Agriculture and Agribusiness in South Africa: Prospects and Challenges

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Business France

23 February 2015
Content for today……

• Introduction
• SA Agriculture
• SA Agribusiness
• Prospects & Challenges
Global Food Security Index

Score 0-100, 100=best environment

- Best performance
- Good performance
- Moderate performance
- Needs improvement

Source: Economist Intelligence Unit/Du Pont

Components of Food Security

FOOD UTILISATION
• Nutritional Value
• Social value
• Food safety

FOOD ACCESS
• Affordability
• Allocation
• Preference

FOOD AVAILABILITY
• Production
• Distribution
• Exchange/trade

Complex concept: Difficult to measure and evaluate.

Purchasing power key to access

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

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

FAO Food Price Index

Source: FAO, 2015

* The real price index is the nominal price index deflated by the World Bank Manufactures Unit Value Index (MUV)
FAO Commodity Price Indexes

Source: FAO, 2015
Economic Outlook for South Africa

• SA GDP growth for 2014: estimate 1,4%
• SA GDP growth for 2015: IMF forecast 2,1 %
• Further weakening of the Rand (Trade deficit, etc.)
• Global GDP: 3.5%
• Growth inhibitors:
  - Electricity crisis (Will continue for at least 3 years).
  - Labour relations
  - Skills factor/Unemployment
  - Policy uncertainty
  - Poor service delivery
  - Transport infrastructural constraints, etc.
• Growth enhancers - various
Insight Report

The Global Competitiveness Report
2014–2015
South Africa

Key indicators, 2013

Population (millions) ........................................... 53.0
GDP (US$ billions) ................................................ 350.8
GDP per capita (US$) .......................................... 6,621
GDP (PPP) as share (%) of world total .............. 0.69
Global Competitiveness Index

<table>
<thead>
<tr>
<th></th>
<th>Rank (out of 144)</th>
<th>Score (1–7)</th>
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<tbody>
<tr>
<td>GCI 2014–2015</td>
<td>56</td>
<td>4.4</td>
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<tr>
<td>GCI 2013–2014 (out of 148)</td>
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</tr>
<tr>
<td>GCI 2012–2013 (out of 144)</td>
<td>52</td>
<td>4.4</td>
</tr>
<tr>
<td>GCI 2011–2012 (out of 142)</td>
<td>50</td>
<td>4.3</td>
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</table>

Basic requirements (40.0%)            | 89                | 4.3         |
Institutions                          | 36                | 4.5         |
Infrastructure                        | 60                | 4.3         |
Macroeconomic environment             | 89                | 4.5         |
Health and primary education          | 132               | 4.0         |

Efficiency enhancers (50.0%)           | 43                | 4.4         |
Higher education and training         | 86                | 4.0         |
Goods market efficiency               | 32                | 4.7         |
Labor market efficiency                | 113               | 3.8         |
Financial market development          | 7                 | 5.4         |
Technological readiness               | 66                | 3.9         |
Market size                           | 25                | 4.9         |

Innovation and sophistication factors (10.0%) | 37 | 4.1 |
Business sophistication                | 31 | 4.5 |
Innovation                             | 43 | 3.6 |

Stage of development

1. Factor driven
2. Efficiency driven
3. Innovation driven

- Institutions
- Infrastructure
- Macroeconomic environment
- Health and primary education
- Business sophistication
- Market size
- Technological readiness
- Financial market development
- Labor market efficiency
- Goods market efficiency
- Higher education and training

South Africa and Sub-Saharan Africa

agbiz
An Achilles heel: Unemployment

Source: StatsSA, 2015
BER Business Confidence Index

Source: BER, SARB (Shaded areas represent economic downswings)
Agbiz/IDC Agribusiness Confidence Index
High positive correlation between confidence index and performance of sector in the economy - Good leading indicator
Characteristics of SA Agriculture

- Well developed commercial sector (~93% of supply) and subsistence oriented smallholder sector – dual economy
- Only ~12% of land area arable, of which 22% is high potential land – limited land resource base, and loss to mining/urbanisation
- ~1.6 million hectares under irrigation (NDP Expansion?)
- Water major limiting factor – SA semi-arid: Policy impact o NWRS2?
- Deregulation & open markets introduced in 1996
- Number of competitive advantages (OECD):
  - Infrastructure (relative)
  - Counter-seasonality to Europe (fruit exports)
  - Biodiversity – range of agricultural products
  - Trade agreements
  - Competitive input costs
  - Access to latest technology & innovation
SA Resource Situation

• Land Reform issue: Green Paper vs NDP Model approach
• Scarce high potential agricultural land to mining, esp. Mpumalanga, and urban development demand
• Water and water quality crisis – NWRS2 adopted by Cabinet
• Climate Change effects create uncertainty: Climate Smart Agri & CA
• Energy price volatility and energy security situation unsure
• Electricity price hikes (31% in 2009 + 25% pa over next 3 years), stabilized at inflation rate for two years, but again upward pressure.
• Resources for sustainable expansion in SA: Questionable
• Greater competition for scarce resources increasingly a major price driver.
Contribution of Primary Agriculture to GDP
(Source: StatsSA)

Source: StatsSA
Graph: Agbiz
SA economic growth: Tradable goods sectors lag the non-tradable goods sectors

Source: StatsSA
Graph: Agbiz
Figure D.1 The relative shares of agriculture and agribusiness in GDP change as incomes rise

% share of GDP

Source: UNIDO, 2012
Germany: The Melander family of Bargteheide
Food expenditure for one week: $500.07

Source: Peter Menzel www.menzelphoto.com
Hungry Planet: What the World Eats
USA: The Revis family of North Carolina
Food expenditure for one week $341.98

Source: Peter Menzel www.menzelphoto.com
Hungry Planet: What the World Eats
Egypt: The Ahmed family of Cairo
Food expenditure for one week: $68.53

Source: Peter Menzel www.menzelphoto.com
Hungry Planet: What the World Eats
Chad: The Aboubakar family of Breidjing Camp
Food expenditure for one week: $1.23

Source: Peter Menzel  www.menzelphoto.com
Hungry Planet: What the World Eats
Inflation

INFLATION: ALL ITEMS & FOOD YEAR/YEAR CHANGE

Source: AMT, Feb 2015
Exchange rate

Source: AMT, Dec 2014
The SAARF LSM Segments: Proportion of SA adult population and average monthly household income in 2013

Source: SAARF All Media and Products Survey (AMPS) 2013

Source: 11th BFAP Baseline, 2014
Figure 13.2: LSM class mobility: All adults for the period 2004 to 2013
Source: SAARF All Media and Products Surveys (AMPS) 2004 to 2013

Source: 11th BFAP Baseline, 2014
Food Consumption: Growth 2012 to 2020

Source: BFAP, 2012
Content for today......

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- SA Agriculture
- SA Agribusiness
- Prospects & Challenges
<table>
<thead>
<tr>
<th>Indicator</th>
<th>1993</th>
<th>2002</th>
<th>2007</th>
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<tr>
<td>Farming units</td>
<td>57 980</td>
<td>45 818</td>
<td>39 982</td>
</tr>
<tr>
<td>Paid employees</td>
<td>1 093 265</td>
<td>940 820</td>
<td>796 806</td>
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<tr>
<td>Ratio between Farming Debt and GFI (%)</td>
<td>78,0</td>
<td>57,9</td>
<td>46,6</td>
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Source: StatsSA
Performance of Sector

Gross and Nett Farming Income

Source: DAFF, 2014
Graph: Agbiz
Performance of Sector
Gross Value of Production in R million

Source: DAFF, 2014
Graph: Agbiz.
Real gross income of the agricultural sector

Source: 11th BFAP Baseline, 2014
Real intermediate input expenditure

Source: 11th BFAP Baseline, 2014
Gross Capital Formation and Net Farm Income: 1971-2012

Graph: BFAP, 2014
Real value of agricultural assets: 1971-2012
(2005 Constant prices)

Figure 9: Value of selected agricultural assets (1971-2012)
Source: Directorate of Agricultural Statistics (2013)
Graph: BFAP, 2013
SA Agricultural Sectors

1. Field crops
   - Maize (Corn), wheat, sugar, sunflower, soybean, groundnuts, dry beans, etc.

2. Horticulture
   - Wine/Viticulture, Citrus, Deciduous fruit, sub-tropical fruit, table grapes, vegetables

3. Animal production
   - Poultry, beef, dairy, mutton, wool, mohair, ostrich, game/venison
Real gross value of field crops

Source: 11th BFAP Baseline, 2014
Real gross value of animal products

Source: 11th BFAP Baseline, 2014
Real gross income of citrus, table grapes, apples and pears

Source: 11th BFAP Baseline, 2014
Gross Value by Commodities
Real net farm income

Source: 11th BFAP Baseline, 2014
Field crops

- Maize – major staple, net exports, ~85% GM
- Wheat – also staple food, net imports (~40% of demand)
- Sorghum – declining significance (Biofuel designated?)
- Soya – growing importance, cake imports, ~90% GM
- Sunflower – growing importance, S/D in balance
- Groundnuts – net exports, but declining
- Dry beans – net imports, mostly from China
Source: 11th BFAP Baseline, 2014
Source: Grain SA website, 18 February 2015
Source: Grain SA website, 18 February 2015
Source: 11th BFAP Baseline, 2014
Source: 11th BFAP Baseline, 2014
<table>
<thead>
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<th>Crushing Company</th>
<th>Capacity</th>
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<tr>
<td>Wilmar Continental</td>
<td>192 000</td>
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<td>Majesty</td>
<td>156 000</td>
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<td>Gauteng</td>
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<td>96 000</td>
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<td>Drak</td>
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<td><strong>TOTAL</strong></td>
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<td>Company</td>
<td>Capacity</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>2 102 000</strong></td>
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Source: 11th BFAP Baseline, 2014
Horticulture

- Viticulture & Wine – major export industry
- Citrus – SA’s biggest ag-export (~R7bn), growing but....
- Deciduous fruit – major net exports
- Table grapes – major net exports
- Sub-tropical fruit – net exports
- Vegetables – S/D balance, some imports.exports
## Horticulture

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<tr>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tr>
<td>Gross income from horticulture (R bn)</td>
<td>R31.39</td>
<td>R31.22</td>
<td>R40.18</td>
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</tbody>
</table>

### Exports (2012):

- **Citrus:** R7.068 billion
- **Wine:** R5.494 billion
- **Table grapes:** R3.395 billion
- **Apples & Pears:** R3.337 billion
Citrus Exports

Source: 11th BFAP Baseline, 2014
Figure 10.7: South African citrus production

Source: 11th BFAP Baseline, 2014
Grape exports

Source: 11th BFAP Baseline, 2014
Apples and Pears

Source: 11th BFAP Baseline, 2014
Source: 11th BFAP Baseline, 2014
Animal Production

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<thead>
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<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income from animals (Rbn)</td>
<td>R58.4</td>
<td>R61.0</td>
<td>R76.3</td>
</tr>
<tr>
<td>1. Poultry</td>
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<tr>
<td>2. Beef</td>
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<tr>
<td>3. Mutton &amp; Wool</td>
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<tr>
<td>4. Pork</td>
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<tr>
<td>5. Dairy</td>
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Meat consumption

Source: 11th BFAP Baseline, 2014
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• **SA Agribusiness**
• Prospects & Challenges
SA Agribusiness

• Strong input sector: Seed, fertilizer, crop protection and veterinary chemicals, animal feed, packaging, agricultural machinery, fuel, etc. (Technology-based)

• Financial sector: Major banks, DFI’s, insurance companies, auditors, agribusinesses, etc.,

• Storage, trade and agro-logistics

• Agro-processing and packaging

• Retail Sector
Real agriculture debt

Source: 11th BFAP Baseline, 2014
SA’s Agricultural Trade Balance (2001-2013)

Graph: Agbiz, 2014
SA’s export markets for agro-processed products

Africa is driving most of SA’s agricultural export growth

Source: ITC (2014)

Graph: Agbiz, 2014
Primary vs Secondary Agriculture import trends (2001-2013)

Stronger growth in agro-processing imports

Source: ITC (2014)

Graph: Agbiz, 2014
South Africa's agricultural trade balance with France (2010-2014)

- SA exports to France: All agricultural products
- SA imports to France: All agricultural products
- SA's agricultural trade balance

Value of trade (US$'000)
Factors Impacting Global Food and Agricultural Markets Over the Next Decade

1. Global economic growth and the rise of the “middle class” in developing countries
2. Value of the U.S. dollar – impact on commodity prices
3. Worldwide biofuels production
4. Energy and agricultural input prices
5. Role of trade and trade liberalization
6. Additional crop land
7. Biotech developments
Challenges: Government

- New Growth Path & NDP: Job creation, Shared Growth, Green Growth
- Food security
- Empowerment of PDI’s, e.g. AgriBEE, EE, Land Reform, etc.
- Land Reform & Rural Development (NDP: Chapter 6)
- Industrial Policy Action Plan II: Agro-processing focus area (6th Version)
- Competitive environment (Competition Act)
- Sustainable resource management, e.g. Climate Change, water quality & quantity, land use, etc.
- African development.
Challenges: Private Sector

- Profitability and competitiveness
- Transparent and reliable markets (Market Integrity!)
- Engage Government into enabling policy environment:
  Create confidence for long term investment
- Need for inclusive Strategic Framework/Plan (IGDP + APAP)
- Sustainable & predictable transformation
- Institutional and value chain support (R&D, SPS matters, resource base management, trade facilitation, training & skills development, crop estimates, agro-logistics, Act 36 of 1947, etc.)
- African opportunities
Overall Prospects

• Much greater **food security** awareness, both globally and locally – very positive. Priority for G20, OECD, FAO, etc.

• Government engagement with Private Sector needs to improve.

• **Vision 2030** awareness of the need to support both commercial and developing agriculture. Better implementation NB!

• Substantial markets: locally, regionally, globally, and especially to the East. **Need market development, though! Typical PPP.**

• General commodity and agribusiness infrastructure is good basis – build on this & other strong institutional capacity.

• New technology/expertise through especially multinationals.

• African opportunities
Conclusion

• Relatively healthy and robust agro-food industry

• Relatively technologically advanced, globally competitive

• Challenges: Investment environment, Agro-logistics, water availability and quality, environmental sustainability, R&D, crime and security, labour relations & legislation, land reform, climate change, trade agreements, sustainable transformation, etc.

• Opportunities: Growing population, consumer spending trends, new markets (especially to Africa and the East), etc.

• Major contributor to Food Security, growth and employment in RSA.

• However, we live in uncertain times – many risks and variables, some controllable, others not or less so. We take our agro-food system far too much for granted in South Africa. It is a national asset all should nurture and cherish.
THANK YOU

www.agbiz.co.za