

Does the African Free Continental Free Trade Agreement offer opportunities for SA Agriculture?

The South African agricultural sector, and specifically the expansion in the sector over the recent past, is heavily reliant on exports. In fact, South Africa exports roughly 49% of its agricultural products in value terms. Hence, the newly launched African Free Continental Free Trade Agreement (AfCFTA) would potentially open additional avenues for South African products to destinations where the country hasn't largely participated in over the recent past. This would practically mean, an increase in the share of South Africa's agricultural exports to the continent, rather than mainly focusing on growing other well-established markets.

Moreover, the AfCFTA is expected to make 90% of trade within the continent duty-free by July 2020, and this is set to increase to 97% over the next decade as more duties on an additional number of products are phased down. While some African countries will be deprived of revenue currently derived from trade tariffs, the expectation is that the benefits will exceed the costs, as countries will eventually benefit from trade creation, production diversification, job creation, industrialisation with increased corporate income tax revenue as a corollary, and higher personal income tax revenue.

However, the African continent is beset by other systemic problems such as poor quality or lack of infrastructure, unconducive business environments that make trade across borders particularly costly and nearly prohibitive, corruption and weak institutions which render legal recourse and dispute settlements redundant, among others. With the AfCFTA providing a potential opportunity to unlock further growth in trade, this will not be possible unless and until the abovementioned issues are sufficiently addressed. The precedent of African countries collaborating politically and economically set by the AfCFTA should translate to deep and fundamental reforms that unlock the existing barriers to intra-regional trade.

The make-or-break of the AfCFTA will come when trade under the agreement officially kicks off in July of 2020. Although the African Export-Import Bank has reserved \$100 billion to help member countries alleviate trade adjustment costs and facilitate the creation of a common payment system, concerns still remain. Previous experiences from the Regional Economic Communities such as SADC show that tariff phase-down have been matched with, and exceeded by non-tariffs barriers (NTB), such as the excessive documentation needed for cross-border trade transactions, administrative bottlenecks and stipulated trade quotas aimed at curbing the quantity of traded goods.

The extent of these NTBs effectively reversed the potential gains of the SADC Free Trade Area. In the AfCFTA scenario, policymakers have indicated that NTBs will also be given equipollent attention as its contemporaneous existence could threaten the growth of intra-African trade and impede the effective operationalisation of the AfCFTA.

Overall, this relationship would not be one way. South Africa remains an importer of poultry meat (edible offal of fowls), rice, wheat, sugar, palm oil, soybeans, beer, fish, sunflower oil, soybean oilcake, and tobacco, amongst other agricultural commodities. Ideally, the African countries can also have room to participate in the South African market by supplying these products. But most African countries do not have the capacity to export significant volumes of the aforementioned agricultural products, at least not to the extent of satisfying South

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Wandile Sihlobo
Chief Economist
+27 12 807 6686
wandile@agbiz.co.za

www.agbiz.co.za

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Tinashe Kapuya, PhD*

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Africa's import requirement. The onus, however, lies on the Member States and their respective industries to realise that there is demand in South Africa, and start investing in production and providing an enabling environment for such industries to thrive.

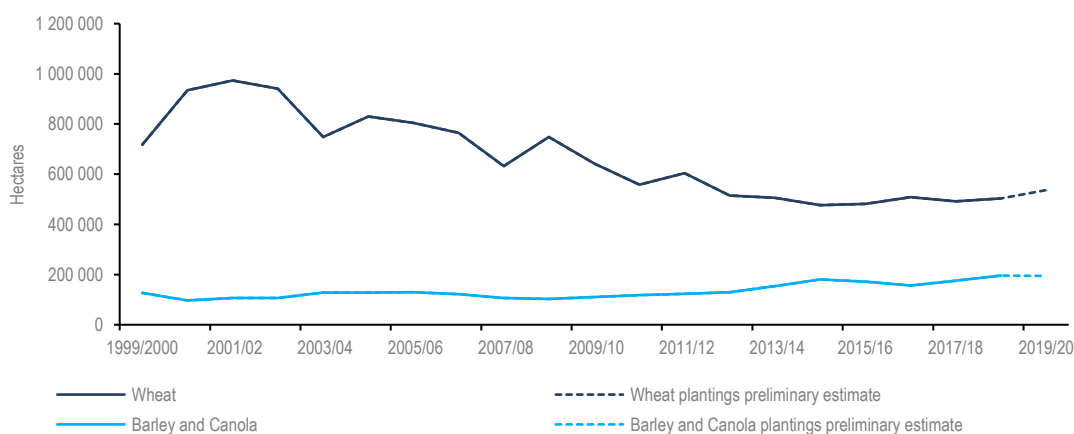
Improved weather outlook for Western Cape

We have been saying for some time that rainfall is key to boosting the Western Cape's agricultural fortunes. And while we expressed concerns about the long-term weather outlook in our previous writings, the latest update from the South African Weather Service paints a positive picture. On 30 July 2019, the agency indicated that there is an indication of above-normal rainfall conditions between August and October 2019 for parts of the winter rainfall region, which is mainly the Western Cape.¹

This will add to an already improved agricultural condition following rainfall over the past few weeks. Moreover, the water levels in the dams have also improved. In the week of 29 July 2019, the Western Cape's dam levels averaged 54%, compared to 51% in the corresponding week last year. As set out in our note on 29 July 2019, the improved moisture in the Western Cape will not only benefit the horticulture fields; winter grains and oilseeds will also benefit from improved moisture.

The Western Cape accounts for 60% of South Africa's winter wheat plantings, which means a potential improvement in the province's winter crop could have a wider positive spill over to the country's wheat fortunes (Figure 1). Moreover, the Western Cape has lifted its wheat plantings by 2% from the area planted in 2018. This is a fairly small improvement and suggests that farmers remain cautious of erratic weather conditions. The province is also a major producer of barley, canola, oats, which all stand to benefit from more sustained improvement in weather conditions.

Figure 1: South Africa's 2019/20 winter crop plantings estimates



Source: SAGIS, Crop Estimates Committee, Agbiz Research

Also, these are encouraging developments for horticulture fields which typically need moisture throughout the year, with crucial months for next season's harvest size being August and September, specifically for wine grapes.

Overall, the rainfall over the Western Cape and thereafter agricultural activities will not only be beneficial for farmers and agribusinesses in the province but will also have positive spin-offs for the agricultural labour market and broader agricultural economy. Over the past five years, the Western Cape has consistently been the leading employer in primary agriculture. The province accounted for 23% of the 829 000 jobs over this period.

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¹ For more information, please see South African Weather Service Seasonal Climate Watch, 30 July 2019.

Agricultural jobs fell marginally in Q2, 2019

As outlined in our report last week, the latest Quarterly Labour Force Survey data (Q2: 2019) show that South Africa's primary agricultural employment fell by 0.2% from the corresponding period last year to 842 000, as illustrated in Figure 2.

South African agricultural jobs fell by 0.2% y/y in the second quarter of 2019.

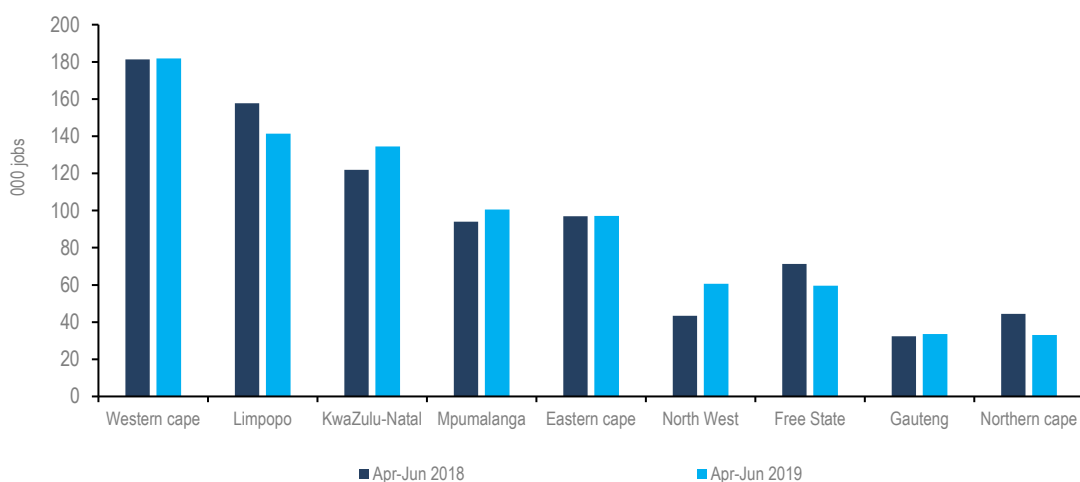
Figure 2: South Africa's agricultural jobs



Source: Stats SA, Agbiz Research

The subsectors that faced a notable reduction were mainly field crops, the game industry and forestry. In the case of field crops, the reduction in employment was unsurprising following a reduction in activity in the fields on the back of a poor harvest in the 2018/19 season, all of which is underpinned by unfavourable weather conditions earlier in the season. From a regional perspective, a notable decline in employment was recorded in the Northern Cape, Free State and Limpopo, whilst other provinces saw a marginal uptick, as shown in Figure 3.

Figure 3: South Africa's agricultural jobs by province



A notable decline in employment was recorded in the Northern Cape, Free State and Limpopo.

Source: Stats SA, Agbiz Research

For more information on the agricultural jobs, please read our latest commentary: [What's needed for SA agriculture to boost jobs?](#)

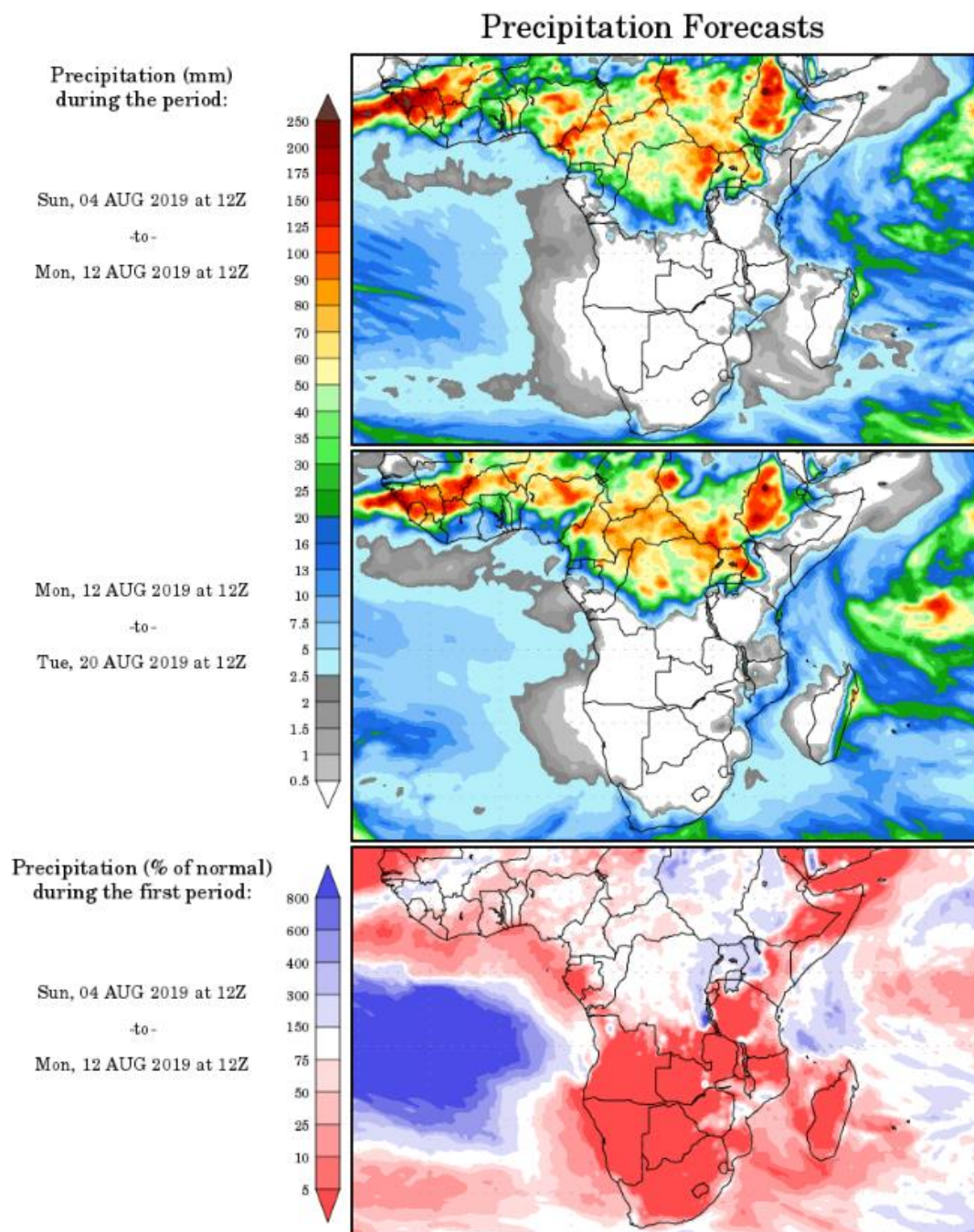
Data preview

This is a quiet week on the domestic agricultural data front, with only two important data points;

- On Wednesday, SAGIS will release the **grain producer deliveries** data. This data will give us an indication of the summer grains and oilseeds harvest for the week of 02 August 2019. Essentially, it will mainly be an affirmation that the harvesting process for all summer crops is nearing completion.
- On Thursday, we will get the **weekly grain trade** data for the week of 02 August 2019.
- In terms of maize, the first thirteen weeks' exports of the 2019/20 marketing year amounted to 251 584 tonnes. We expect South Africa to remain a net exporter of maize this year, although the volume will most likely fall by half from the previous year to about 1.1 million tonnes. This is under the assumption that domestic maize production could amount to 10.9 million tonnes.
- At the same time, we expect imports of about 450 000 tonnes, all yellow maize, mainly for the coastal provinces of the country. This is up from an estimated 171 500 tonnes in the 2018/19 marketing year. The country has thus far imported 131 399 tonnes of yellow maize, all from Argentina.
- In terms of wheat, South Africa remains a net importer, although the recovery in the country's 2018/19 domestic wheat production will lead to a decline in imports this season. South Africa's 2018/19 wheat imports could fall by 36% from the previous season to about 1.4 million tonnes. So far, the country has imported about 68% of the seasonal forecast. The leading suppliers have been Germany, Russia, Lithuania, Canada, Czech Republic and the U.S., amongst others.

South Africa's 2018/19 wheat imports could fall by 36% from the previous season to about 1.4 million tonnes. So far, the country has imported about 63% of the seasonal forecast.

Figure 4: South Africa's precipitation forecast



The weather forecast for this week shows clear skies over the summer crop growing areas of the country which should support the harvest activity.

The winter crop growing areas will, however, receive moisture in the week f 20 August, which is good for crop development.

Source: George Mason University (wxmaps)

Key Data Releases in the Agricultural Market:

- U.S. Crop Progress report: 05/08/2019
- SAGIS producer deliveries data: 07/08/2019
- SAGIS weekly grain trade data: 08/08/2019
- National Crop Estimates Committee's monthly data: 27/08/2019