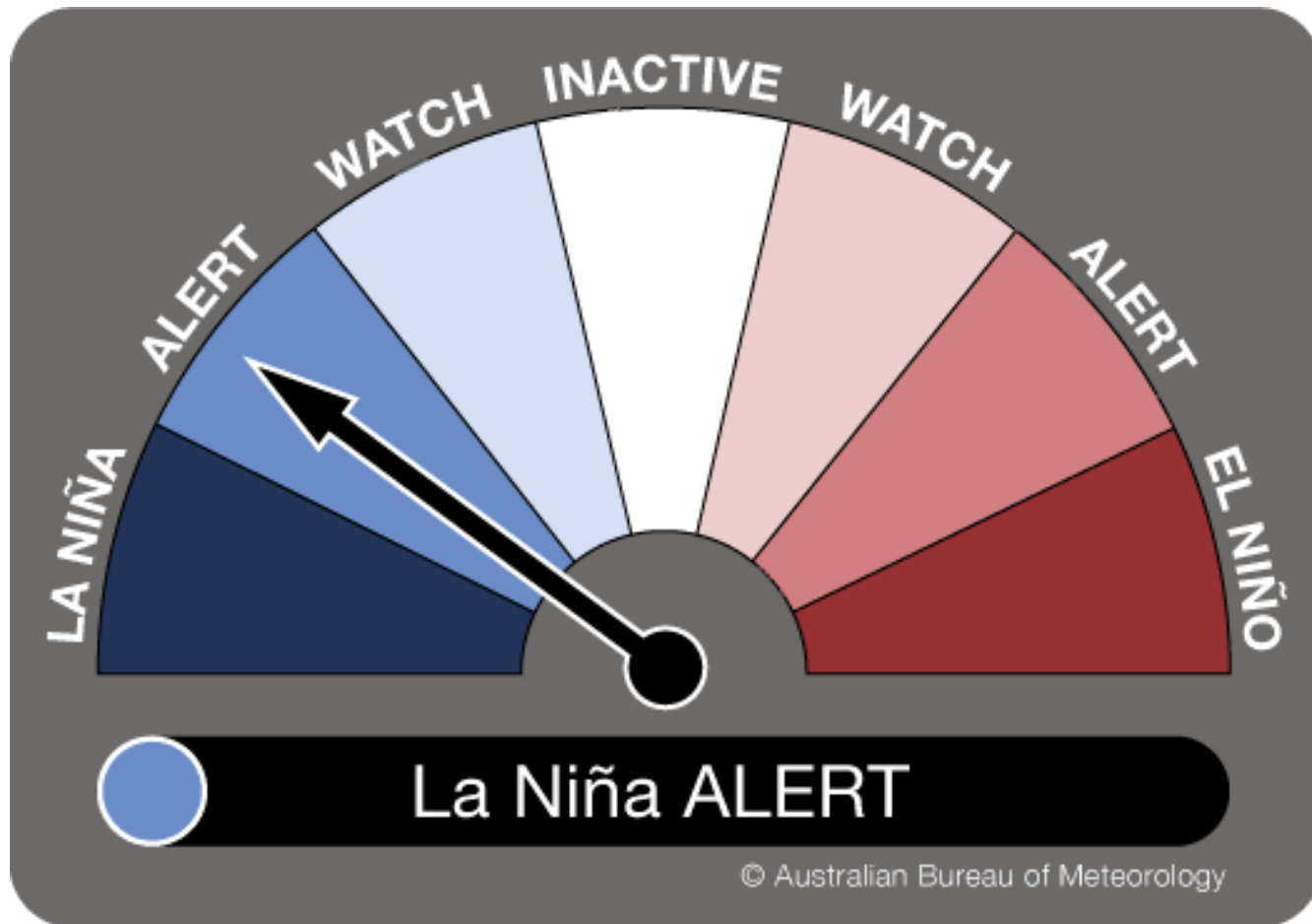


Will the weather behave well in the next few months?

The story remains fairly unchanged from the previous meeting – positive prospects for 2017/18 summer season...

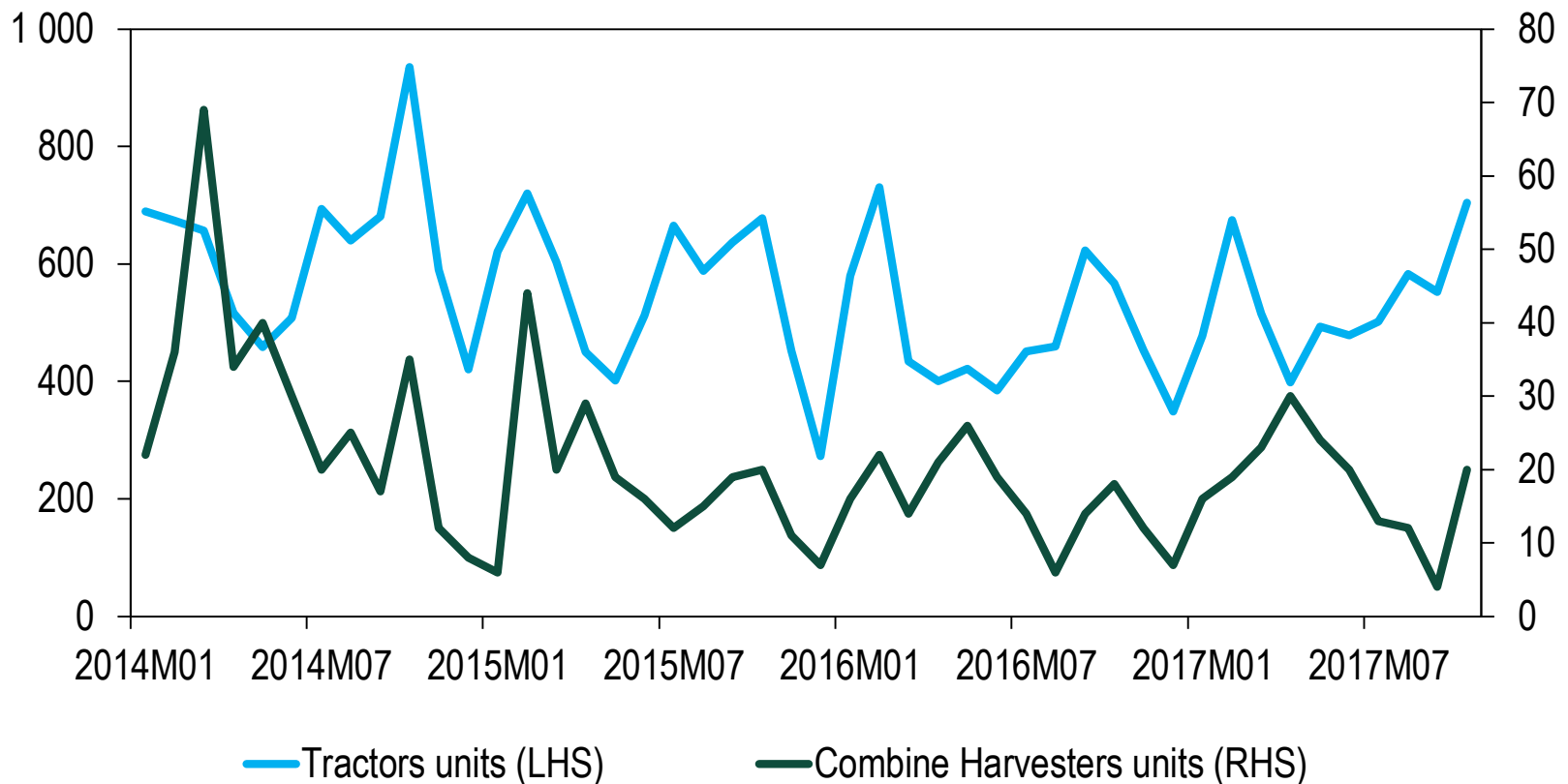


This chart basically shows that the chance of a La Niña forming in late 2017 is around 70% – triple the normal likelihood...



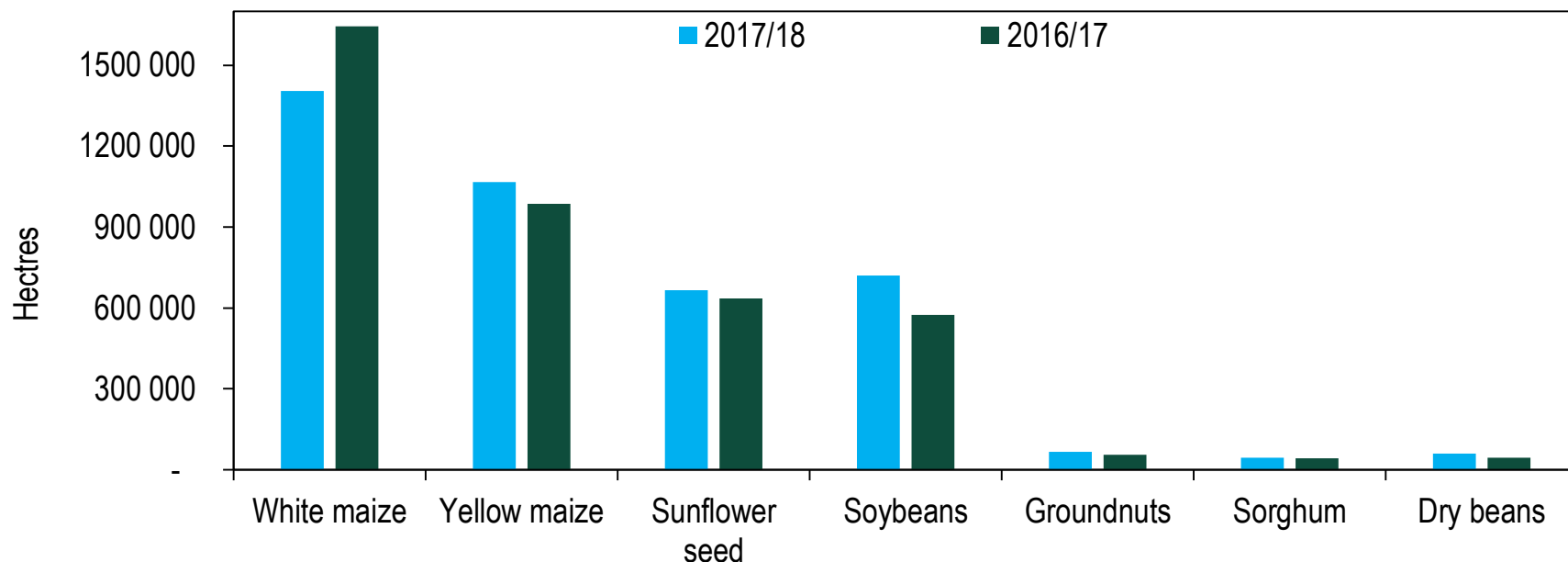
Implications for the summer crop season and equipment sales?

Agricultural equipment sales have been solid reflecting increased activity in the fields...



- After declining by 5% m/m in September 2017, the South African tractor sales increased by 28% m/m in October 2017, recorded at 704 units - the highest monthly sales since February 2016....
- The combine harvester sales were up five folds from the previous month and 11% y/y, with 20 units sold in October 2017...

Farmers are also optimistic about the upcoming season – they intend to increase the area plantings...

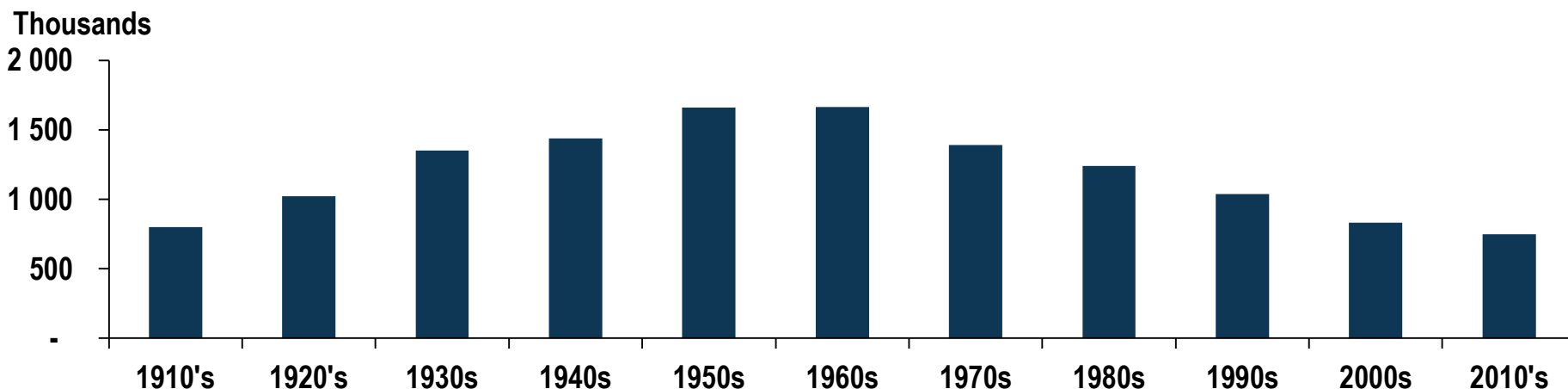


Maize		Sunflower seed		Soybeans	
2016/17	2017/18 f*	2016/17	2017/18 f*	2016/17	2017/18 f*
16.7 m.t.	12.5 m.t. (-25%)	874 595 t.	798 600 t. (-9% y/y)	1.32 m.t.	1.2 m.t. (-7%)

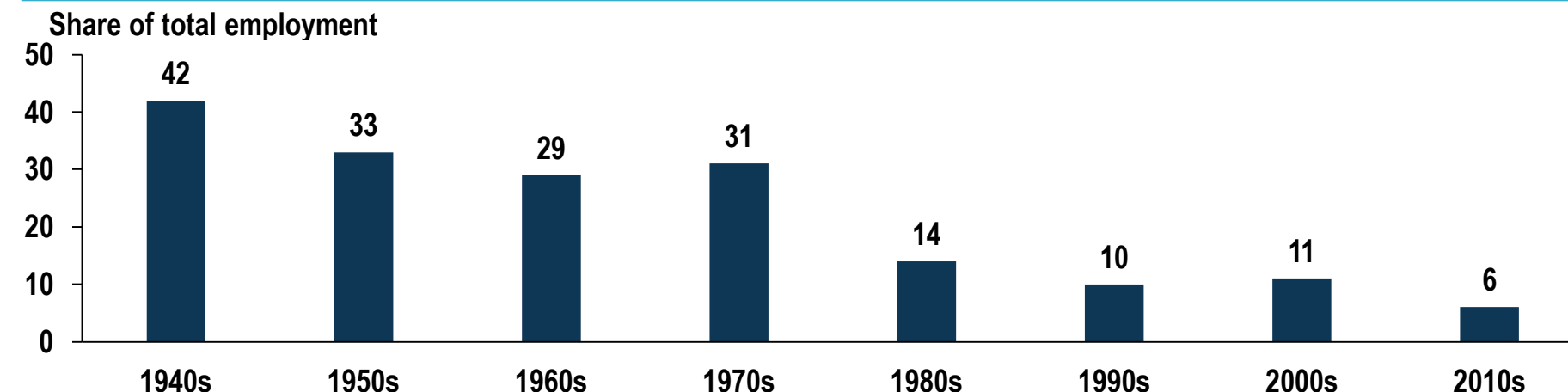
Jobs?

SA agricultural labour market over the past 107 years...

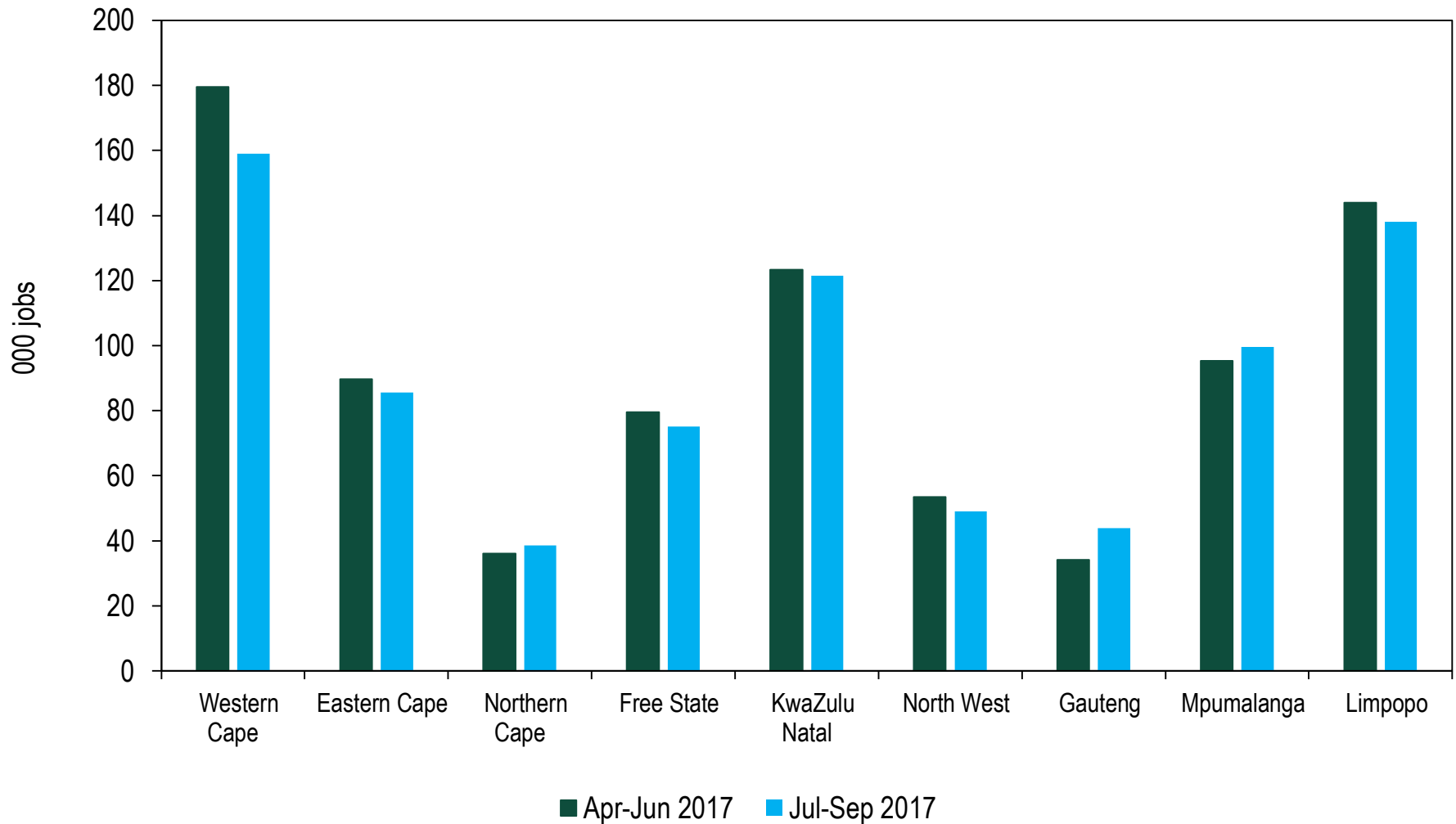
Total agriculture employment



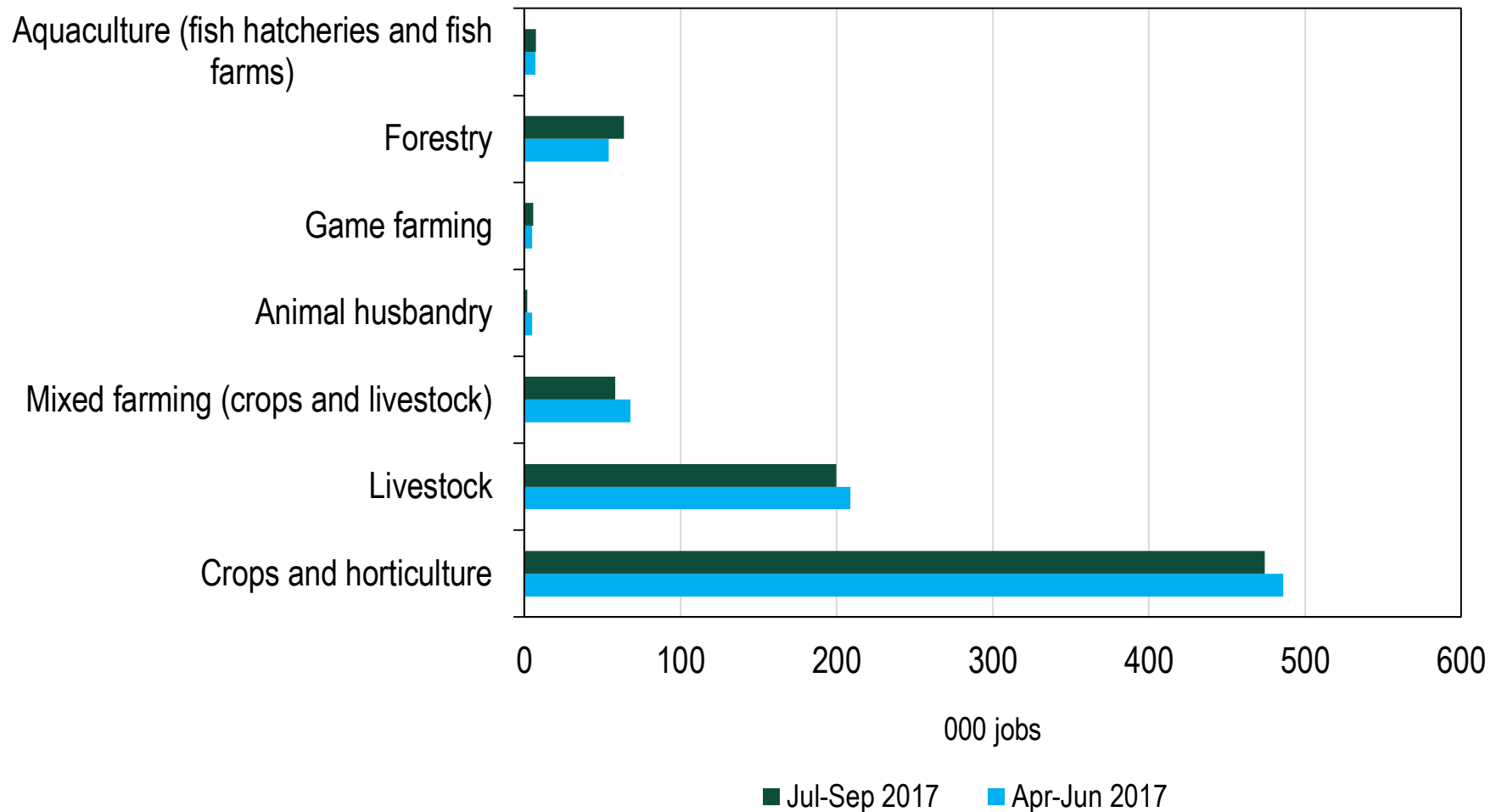
SA agriculture employment as a share of total employment has declined



South Africa's agricultural jobs by province...



Q-o-Q percentage change in South Africa's agricultural employment



Conclusion...

- Policy *uncertainty* will remain a key theme ahead of ANC conference.
- The weather forecasts paint a positive picture for the upcoming season -- good for summer crops.
- In the short term, the agricultural sector will remain on a positive growth path. The effects of the WC drought will be clear in 2018's growth (GDP) numbers.
- The persistent drought in the Western Cape province remains a key risk that could potentially undermine the performance of agricultural labour market along with the expected national minimum wage to be implemented in 2018.

Thank you for your attention...



For today.....

1. Political economy: Challenging and complex environment evolving
2. SA Agricultural Economy and Agbiz/IDC
Agribusiness Confidence Index
- 3. Trade and competitiveness**
4. Legislation environment
5. Wrap up

AGBIZ MEDIA DAY

TRADE & INVESTMENT PORTFOLIO

4 December 2017

By: Sifiso Ntombela

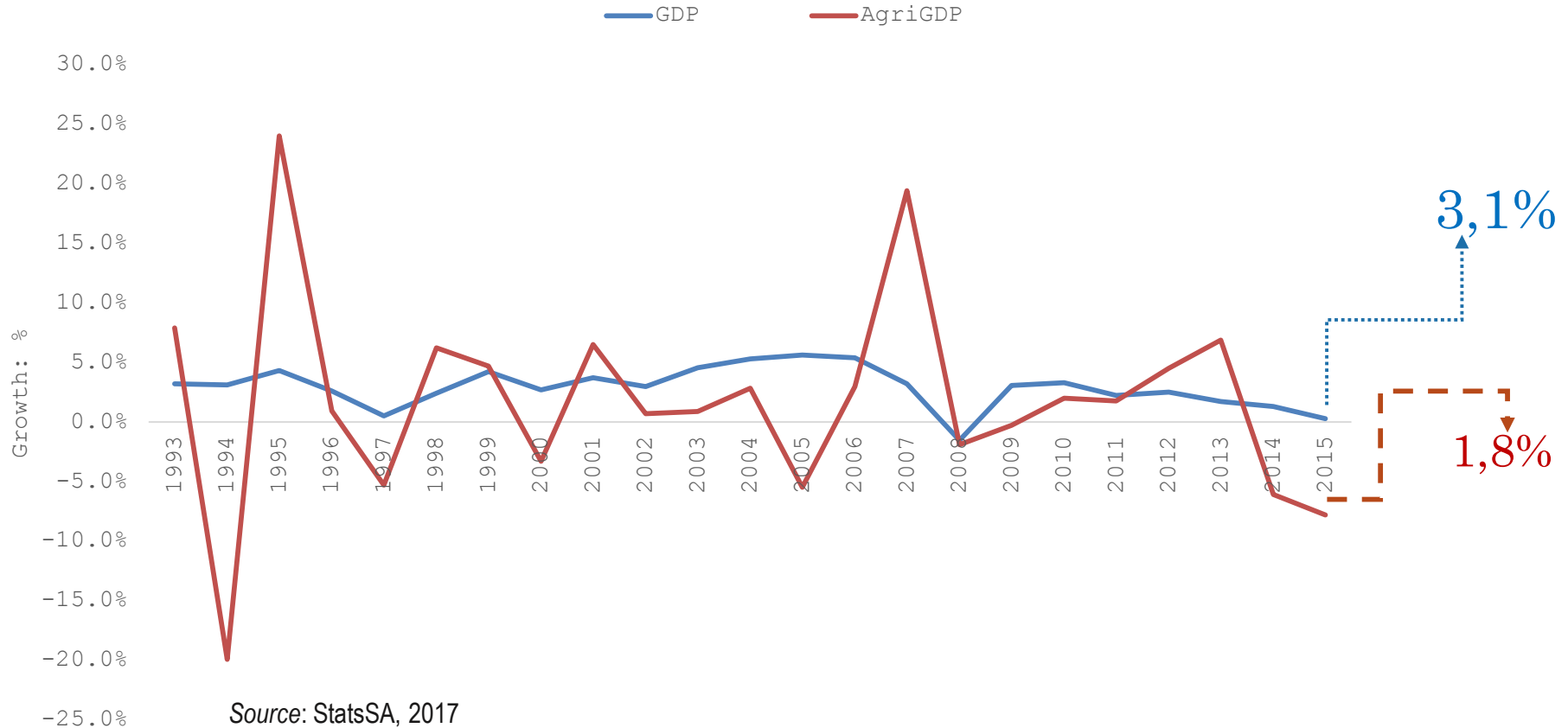
Today's Menu

- ❖ Trade potential and actual performance
- ❖ Competitiveness and investments
- ❖ Prospects of the WTO MC11

❖ A. Trade potential and actual performance

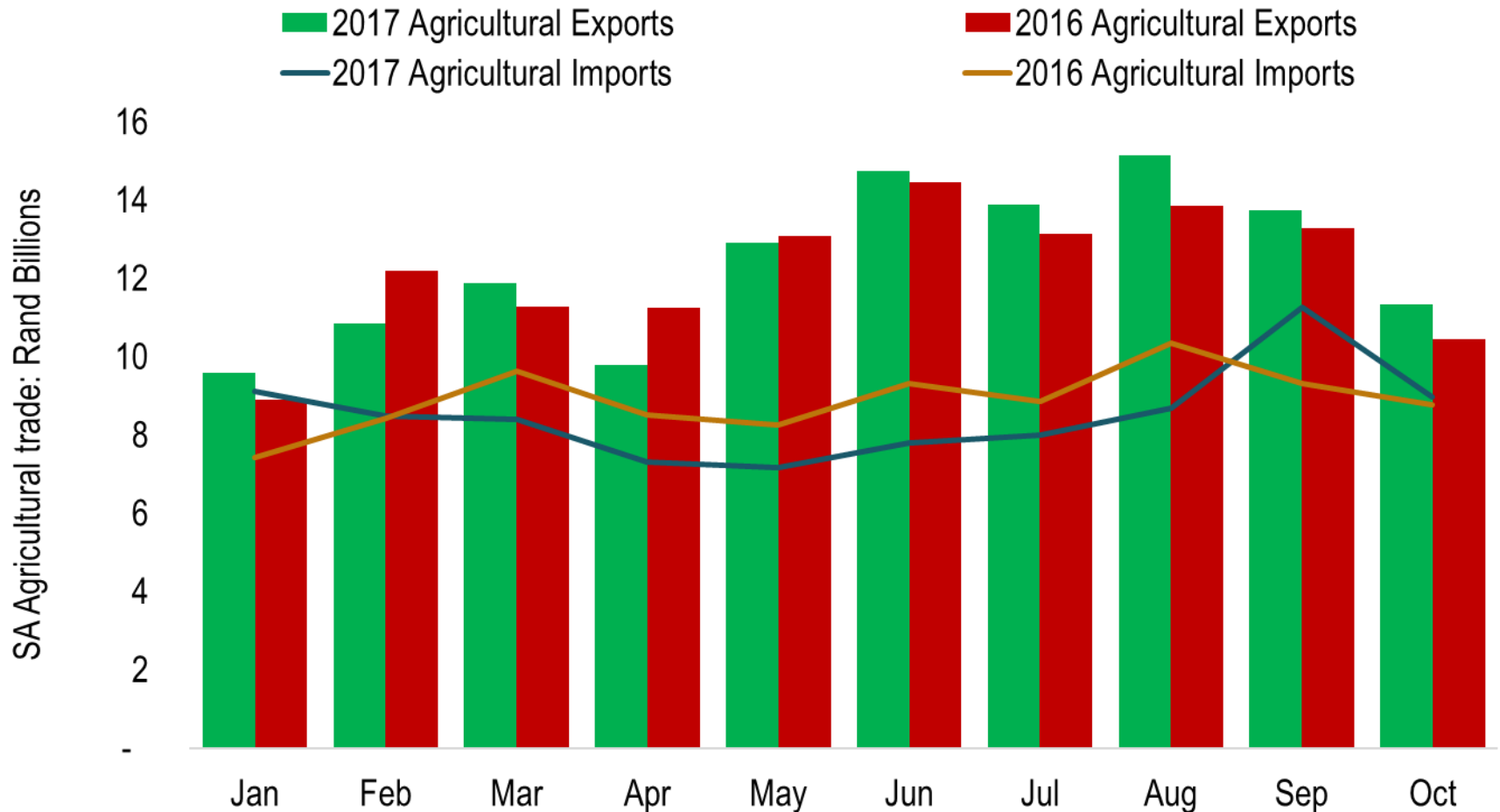
Can trade growth boost Agric GDP?

SA GDP vs AgriGDP performance – 1993 -2017

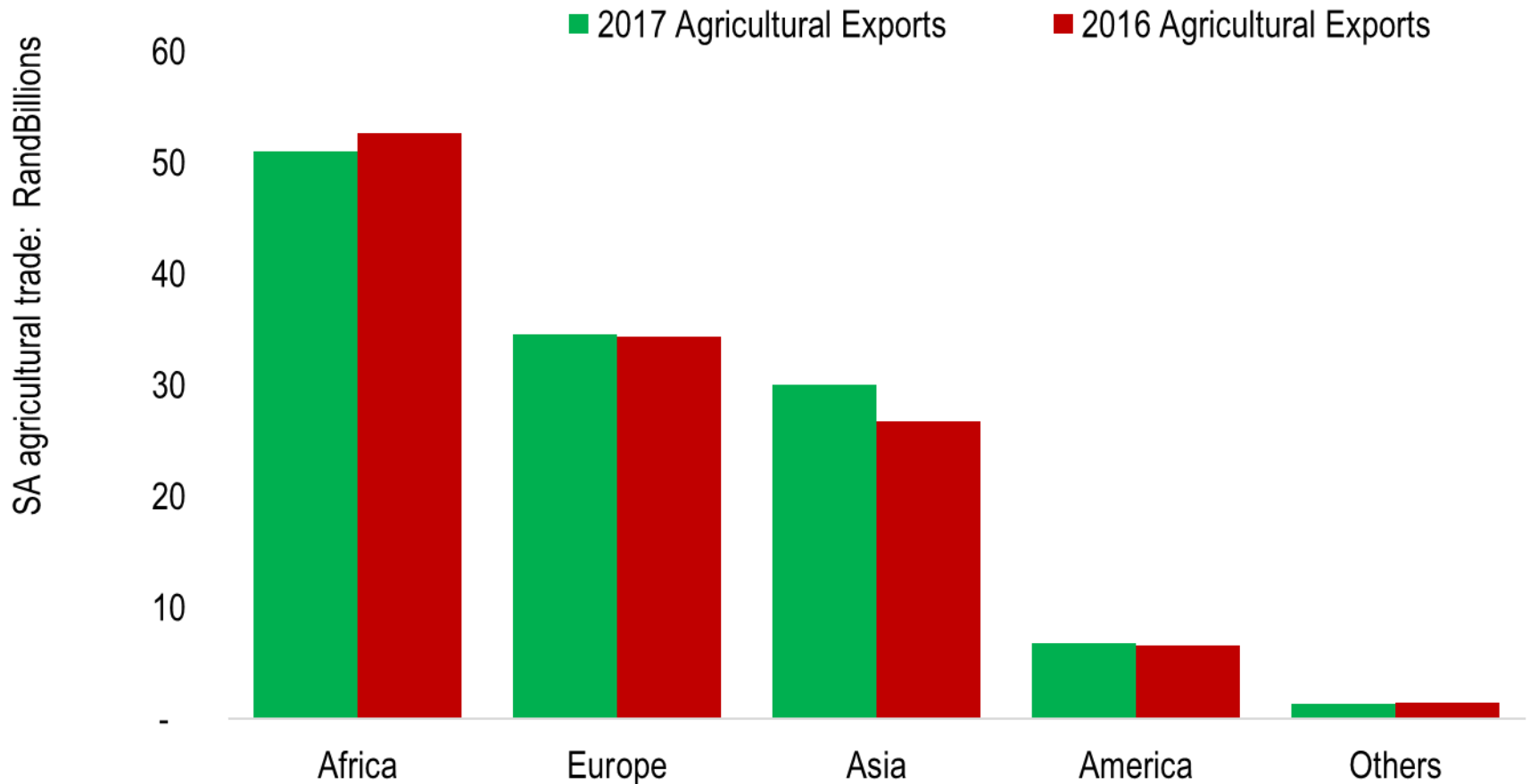


- ❖ Agriculture growing at almost half the pace of the country's GDP
- ❖ Agriculture is not growing fast enough to address unemployment and poverty

SA agricultural trade performance

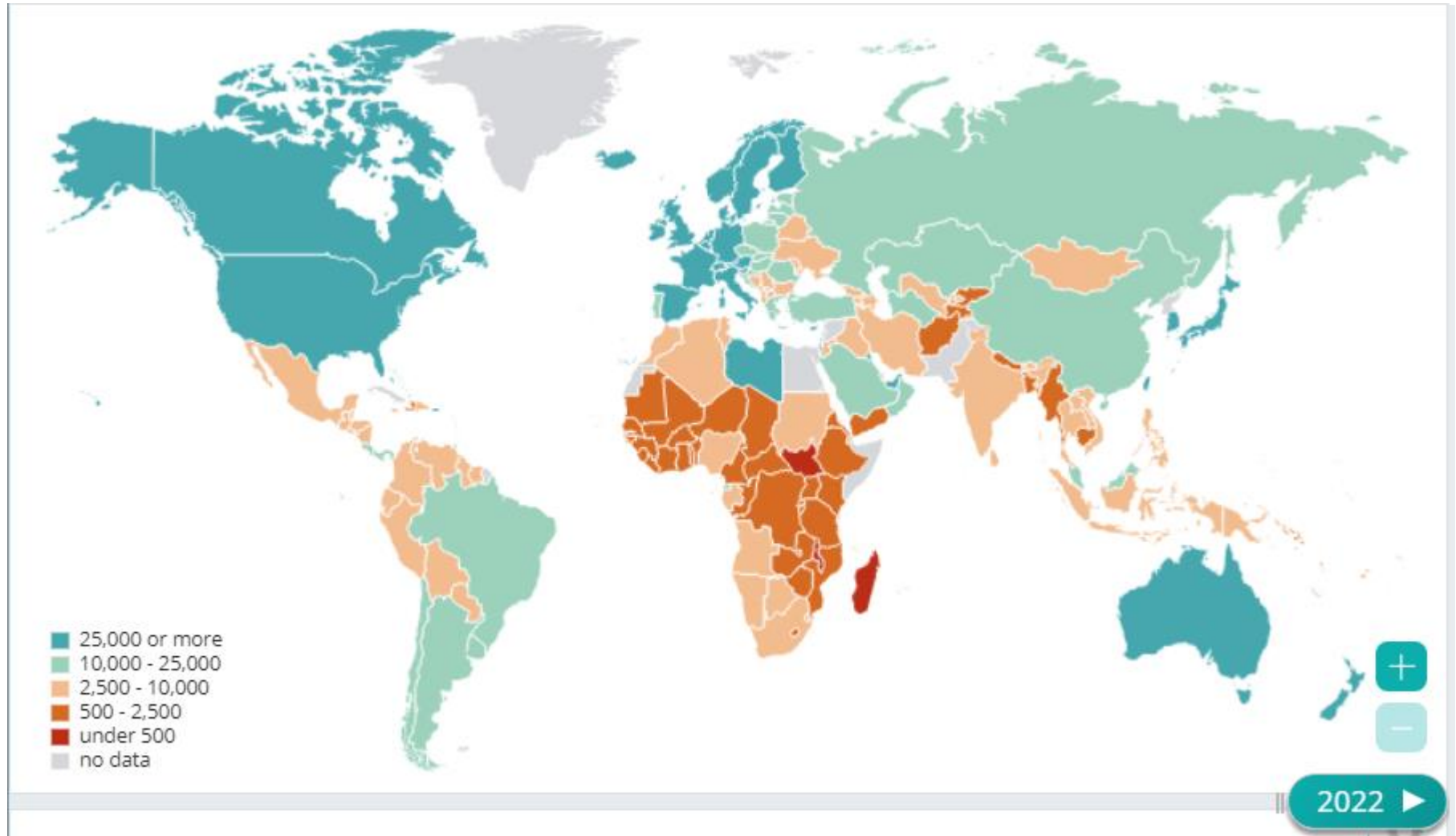


SA agricultural trade performance



Which part of the world shows biggest trade potential

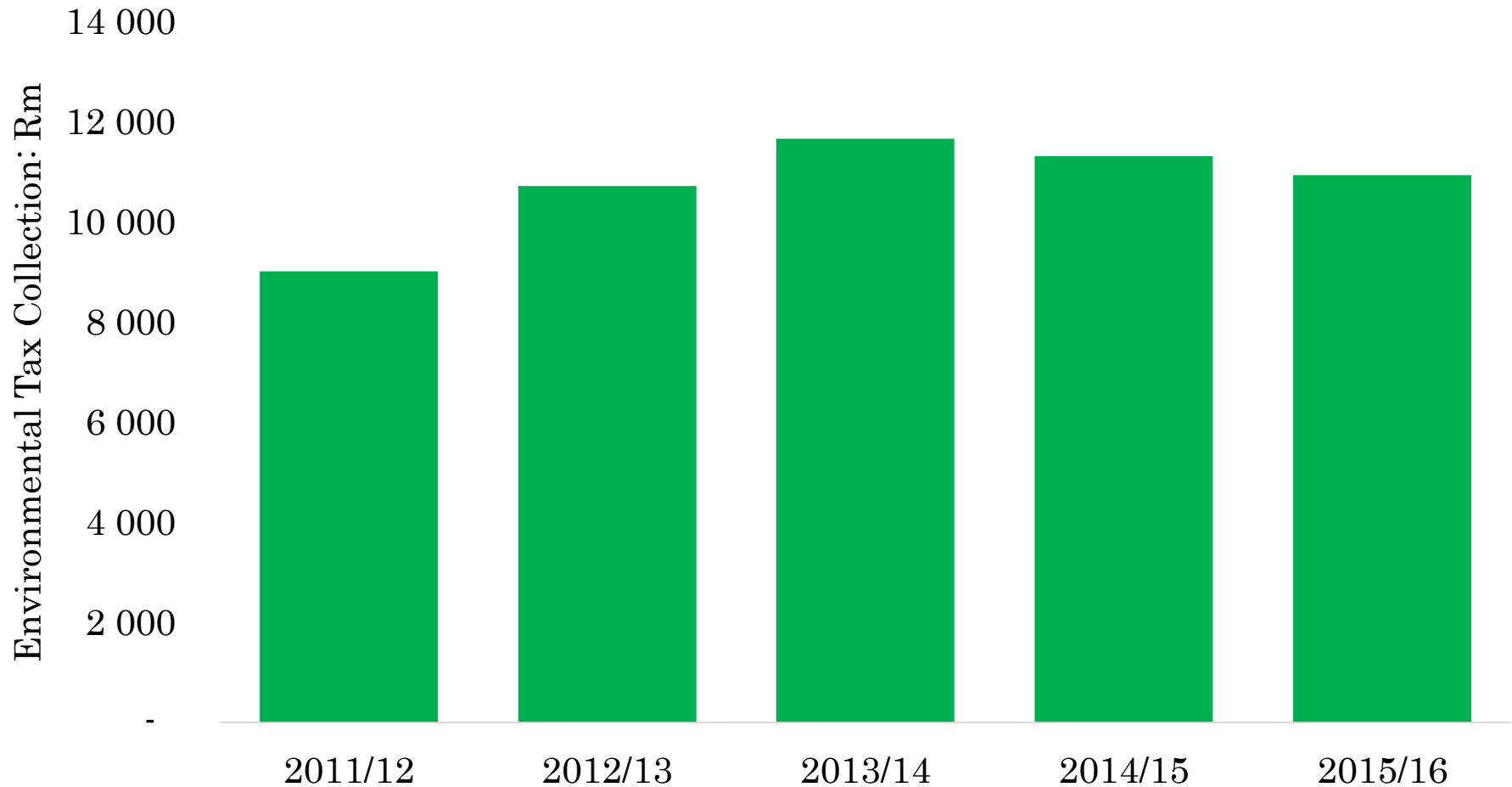
Global outlook: GDP per Capita US\$/c



Source: IMF, 2017

❖ B. Competitiveness and investments

Environmental taxes – before carbon tax and sugar tax



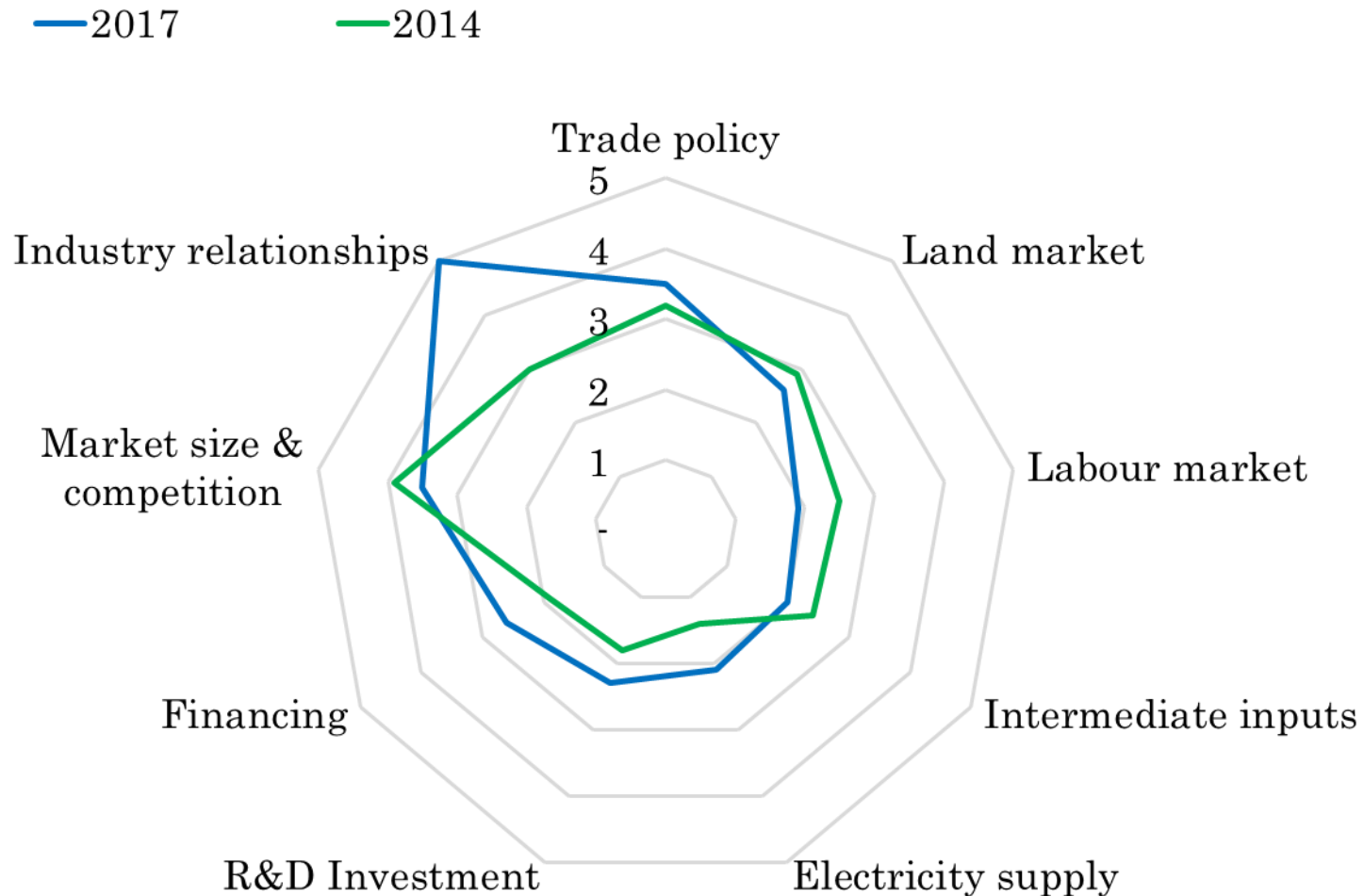
Source: Ntombela, S; Bohlmann, H; and Kalaba, M, 2017



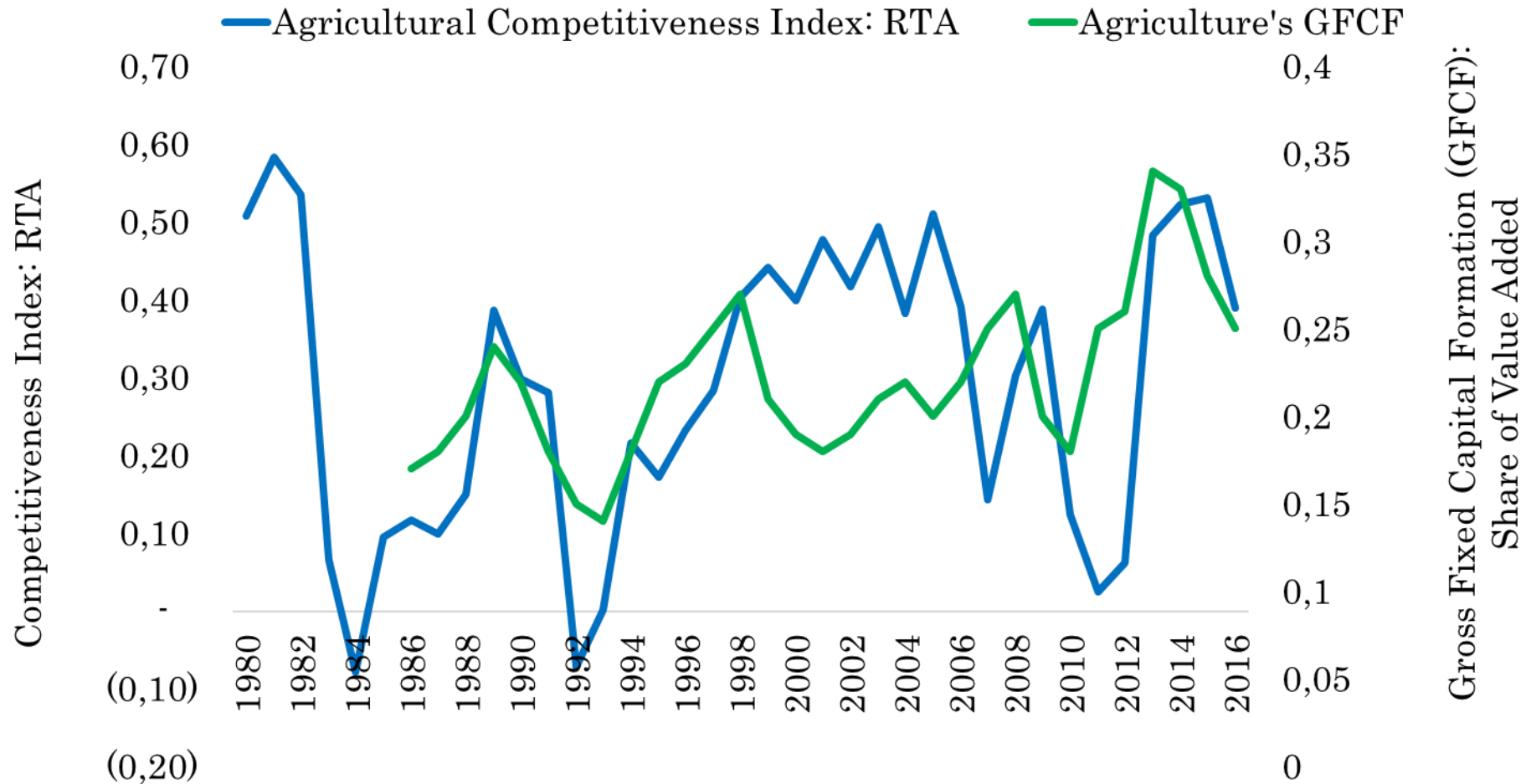
UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA



Competitiveness – emotional side



Competitiveness – technical performance



❖ C. Prospects of the WTO MC11

SA's Trade Position and Multilateral Trade Negotiations

- ❖ Trade policy to advance regional and continental economic industrialization agenda
- ❖ the priority is given to negotiating and completing the continental free trade agreement (CFTA), tripartite free trade agreement (TFTA) and SADC FTA

WTO

- ❖ MC 11 taking place 10-13 Dec 2017, Buenos Aires, Argentina.
- ❖ Dr John Purchase will represent business in SA delegation
- ❖ Agricultural trade issues:
 - Domestic support in developed countries
 - Market access for cotton
 - Public stockholding for food security purposes
 - Special safeguard mechanism for developing countries
 - Export restrictions
- ❖ Other issues emerging in WTO
 - Electronic commerce
 - Investment **facilitation**
 - **Transparency** of domestic regulations in services

Africa, Europe and America

- ❖ CFTA in the finalization phase of negotiations
- ❖ TFTA working on finalizing and adopting priority export products for various regional economies
- ❖ SADC-EU EPA: Call by DAFF on procedures for the application, administration and allocation of export quotas for 2018
- ❖ AGOA – both SA and USA calling for studies to review the relationship
 - Agbiz leading the South African call through NEDLAC
 - USTR issued a letter to chairman of US International Trade Commission to examine the USA-SSA trade and investment relationship

Future expectations

- ❖ Tangible commitments by WTO members on public stockholding and safeguard mechanisms. Not much expectation on domestic support and market access
- ❖ Sugar tax and carbon tax are coming and will affect competitiveness in agriculture through increased input costs
- ❖ Agricultural exports expected to cross R130 billion mark in 2017, driven by fruits, sugar, grains and dairy products
- ❖ Asia claiming an increasing share in SA agricultural exports at the expense of Europe (NTMs)



Thank you

Sifiso Ntombela: sifiso@agbiz.co.za



@AgriChamber



@uSobahle



For today.....

1. Political economy: Challenging and complex environment evolving
2. SA Agricultural Economy and Agbiz/IDC
Agribusiness Confidence Index
3. Trade and competitiveness
4. **Legislation environment**
5. Wrap up

AGBIZ MEDIA DAY

Legal Intelligence desk

4 December 2017

By Theo Boshoff

Outline

1. Legal developments in 2017 – focus on land
2. Context
 - i. Regulation of Agricultural Landholdings Bill;
 - ii. Draft Property Valuation Regulations
 - iii. Communal Land Tenure Bill
3. Looking forward to 2018:
 - i. Politics will play a role
 - ii. Focus on land and water

Legal Developments in 2017

Land reform policies progressing towards law

- A number of land reform policies that have been under consultation for a long time progressed towards law in 2017 – some with definite possibilities but many with potential risks.

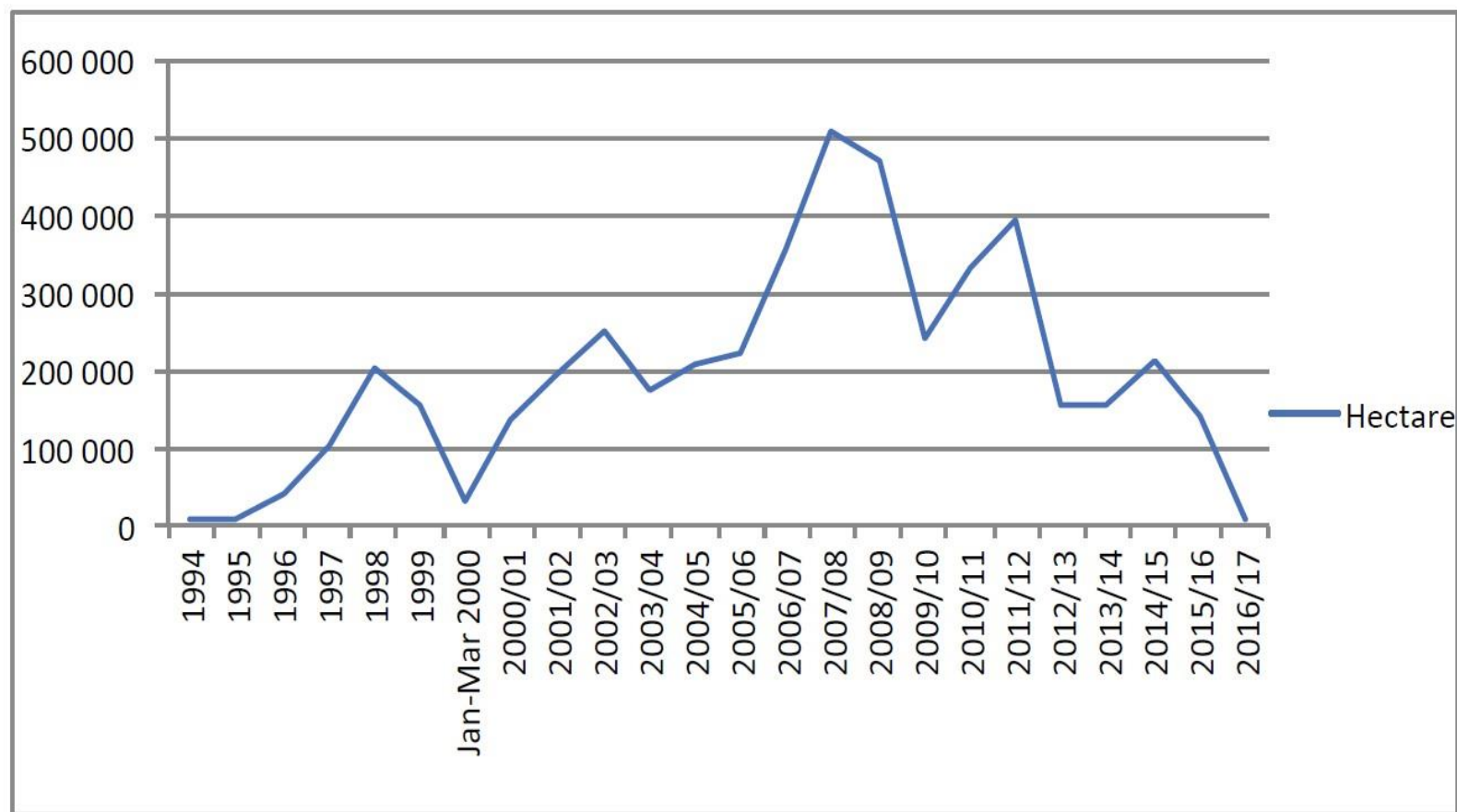


Context – land reform underperforming

- Still no agreement as to who owns SA and how far we have progressed with land reform; however
- High Level Panel led by former President Motlante highlighted crucial shortcomings:
 - Corruption;
 - Ownership not transferred;
 - Budget transferred away from land acquisition;
 - Poor implementation.
 - Communal occupiers still vulnerable.

Context – land reform underperforming

Figure 3.1: Amount of land transferred through land redistribution, in hectares per year



*Source: High Level Panel on Assessment of Key Legislation and the Acceleration of Fundamental Change Report, 2017.

Regulation of Agricultural Land Holdings Bill

Content

- Introduces land 'ceilings' and prohibits foreign land ownership.

Analysis

- Can harm agricultural sector by denying 'economies of scale';
- Financiers' mortgager bonds will also be at risk;
- Unlikely to help beneficiaries – will end up with a patch work of 'off cuts' that;
 - May not be economically viable;
 - May not have access to services, water or resources.

Draft Property Valuation Regulations

Content

- Contains a formula for valuing land at 'just and equitable' value.

Analysis

- Rigid formula not in line with s25 of Constitution – will differ in each set of facts;
- Can lead to outlandish valuations that will never be agreed to;
- Thereby slowing down land reform.

Expropriation without Compensation debate

- Not Government policy but very much on the table:
 - Will be discussed at the ANC elective conference.
- Agbiz has focused on publishing articles highlighting the possible implications of such an approach:
 - *“No compensation will increase the price of food twofold;*
 - *expropriation without compensation could cost ordinary citizens R160 billion;*
 - *Expropriation without compensation will short-change communal occupiers;*
 - *Win-win still possible; leverage funds from private sector through subsidies loans to make more funds available;”*

Opportunities

Communal Land Tenure Bill

- Provides for title deeds to be transferred to communities;
- Communities can decide on nature of individual rights within communal land (use rights, lease or title);

Analysis:

- Title deeds a positive step for agricultural development; but
- Minister's discretion should be curtailed – cannot look out for the interest of the state (player) and decide on transfer (referee) at the same time.

Preservation and Development of Agricultural Land Bill

- Regulates the competing interests for agricultural land;
 - Agriculture, mining, urban developments etc. to retain scarce, high potential land for food security purposes.

Looking forward to 2018

Land reform

- The focus on land reform will likely intensify as frustration from the ground is building;
- The outcome of the ANC's December policy conference will be critical as there are divisions emerging within the state regarding the direction we should follow with land reform;

Outcome of ANC meeting can overshadow all of the draft legislation currently on the table but can also stimulate real urgency to deal with problems!

Looking forward to 2018

Pragmatic approach

- PPPs and blended financing models;
- High-level panel report led by former President Mothlante;
- Funds/compensation not the biggest stumbling block!
- Renewed focus on implementation;
- Tough on corruption;
- Pro-poor programmes;
- Transfer of ownership;
- Greater Parliamentary oversight & framework legislation to guide all processes

Radical approach

- Expropriation without compensation; or
- Greater state control over compensation (Property Valuation Regulations);
- Centrally-planned and controlled agricultural sector;
- Land Ceilings;
- Prohibit foreign land ownership;
- 1 ha 1 household;
- State-funded value chain (Agri-Parks).

Looking forward to 2018

Water reform

- Even compared to land reform, water reform has been lagging far behind;
- Recent scarcity have brought focus on water regulation and pressure is mounting on DWS to revamp the water legislation. Expected:
- Greater focus on water reform & BBBEE rating in allocation;
- ‘use-it or lose-it’;

Sector will need to be wide awake and respond to changes to retain security of supply!

Looking forward to 2018

2018 could see:

- Higher raw water tariffs;
 - Financial woes = pressure on user to fund infrastructure & operations.
- Revision of National Water Resource Strategy;
 - Turn-around strategy for DWS;
 - Cut-down on institutional plans – CMAs could be abandoned in favour a simplified structure.

For today.....

1. Political economy: Challenging and complex environment evolving
2. SA Agricultural Economy and Agbiz/IDC Agribusiness Confidence Index
3. Trade and competitiveness
4. Legislation environment
5. **Wrap up**

Wrap up.....

- 2018 will be challenging on the political, economic, social and environmental fronts
- Currently a greater sense of uncertainty...
- However, uncertainty also creates opportunity, and we must be ready to identify opportunities and create value and prosperity for our members, but also for all South Africans.

Thank You



www.agbiz.co.za



@AgriChamber



AgriChamber



Congress registration opens on 15 January 2018

www.agbiz.co.za/2018-congress

Please visit the congress website regularly in order to follow updates

