

OPINION PIECE:

Finally, some good news for SA wool industry

By Wandile Sihlobo, 16 May 2019

The South Africa-China wool trade story is back in the headlines, but this time around in a good way. Nearly two months since the Chinese authorities temporarily suspended wool imports from South Africa because of the foot-and-mouth disease outbreak earlier in the year, the country's authorities issued a notification on May 8 stating that the ban will be lifted that same day.

This news was warmly welcomed by the domestic wool industry group Cape Wools SA, stating that the lifting of the ban implies that any scoured wool or mohair could be exported to China, but that the conditions under which greasy wool could be exported, will be subject to [World Organisation for Animal Health](#) (OIE) "Safe Commodities" regulations. The wool industry now awaits clarification on how South Africa's Department of Agriculture, Forestry and Fisheries will implement the issuing of health certificates within these defined parameters.

This is all good news. At the time when there was no clear indication of when the wool export ban on South African exports would be lifted, I expressed concerns about the likely implications for the agricultural trade balance this year, as wool is among the top 10 exportable agricultural commodities in South Africa. In 2018 wool accounted for 4% of South Africa's agricultural exports of \$10.6bn.

What made the Chinese decision to suspend South African wool imports particularly concerning is its contribution to total domestic exports. Over the past five years China has accounted for an average of 71% of SA's wool exports in value terms. The other major markets for the South African wool industry were the Czech Republic, Italy, India, Bulgaria, Germany, the US, Malaysia, Japan, and Mexico.

While this heavy reliance on the Chinese market might have served South Africa well when there was minimal trade disturbance, the recent ban proved to be a challenge and has raised questions regarding the desirability of deliberately diversifying our wool export markets over the medium to long term to avert a similar challenge in future.

Although this would be a necessary approach, it would be hard for any country to thrive in the wool market without some level of reliance on China due to its dominance in the world market for woollen products. China accounted for an average of 62% of global wool imports by value over the past five years.

That said, there are several other countries South Africa could either export to or export more to, and should therefore focus on increasing its market share as a form of diversification. Among these are India, Italy, the Czech Republic, South Korea, Egypt, Thailand, Bulgaria, Japan, Germany, Turkey, Taiwan, Lithuania, and Belgium. These countries collectively accounted for 27% of global wool imports in 2018.

Most importantly, South Africa already has a presence in these countries, albeit currently only a small share of their import volumes. Therefore, one can assume domestic industry players are somewhat familiar with the technical necessities for wool

exports to the aforementioned countries, so the barriers to entry should be relatively few.

The competitors that South Africa would most likely encounter within these markets are similar to the ones that are currently supplying China, namely Australia, New Zealand, Uruguay, and Argentina, among others. Given that in the past two years SA was the second biggest supplier of wool to China, this suggests the country could also be competitive in other markets and should be able to increase its market share in at least some of them.

Looking back into recent history, one of the periods where South African wool exports to China were suspended due to the foot-and-mouth disease outbreak occurred in 2011, but the impact then on export values was minimal as the matter was resolved within few months.

As things stand, I am hoping that we could see increased activity in the coming months, with large volumes which could compensate for the delays in the past couple of weeks. And if this happens to be the case, the negative impact on the South African agricultural trade balance, and the growth of the wool industry could be curtailed.

Overall, while the near-term focus for South Africa has been to regain market access in the Chinese market, and there is now good development on that end, in the long run, diversification should be a key goal. Admittedly, we can not significantly lessen our participation in China due to its aforementioned domination in the world market, but there is room for South Africa to explore a possibility of growing its export share in other wool importing markets. So, diversification of our wool export market should be one of the domestic industry's strategic goals.

- *Sihlobo is chief economist of the Agricultural Business Chamber of SA (Agbiz).*