

MEDIA RELEASE

4 December 2017

Agribusiness Outlook for 2018

POLITICAL ECONOMY

“Over the past couple of years, Agbiz has indicated that South Africa had reached a decisive T-junction on its road into the future and that critical decisions were necessary to place the country on a sustainable growth and development path. Clearly, the wrong decisions have been made by certain government leaders, especially by the President with regard to nonsensical Cabinet reshuffles, putting the country on the wrong path and into a downward spiral of near-zero growth, increased unemployment and rating downgrades,” Dr John Purchase, CEO of Agbiz said today.

Alleged corruption on a massive scale, combined with gross mismanagement at a number of major SOE’s, has effectively eroded business confidence in the country and dried up investment. Clearly, South Africa needs to make a 180° U-turn and get onto the right policies, legislation and governance road to meet its development and economic goals.

“In a way, the government itself realizes it has gone up a dead-end track and appointed a High Level Panel to assess the country’s key legislation. And so over the past 21 months, the High Level Panel on the Assessment of Key Legislation and the Acceleration of Fundamental Change, which has been chaired by former President Kgalema Motlanthe, received numerous submissions from individuals, non-governmental organisations, academics, industry associations and many other organisations, including from Agbiz, on their experiences of key government programmes and legislation. The Report makes a number of telling findings and recommendations which could go a long way to reversing the dire situation that now confronts us. There is no doubt that the outcome of the upcoming ANC Elective Conference in mid-December 2017 will largely determine whether the political will exists to turn the country around,” Dr Purchase added.

AGRICULTURE AND AGRIBUSINESS PROSPECTS

It is against this backdrop that the Agribusiness and Agriculture sectors have had mixed fortunes across the country this past year. Generally, good rainfall in the summer rainfall region from early January 2017 resulted in the breaking of the disastrous 2015/2016 drought and a record maize crop of 17.4 million tons being realized. While considerably lower maize prices hit grain farmers hard, the lower prices benefitted various value chains enormously, including the poultry, dairy and red meat industries. This also led to food inflation decelerating from double-digit figures in 2016 to 5.3% year-on-year in October 2017.

Prospects for 2018 in the summer rainfall region are mixed, with fairly good rainfall in the northern and eastern regions, but the severe drought (again!) in the central and western producing areas is cause for concern. Given the current La Nina occurrence and favourable medium to long term rainfall forecasts for the region, Agbiz remains optimistic that production conditions will generally be fairly favourable through 2018," Wandile Sihlobo said today.

However, the continuing drought in especially the Western Cape, but also parts of the Northern and Eastern Cape, has impacted negatively on growth and employment in those regions. Prospects for the first half of 2018 in the Western Cape remain mixed and generally dim, with 2018 winter rainfall hopefully bringing relief to distressed farmers. The agribusiness sector is already experiencing the downturn in trading and business conditions.

"After hovering above the 50-points mark over the past five quarters, the **Agbiz/IDC Agribusiness Confidence Index** declined by 5 points to 49 in the fourth quarter of 2017. This essentially means agribusinesses are now more downbeat than upbeat about agribusiness conditions in the country. The Index was last seen in this contractionary territory during the drought seasons of 2015 and earlier part of 2016," said Mr Wandile Sihlobo, Agbiz Head of Agribusiness Research.

AGRICULTURAL TRADE

"On the agricultural trade side, the primary and secondary agriculture sector generated R124 billion from foreign markets, subsequently recording a R38.6 billion positive trade balance. This was driven by a solid export performance from fruit, grains, dairy products and sugar commodities. Maintaining a healthy international demand for South African agricultural commodities is imperative because it sustains jobs, enhances growth thus reduces poverty. The demand-side needs to be better managed through establishing effective, transparent and beneficial trade agreements. Such agreements are essential to attracting much-needed investment into the sector," said Mr Sifiso Ntombela, Agbiz

Head of International Trade and Investment. “Going forward into the new year, agricultural trade is expected perform relatively well with exports outpacing imports by not less than R40 billion. The main drivers are exports will be fruits, grains, and dairy products whereas imports will be largely dominated by processed food and beverages”.

LEGISLATION ENVIRONMENT

“On the legislation side, 2017 was characterized by a great deal of policy uncertainty related to land and water reform as a duality emerged between official government policy and the party-political considerations. On the one hand, Government continued on its trajectory set by the 2011 Green Paper on Land Reform by publishing a series draft legislation for public comment, including the Regulation of Agricultural Land Holdings Bill that seeks to prohibit foreign agricultural land ownership and impose a limit on the extent of land which any single entity can own,” Theo Boshoff, Agbiz Head of Legal Intelligence said.

Draft regulations to the Property Valuation Act were also published to test a controversial formula for valuing land at ‘just and equitable’ value. This is seen as an attempt by the newly created Office of the Valuer-General to influence the calculation of ‘just and equitable compensation’ which the Constitution prescribes for instances of expropriation. On a positive note, the long anticipated Communal Land Tenure Bill was also published to regulate tenure relationships in communal areas of the country. Early indications are positive as the Bill makes provision for ownership to be transferred to communities and individuals, thereby unlocking the economic potential of the land to bring about development opportunities.

“2018 will likely see an even greater focus on land reform pending the decision on ‘Expropriation without Compensation’ taken by the ANC at their elective conference. Should a momentary lapse in judgement occur and the decision is taken to amend s25 of the Constitution, then all other legislative processes in this sphere are likely to be overshadowed. If not, a raft of the alternative legislation is likely to proceed to Nedlac. Other notable legislative movements expected in 2018 include publication of the new water legislation, the Carbon Tax Bill and the implementation of the National Minimum Wage. These steps may bring some certainty to the policy space, however, their implications on the agro-food system may lead to a bumpy ride in 2018,” Mr Boshoff added.

GRAIN INDUSTRY

“Despite all the summer grains doing extremely well this past year and resulting in bumper crops, South Africa’s long-term wheat production is still under pressure. Although yield per hectare has increased slightly, the area under wheat has dropped

from almost 1.6 million hectares to 496 350 hectares from 1990 to 2017. Consumption is now at 3.2 million tons, up from 2.3 million tons in 1990. Since more than half of the amount of wheat consumed is imported, South African and imported wheat is monitored and compared annually. Over the last 10 Seasons (2006/2007 to 2015/2016), the milling and baking worth South African wheat has been proven to be superior to all the imported wheat, regardless of country of origin,” Ms Mariana Purnell said today.

In 2018 Agbiz Grain will continue to assist with the implementation of the SA Cultivar & Technology Agency (SACTA) levy that was launched in 2017, as well as deal with the highly problematic APSA assignee testing issue for grain and oilseeds. Amongst other matters, a further focus will be on the development of the Southern Africa Grain Network (SAGNET), which is a new private sector driven regional body to provide greater coordination in the grain value chains of southern Africa. Its aim is to facilitate regional trade and aims to focus on important issues like standardising and harmonizing facets of the grain industry.

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