

South African Agriculture and Agribusiness: Prospects and Challenges to 2025

Peritum

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CEO: Agbiz

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For today.....

1. **Challenging and complex environment evolving**
2. Food Security and Competitiveness imperative
3. Performance of the sector
4. Some ag-commodity indicators
5. Some Agribusiness indicators
6. Legislative developments in 2018
7. 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 NB
- 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 wars are the wars of the future” – now fully with us
- Big Data – mine and analyse to drive efficiency (*Not fb way!*)
- Human capital and skills – the talent factor NB!

Global Socio-political Developments

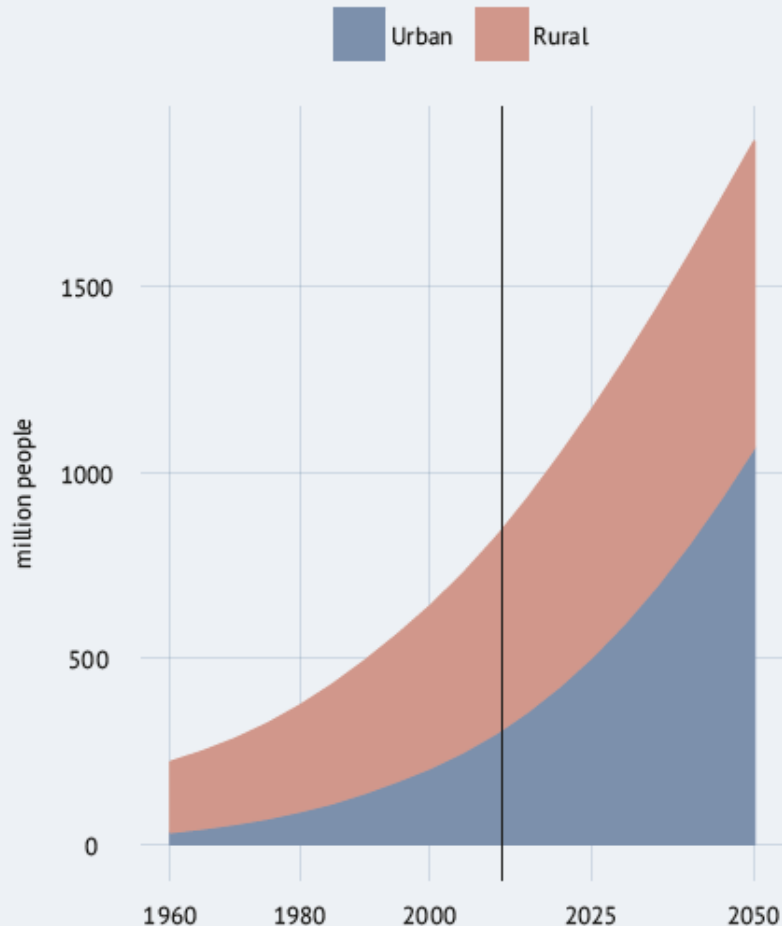
- Multi-polar global power dynamic – economic power shift to Asia
- Middle East catastrophe – migration effect to Europe and global destabilisation
- Religious fundamentalism still a factor, e.g. ISIS, Boko Haram, Al Qaeda, etc.
- Brexit and European Unity: uncertainty remains
- Donald Trump dynamic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

Dreyfus teams with banks for first agriculture blockchain trade – www.Bloomberg.com

-Louis Dreyfus Co., one of the world's biggest foodstuffs traders, teamed up with Dutch and French banks in December for what it says is the first agricultural commodity trade to use the ledger-based digital technology known as blockchain. For blockchain to succeed in helping traders cut costs and deal times, however, industrywide adoption of standardized platforms and systems will be needed. That's why banks are teaming with the biggest trading houses such as LDC on early blockchain tests. [Read more»](#)

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

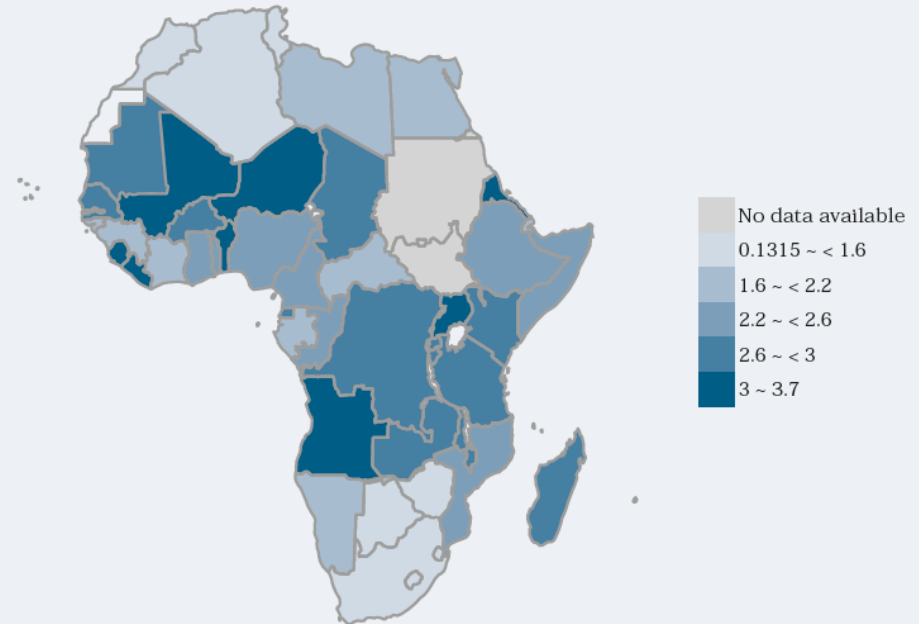
CHART 1: Africa rural and urban population
(1960-2050)



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.....!

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Local Socio-political Developments

- ANC still in turmoil – deep divisions and distrust persist. CR/JZ dynamic?
- Manifested in ANC loss of three major Metros, viz. Johannesburg, Tshwane and Nelson Mandela Bay, to opposition coalitions. Cape Town was already governed by DA.
- DA & EFF viable opposition parties and ruling coalitions? Realignment.
- Major political uncertainty, but not necessarily all bad. Hope springs!
- Biggest concern: Lack of GDP growth and Competitiveness decline (WEF)
- Massive unemployment (~27%), especially amongst the Youth (>50%)
- Inequality - calls for radical economic transformation (RET) will not abate.
- Land & water reform will be at the centre of demands.
- Crime & Security factor, including corruption and farm safety concern.
- General election 2019 – political rhetoric will dominate.

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Insight Report

The Global Competitiveness Report 2017–2018

The Global Competitiveness Index 2017–2018 Rankings

Covering 137 economies, the Global Competitiveness Index 2017–2018 measures national competitiveness—defined as the set of institutions, policies and factors that determine the level of productivity.

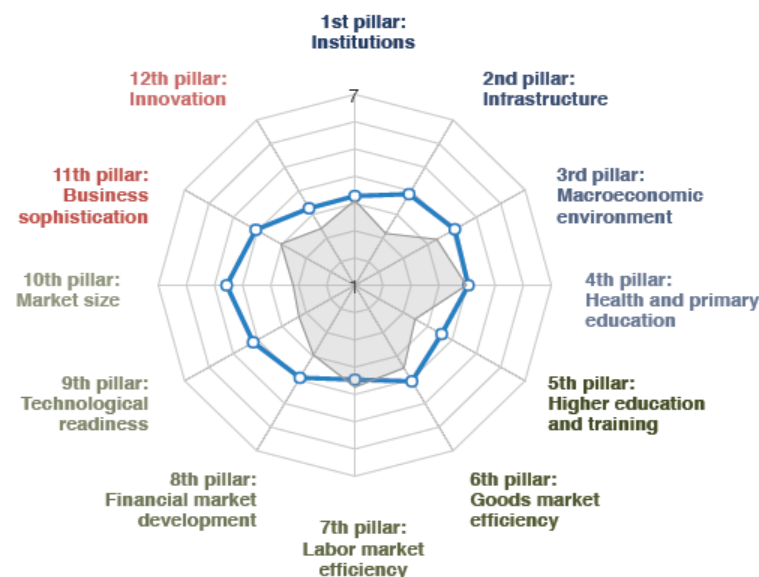
Key indicators, 2016

Source: International Monetary Fund; World Economic Outlook Database (April 2017)

Population millions	55.9	GDP per capita US\$	5,260.9
GDP US\$ billions	294.1	GDP (PPP) % world GDP	0.62

Performance overview

Index Component	Rank/137	Score (1-7)	Trend	Distance from best	Edition	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Global Competitiveness Index	61	4.3			Rank	52 / 144	53 / 148	56 / 144	49 / 140	47 / 138	61 / 137
Subindex A: Basic requirements	92	4.3			Score	4.4	4.4	4.4	4.4	4.5	4.3
1st pillar: Institutions	76	3.8									
2nd pillar: Infrastructure	61	4.3									
3rd pillar: Macroeconomic environment	82	4.5									
4th pillar: Health and primary education	121	4.5									
Subindex B: Efficiency enhancers	52	4.4									
5th pillar: Higher education and training	85	4.1									
6th pillar: Goods market efficiency	54	4.5									
7th pillar: Labor market efficiency	93	4.0									
8th pillar: Financial market development	44	4.4									
9th pillar: Technological readiness	54	4.6									
10th pillar: Market size	30	4.9									
Subindex C: Innovation and sophistication factors	39	4.1									
11th pillar: Business sophistication	37	4.5									
12th pillar: Innovation	39	3.8									



■ South Africa ■ Sub-Saharan Africa

Food Security Imperative

Many definitions to food security, but the one we will use is the FAO definition (World Food Summit 1996):

“A situation that exists when **all people**, at all times, have **physical and economic access to sufficient, safe and nutritious food** to meet their dietary needs and food preferences for an **active and healthy life**”.

Components of Food Security

FOOD QUALITY & SAFETY (5)

- Nutritional standards
 - Protein quality
- Food safety, etc.

FOOD AFFORDABILITY (6)

- Food consumption as % of DHI
- % of pop under GPL (<\$3.10)
- Presence of Food Safety Net Programmes, Etc.

Food Security

FOOD AVAILABILITY (8)

- Sufficiency of supply
- Volatility of agric production
- Agricultural infrastructure
 - R&D spend, etc.

**Purchasing power
key to access**

**Complex concept:
Difficult to measure
and evaluate.**

Stability over TIME

The
Economist

Intelligence
Unit

A report from The Economist Intelligence Unit

GLOBAL FOOD SECURITY INDEX 2017

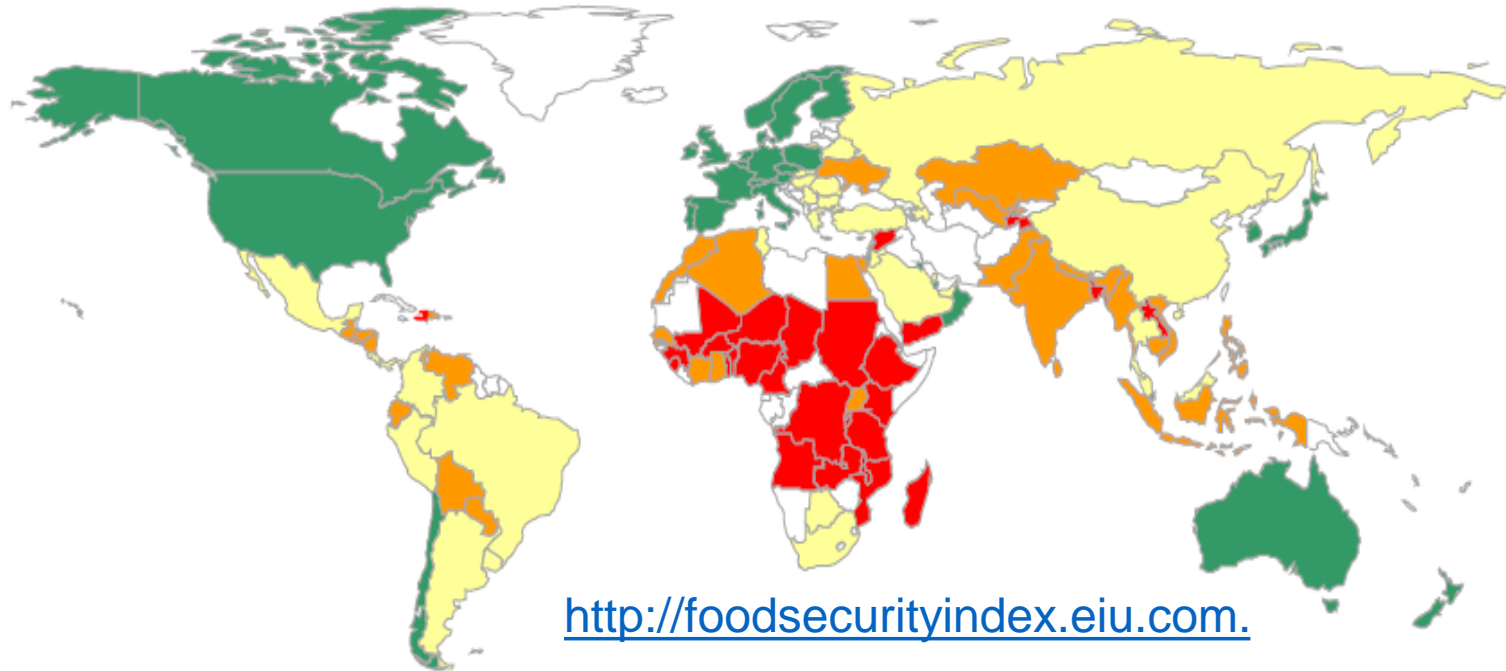
MEASURING FOOD SECURITY AND THE IMPACT OF RESOURCE RISKS



Sponsored by



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

SA Household Food Security a risk: ~20% of households food insecure

VERY GOOD (TOP QUARTILE)
Score Δ

GOOD (3RD QUARTILE)
Score Δ

MODERATE (2ND QUARTILE)
Score Δ

WEAK (BOTTOM QUARTILE)
Score Δ



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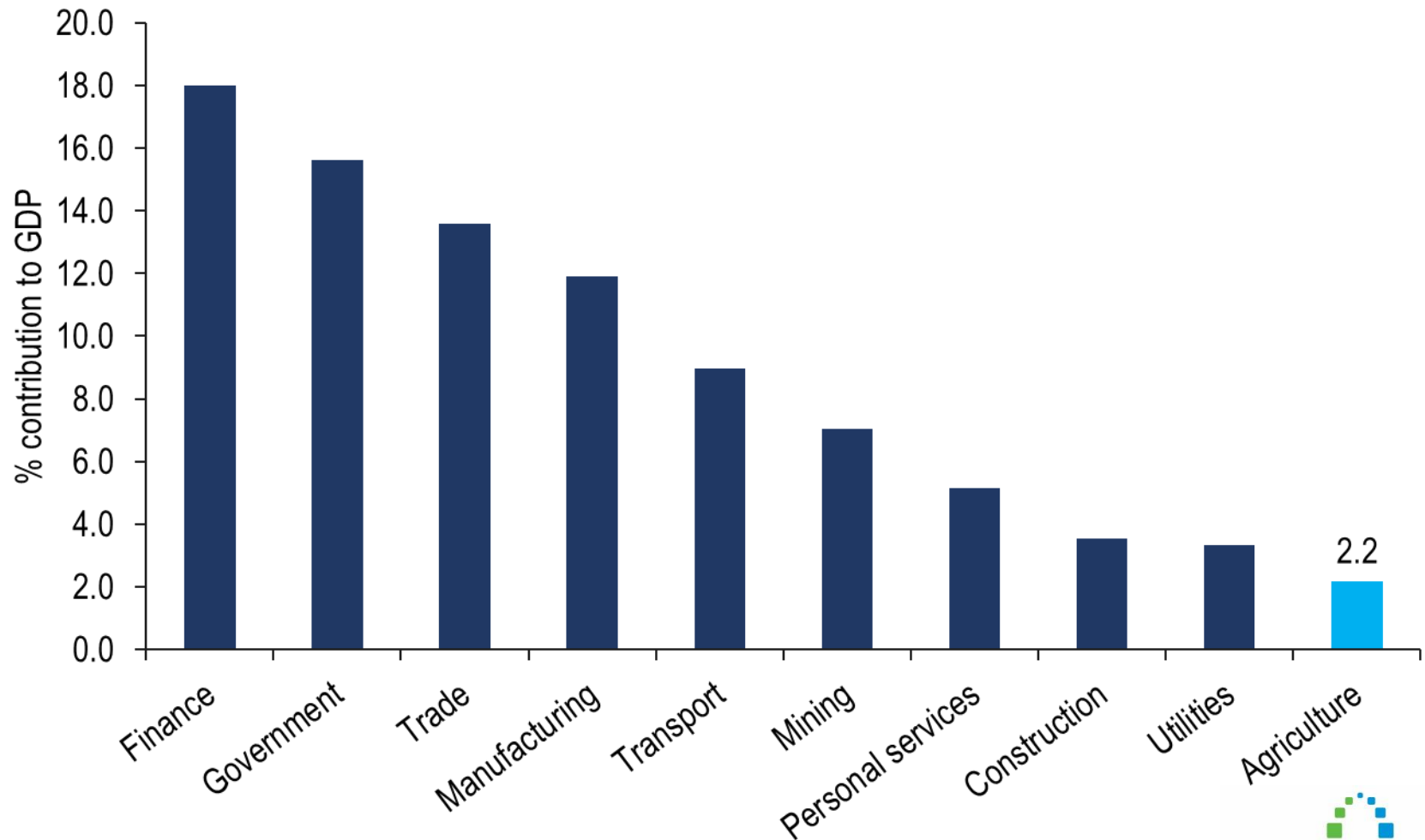
Capital Assets in Agriculture

- Estimated value of capital assets at 30/6/2016: R421 billion
- Estimated value of capital assets a year earlier: R384 billion

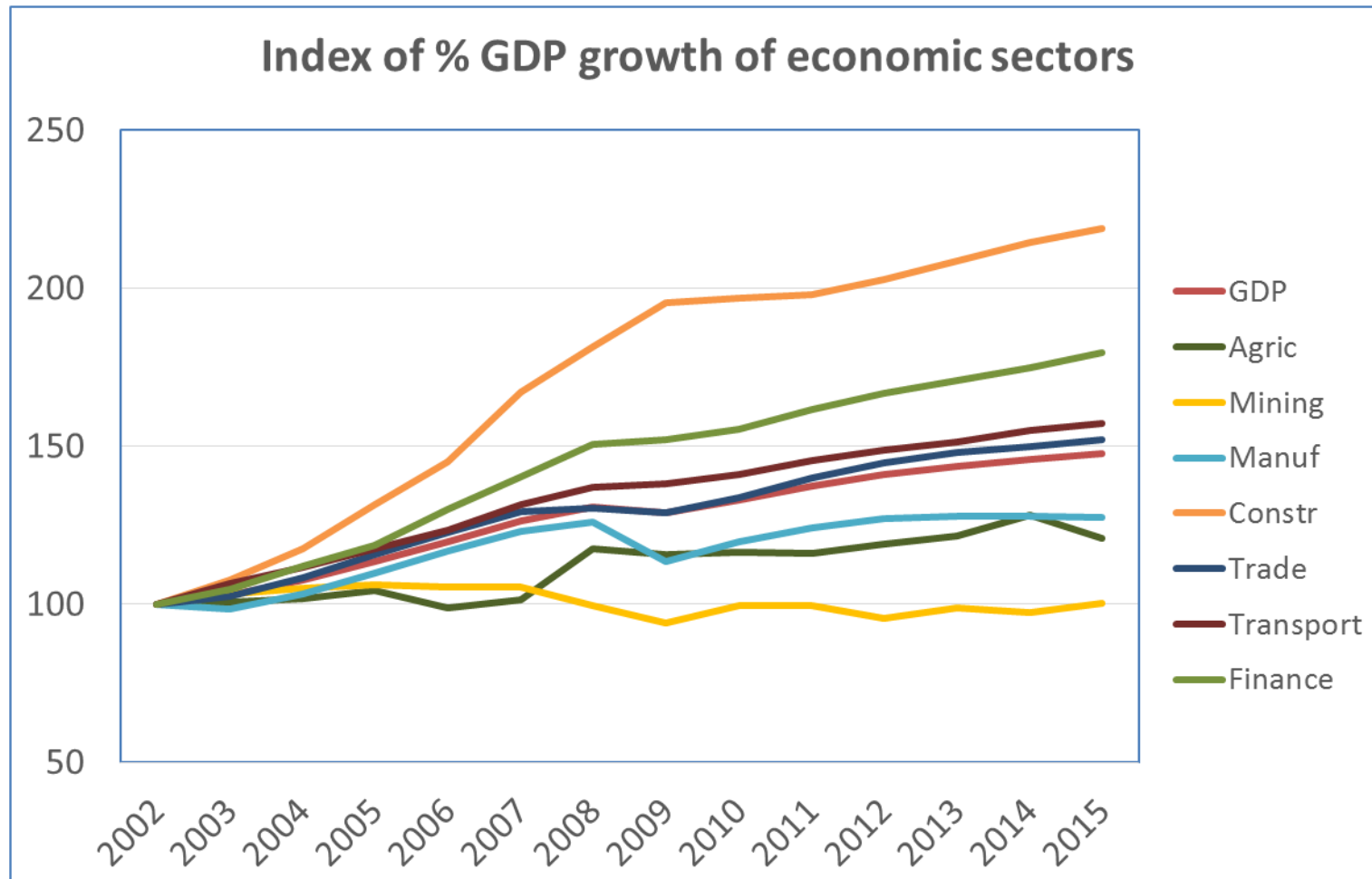
Indicating an increase of 9,6% from 2015 to 2016.

- Total value of capital assets constituted as follows:
 - Land and fixed improvements: R219 billion (52,1%)
 - Livestock : R137 billion (32,7%)
 - Machinery and implements: R64 billion (15,2%)

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

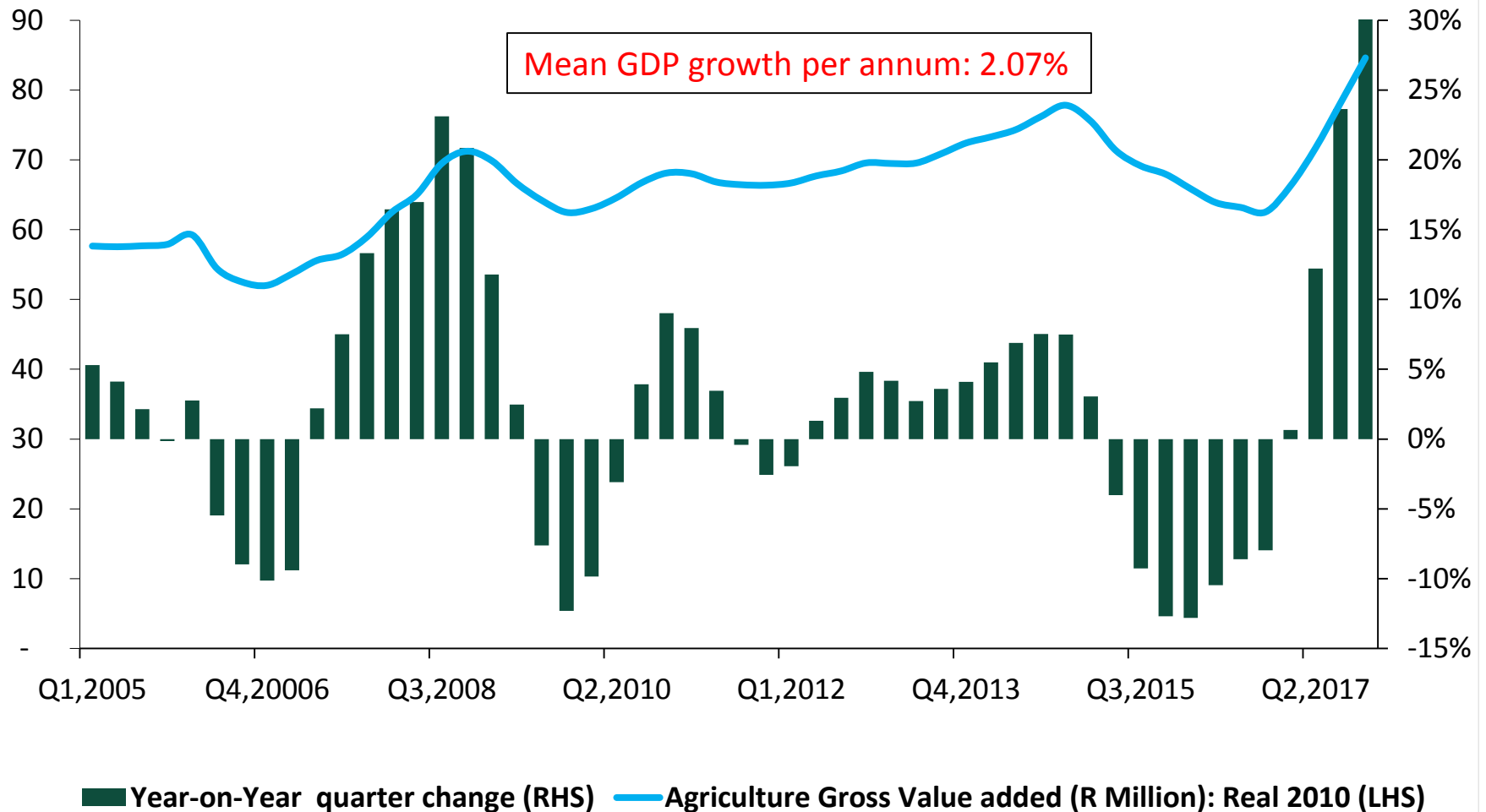


SA economic growth: Tradable goods sectors lag the non-tradable goods sectors



Source: StatsSA
Graph: Agbiz

RSA Agriculture, Forestry & Fisheries GDP: 2005 -2017



Source: Stats SA and Agbiz Research

SA agricultural economy contracted by 24.2% q/q in the first quarter of 2018

The negative effects of the Western Cape drought are evident in the first quarter GDP data, which showed that South Africa's agricultural economy contracted by 24.2% q/q.¹ This far exceeds our expectations of a modest contraction of about 11% q/q. The bulk of the winter crops such as wheat, barley and canola, together with summer fruits (stone and grapes) are typically harvested in the period between November and March, which somewhat coincides with the first quarter GDP data. These crops are dominantly produced in the Western Cape and took a huge knock in the recent harvest due to drought, which ultimately explains the negative GDP reading this morning.

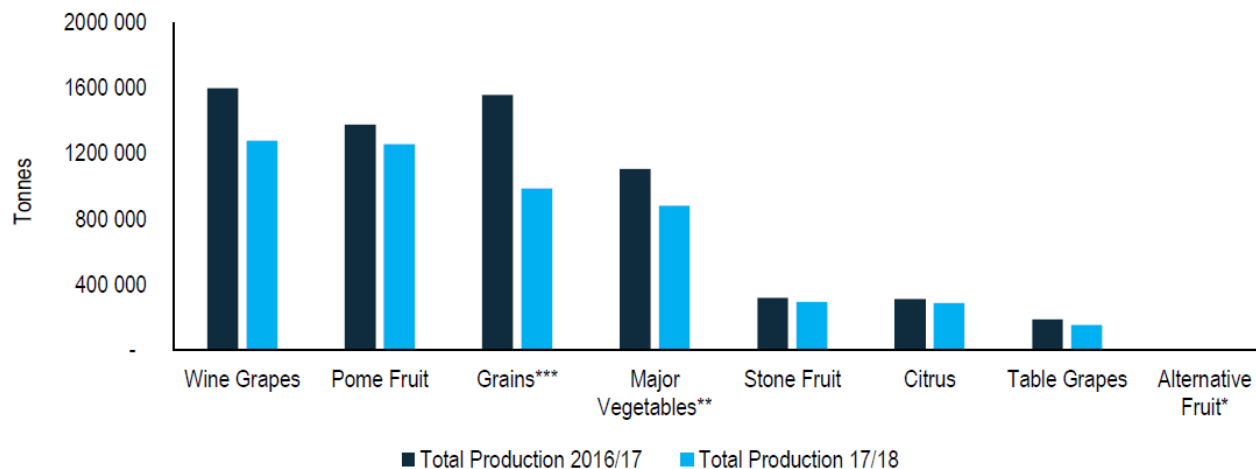


Chart 2: Western Cape's agricultural production (major crops only)

Source: Western Cape Department of Agriculture and BFAP

Agbiz/IDC Agribusiness Confidence Index and RSA GDP (Agriculture)

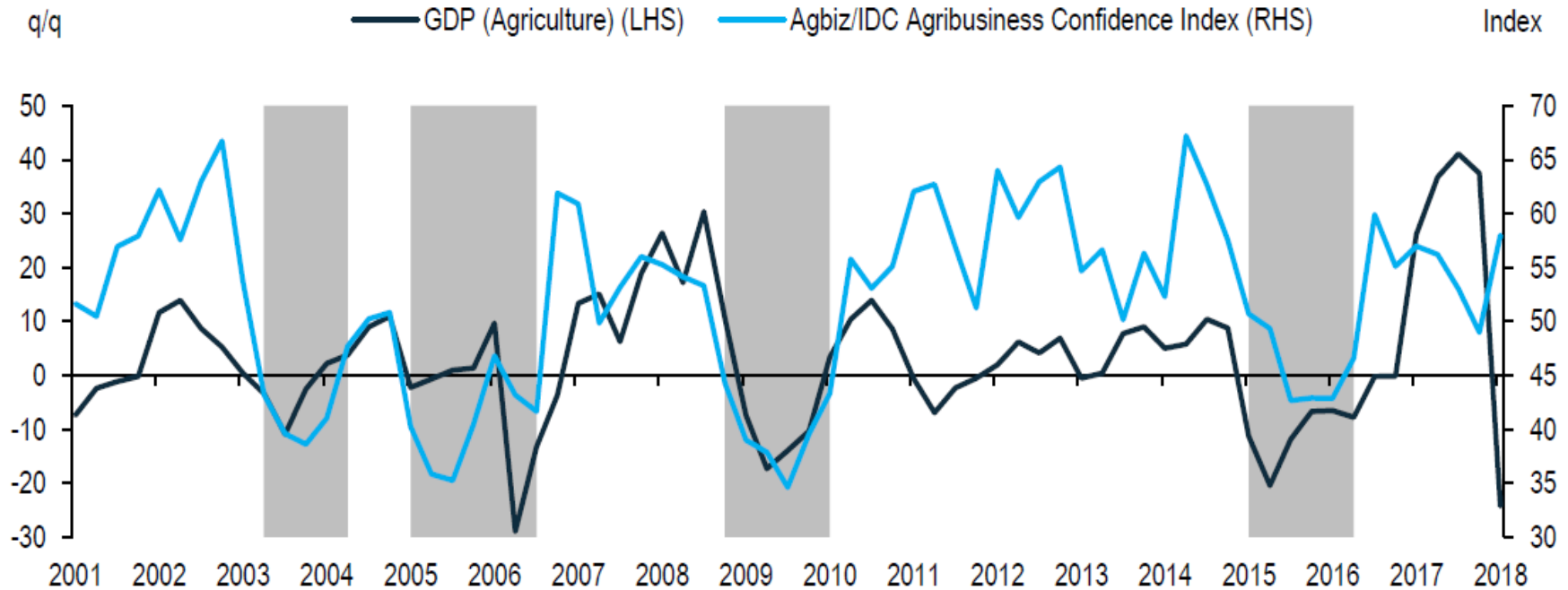


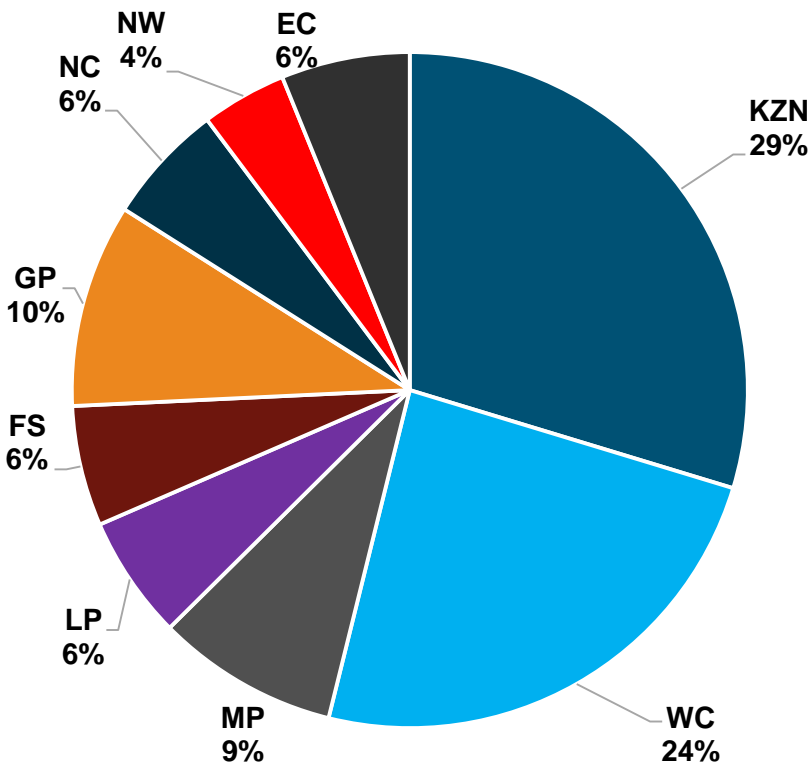
Chart 1: Agbiz/IDC Agribusiness Confidence Index and RSA GDP (Agriculture)

Source: Statistics South Africa and Agbiz Research

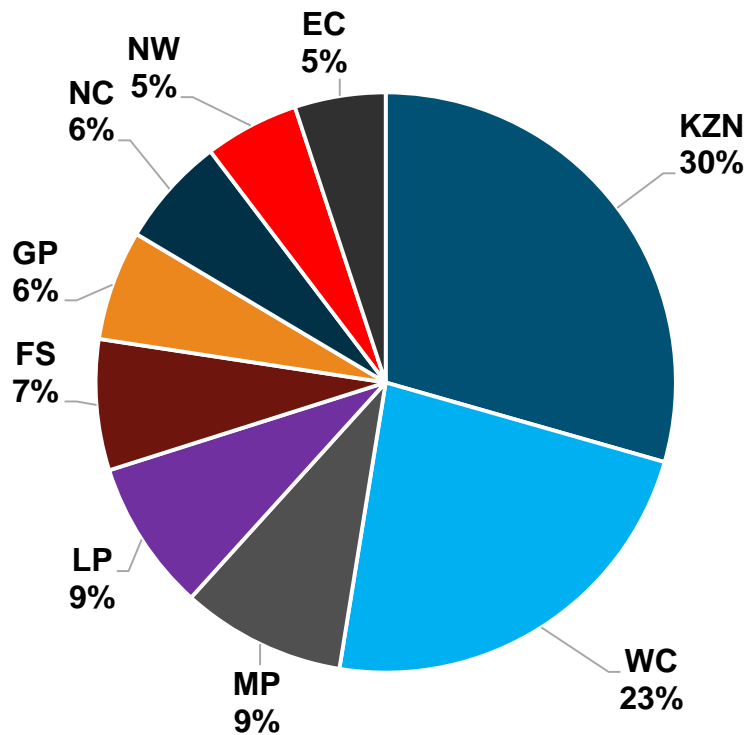
¹ Seasonally adjusted annualised

Four provinces account for 80% of agricultural production over the past two decades

Share of agriculture production by province in 1995



Share of agriculture production by province in 2015



Source: Stats SA, Agbiz Research



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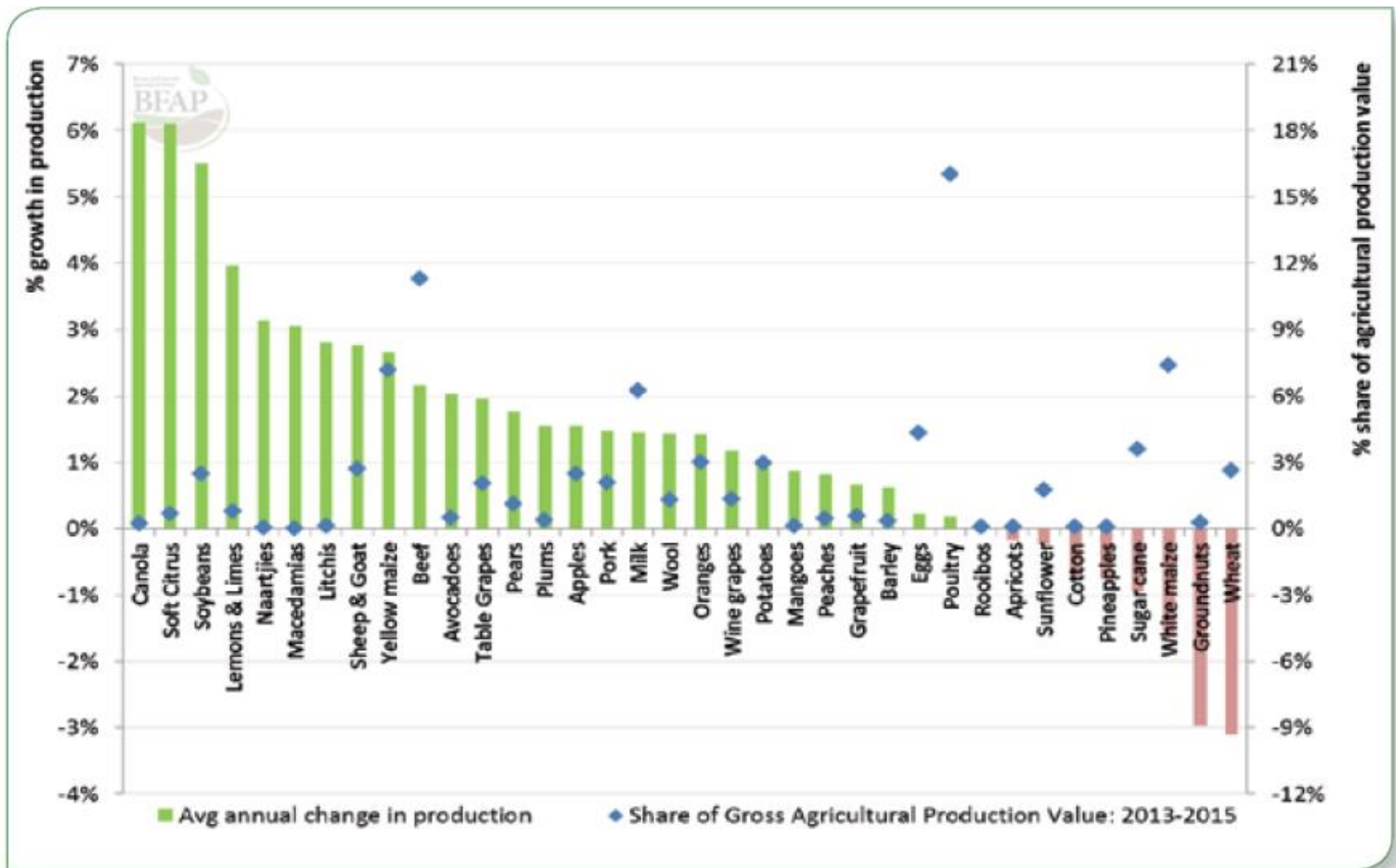


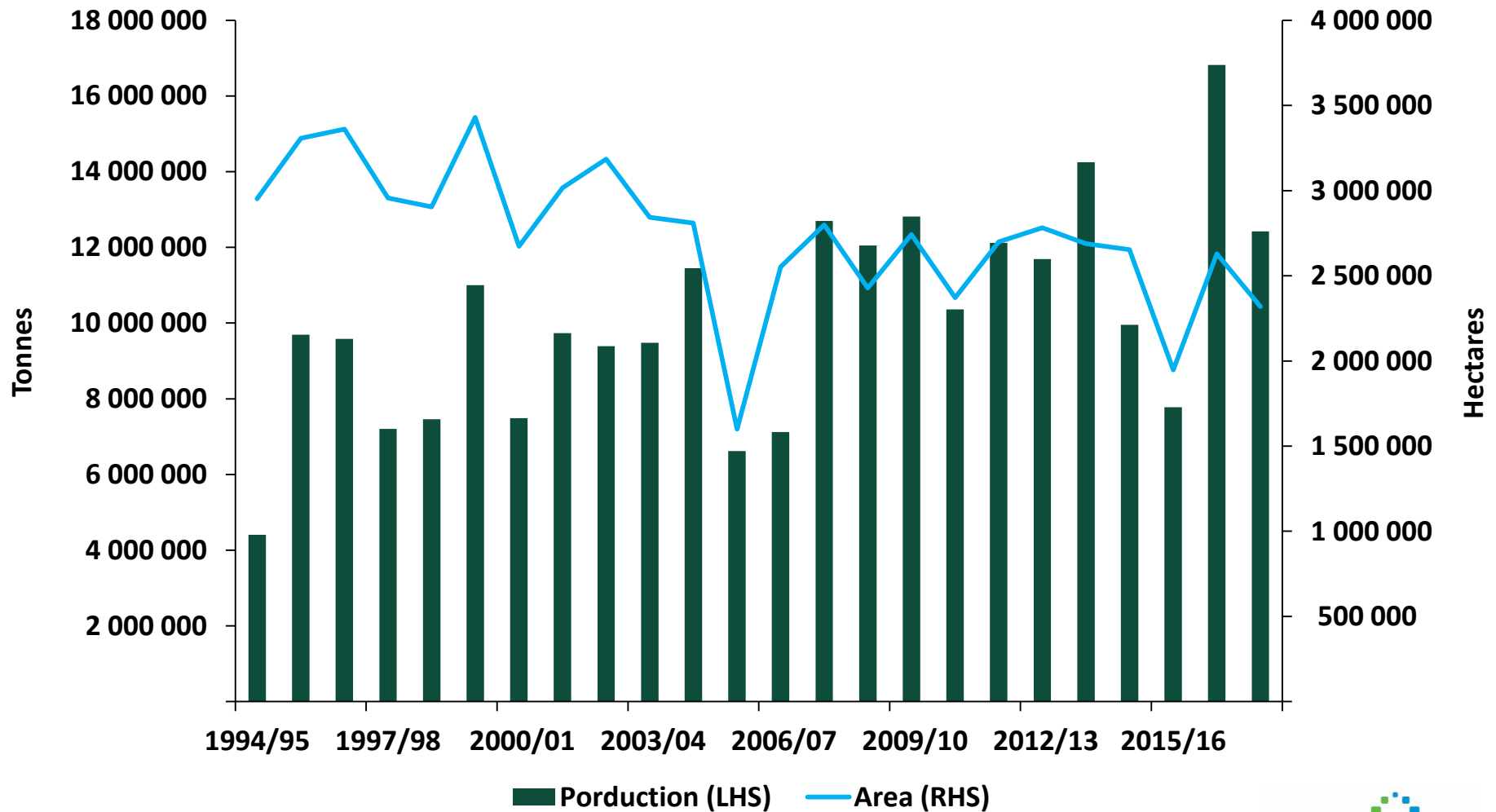
Figure 2: Agricultural performance: growth in production (2011-2015) and share of agricultural production value of selected industries (2013-2015)

24 of 36 commodities SA a net exporter = 67%

Field crops

- Maize – major staple, net exports, ~85% GM
- Wheat – also staple food, net imports (~45% of demand)
- Sorghum – declining significance
- Soya – growing importance, cake imports, ~90% GM
- Sunflower – growing importance, S/D in balance
- Canola – growing importance in Western Cape
- Groundnuts – net exports, but declining
- Dry beans – net imports, mostly from China
- Gross value of crop production in 2016 : **R57.4bn**

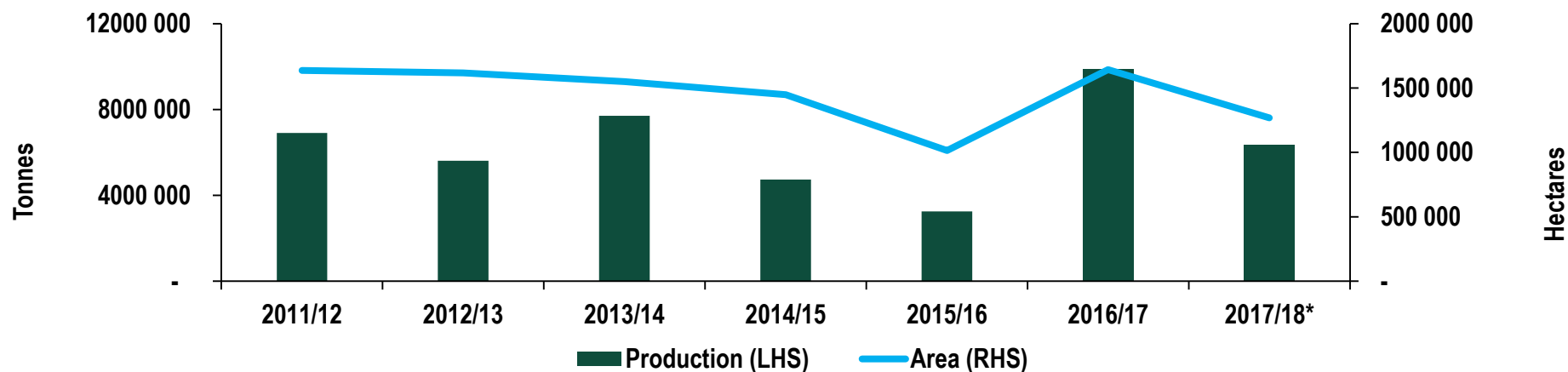
South Africa's total maize production showing good growth...



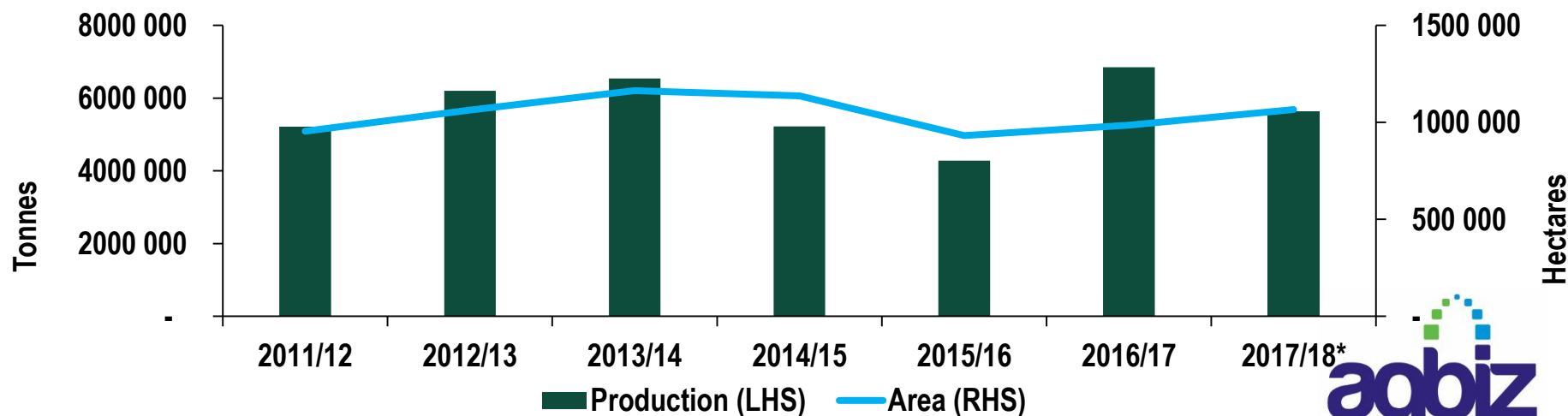
Source: CEC, SAGIS, Agbiz Research

South Africa's maize production...

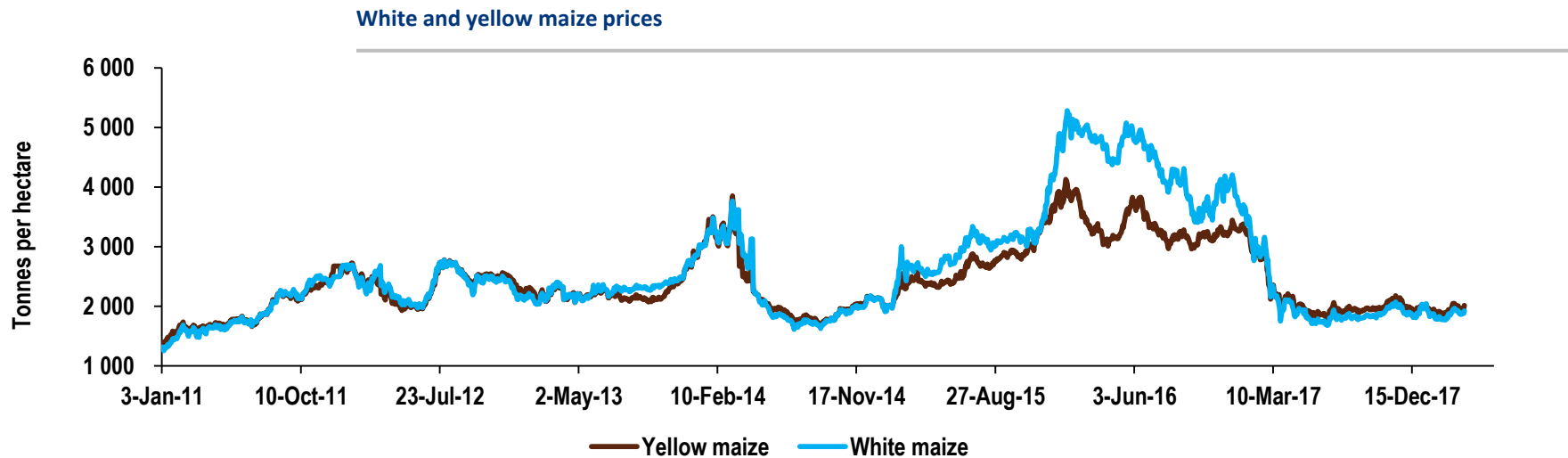
White maize production set to decline, but still above the country's annual maize needs



Yellow maize production set to decline, but there are large stocks to boost supplies in the new marketing season



SAFEX maize prices to remain pressured in the near term...



Source: JSE, Agbiz Research

- Both **white and yellow maize prices** are trading along the export parity levels, as large supplies (large carry over stock of 4.1 million tonnes from the 2017/18 marketing year, as well as expectations of 12.42 million tonnes in the new season) continue to keep prices under pressure.
- In 2017, **white and yellow maize prices** averaged R2 161 per tonne and R2 097 per tonne, respectively, down by 51% y/y and 38% y/y, thanks to the record harvest.
- In the last week of March 2018, **white and yellow maize spot prices** settled at R1 891 and R1 961 per tonne, respectively, which is 4% and 6% lower than the corresponding period last year.

Horticulture

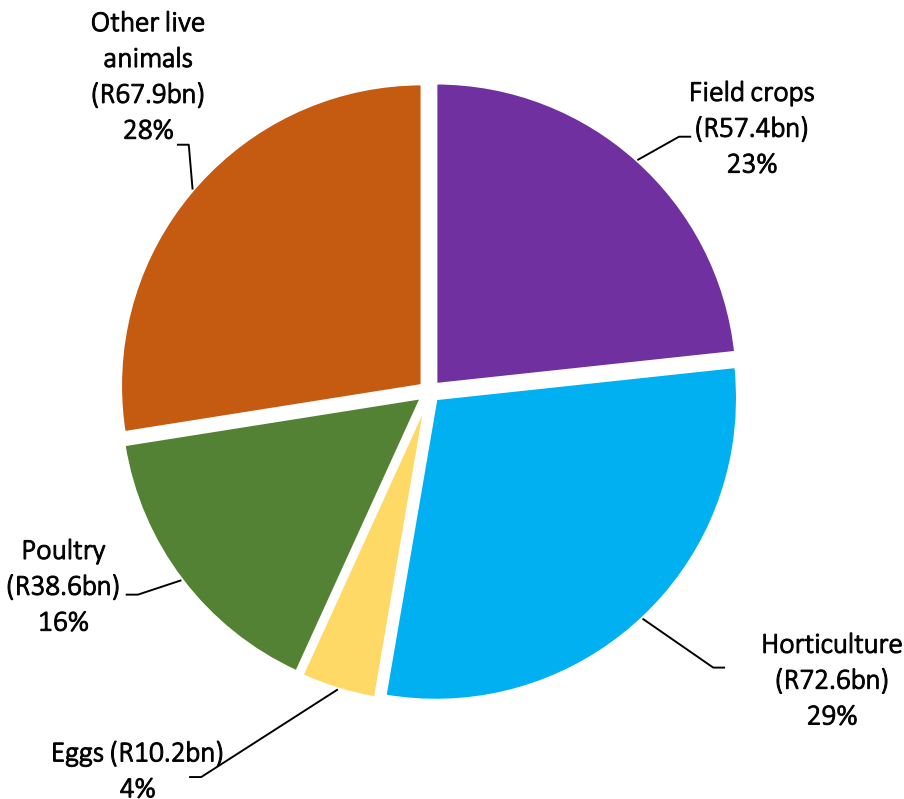
- Viticulture & Wine – major export industry. Drought-hit now with 20% decline
- Citrus – SA's biggest ag-export, growing but CBS issue & FCM....?
- Deciduous fruit – major net exports
- Table grapes – major net exports
- Sub-tropical fruit – net exports, and growing....
- Vegetables – S/D balance, some imports/exports
- Nut industries – significant growth off low base

Gross income from Horticulture (R bn)

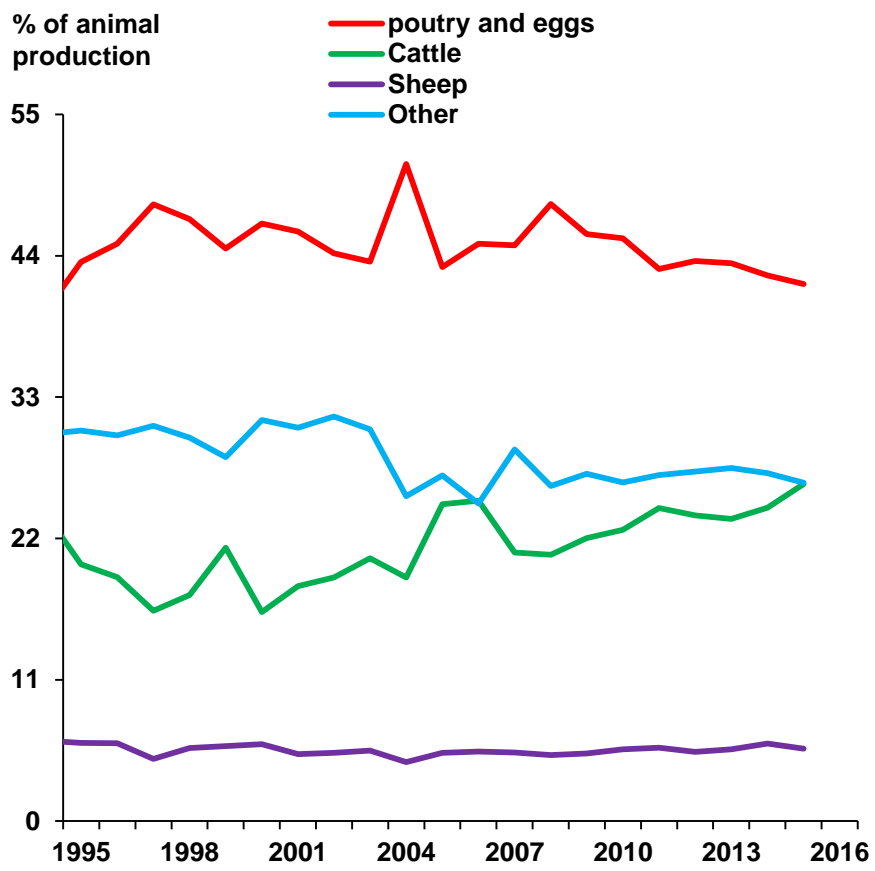
2012	2013	2014	2015	2016
R41.8	R47.6	R53.9	R60.8	R72.6

Animal production accounts for just under half of total agriculture production : R116.73bn (2016)

Agricultural production by sub-sector



Animal production share over time



Source: DAFF, Stats SA, RMB Global Markets Research, Agbiz Research

Beef exports

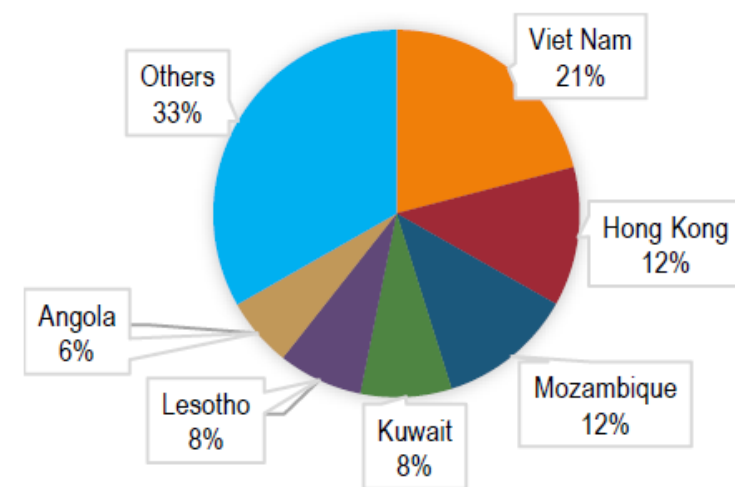
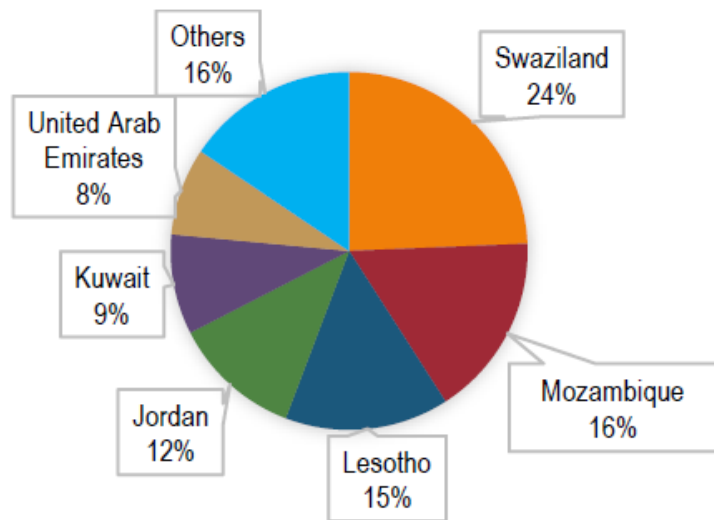
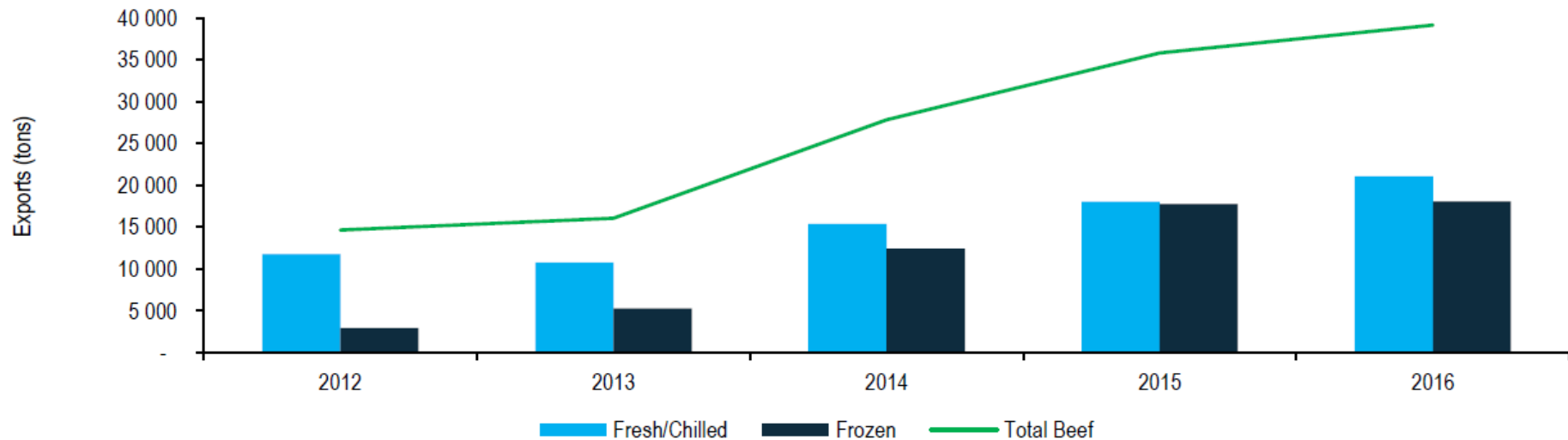


Chart 2: Fresh/Chilled Beef Markets (2012 – 2016)

Source: Trade Map and Agbiz Research

Chart 3: Frozen Beef Markets (2012 – 2016)

Source: Trade Map and Agbiz Research

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SA Agricultural Trade Balance

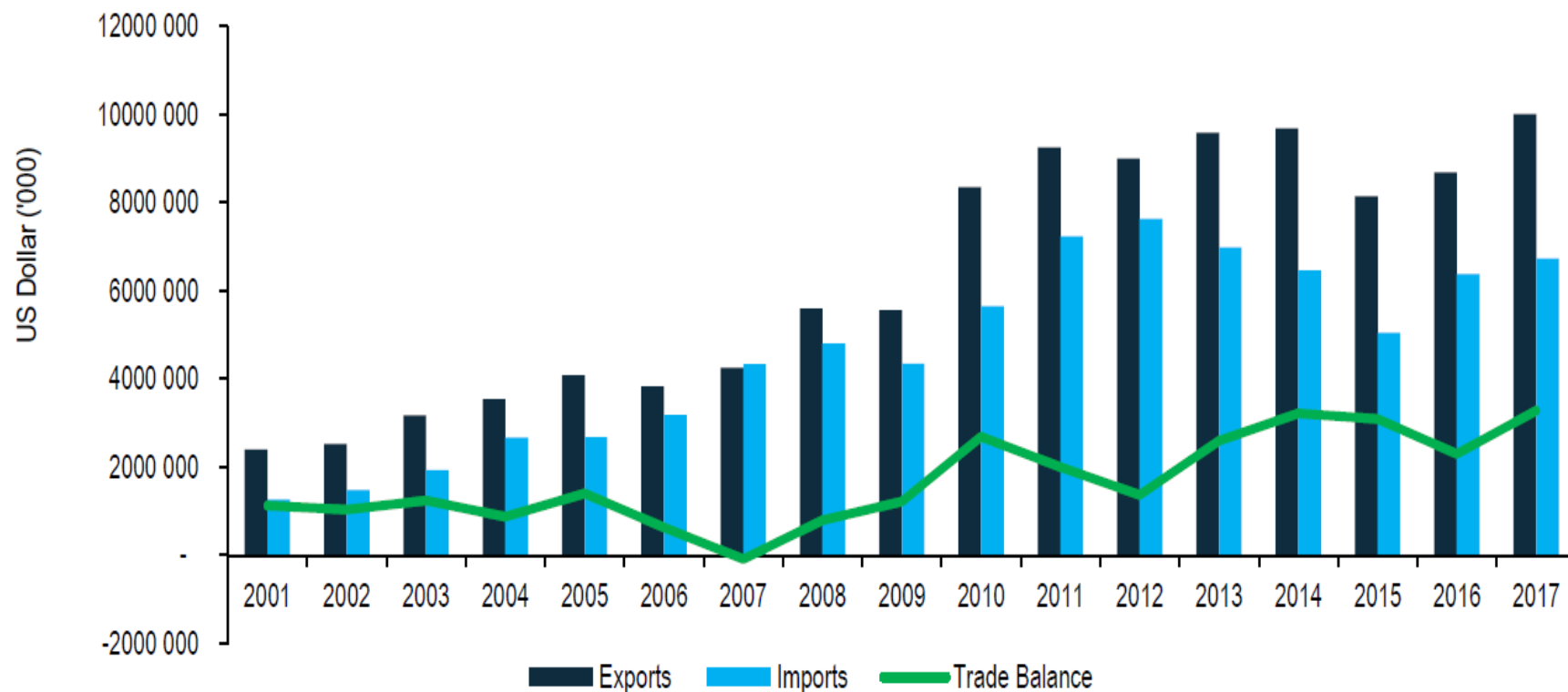


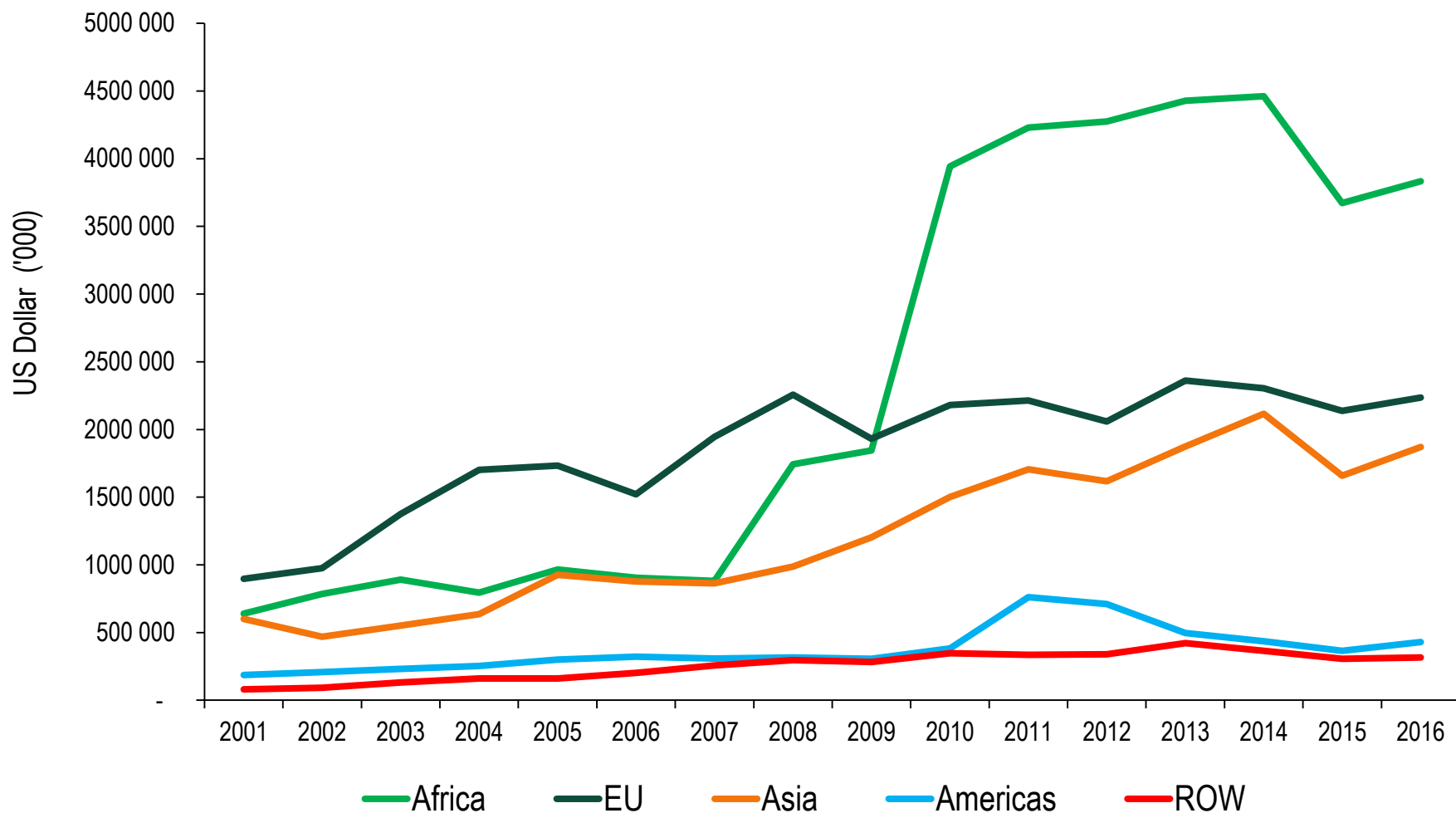
Chart 2: South Africa's agricultural exports

Source: Trade Map and Agbiz Research

Source: International Trade Centre, 2017

Graph: Agbiz, 2017

Trends in South Africa's agricultural exports per region

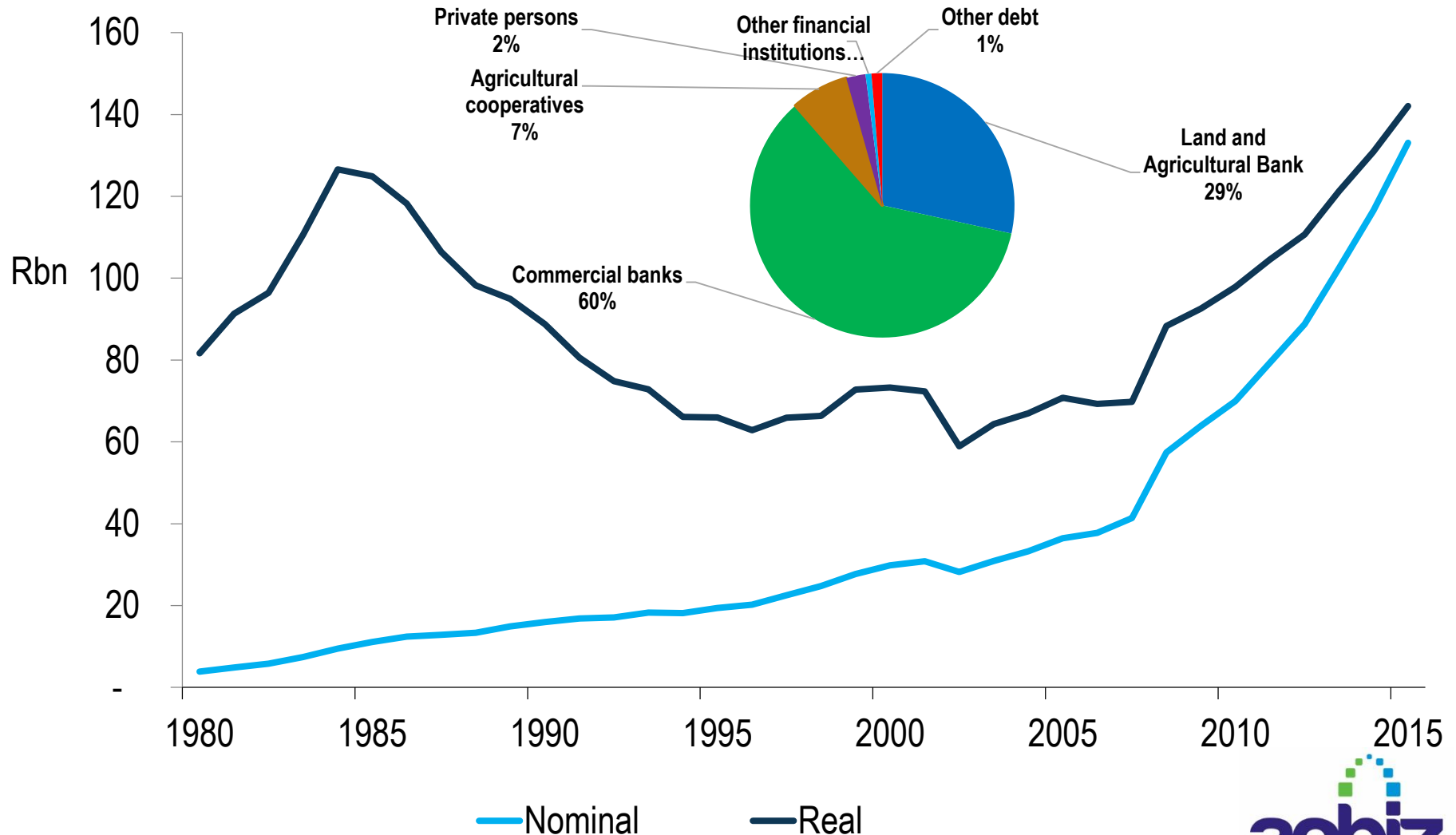


Source: International Trade Centre, 2017

Graph: Agbiz, 2017

Risk to collateral, “expropriation without compensation”

- Total agriculture farm debt



Source: DAFF, Agbiz Research

Agricultural employment

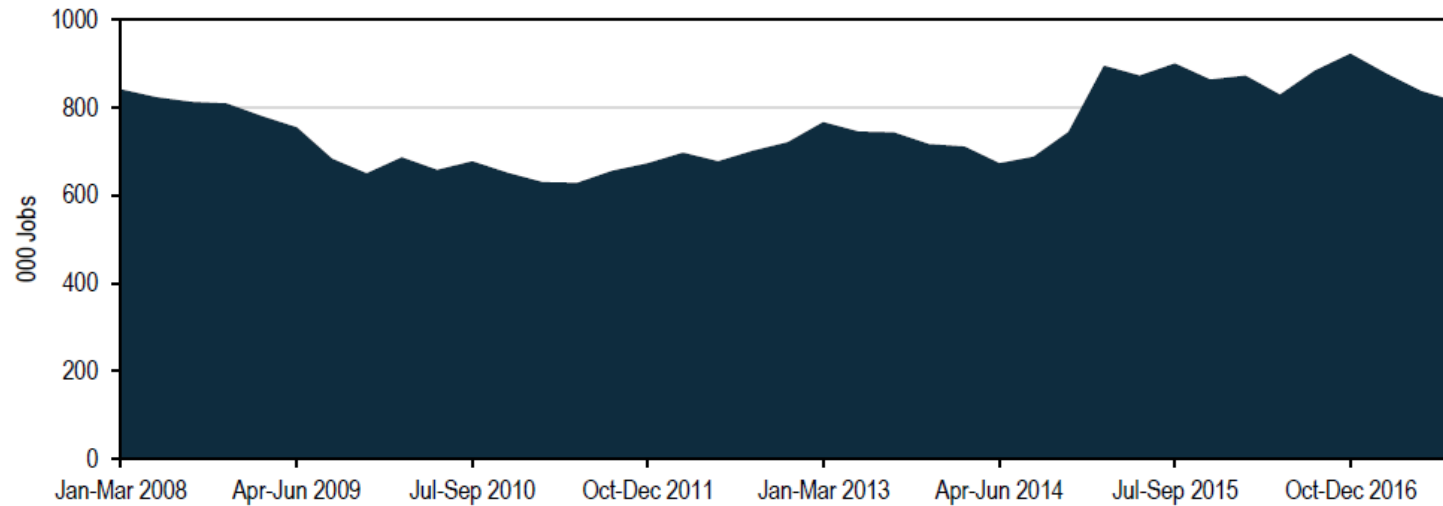


Chart 1: South Africa's agricultural jobs

Source: Stats SA, Agbiz Research

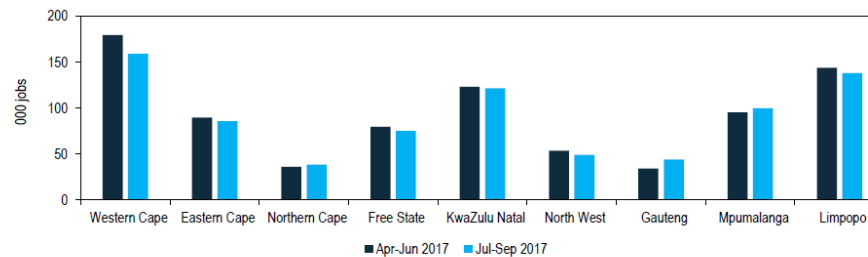


Chart 2: South Africa's agricultural jobs by province

Source: Stats SA, Agbiz Research

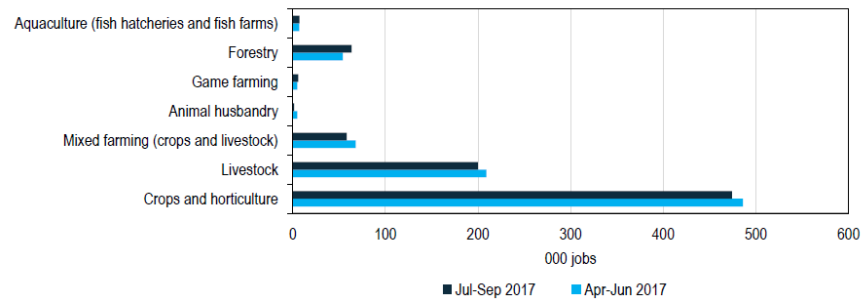
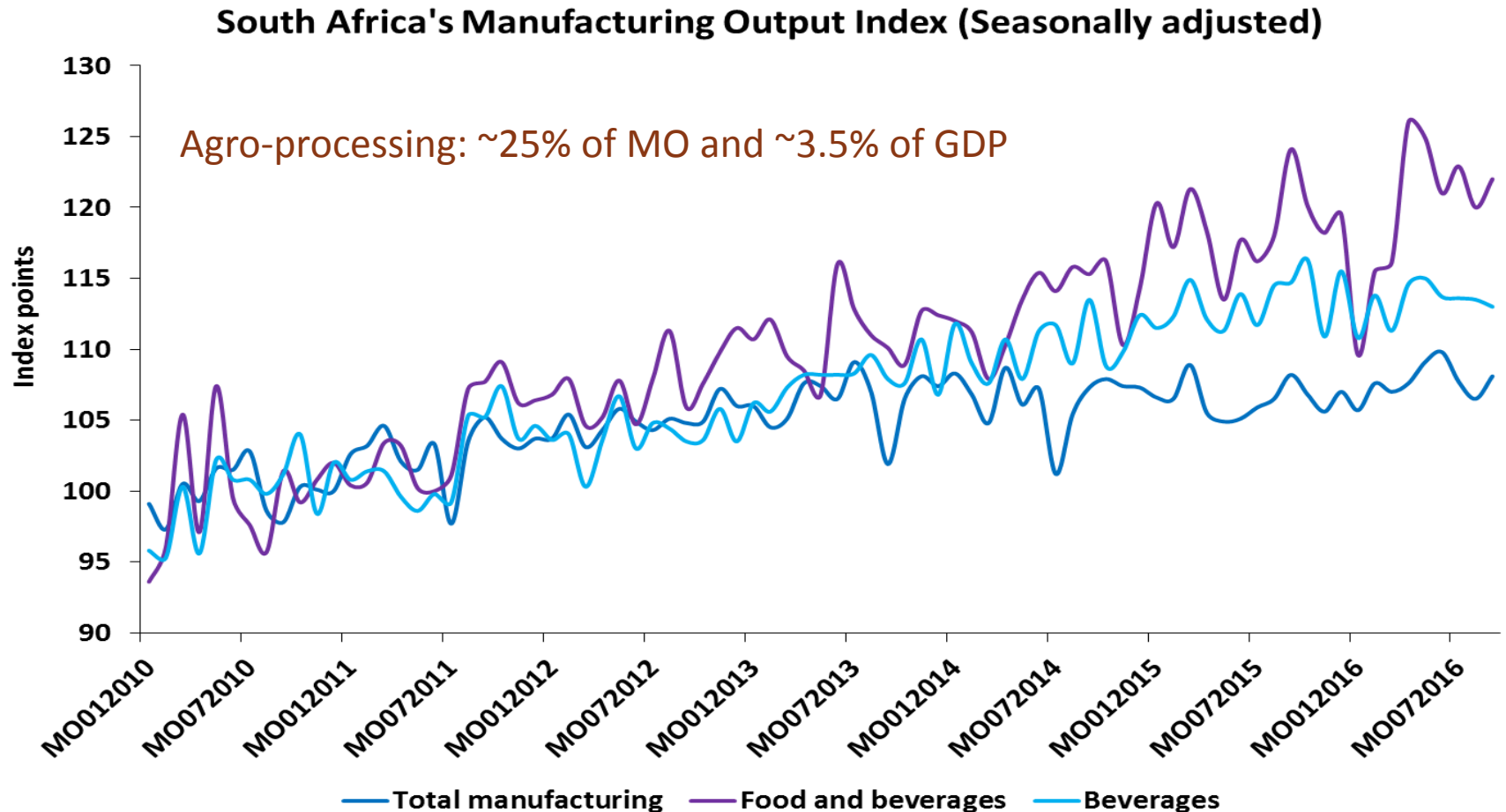


Chart 3: Quarter-on-quarter employment by sub-sector

Source: Stats SA, Agbiz Research

Indexed GDP: Agro-processing vs Manufacturing Output



Source: Stats SA, Agbiz Research

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Fields of legislation

1. Credit legislation: Reg. 19 (Credit bureaus) + National Credit Amendment Bill
2. Carbon Tax Bill: Trade exposure important. Gazetted for comment
3. Labour legislation: NMWB + LRAB (Nedlac package). Passed by Parliament
4. Competition Amendment Bill (In Nedlac now)
5. Water rights:
 - NWRS + Water Masterplan – New Water Bill & ELU
 - Water licence application regulations & Water tariffs
6. Land reform:
 - **Expropriation without Compensation**
 - Regulation of Agricultural Landholdings Bill
 - Draft Property Valuation Regulations (Property Valuation Act)
 - Communal Land Tenure Bill
 - Communal Property Association Amendment Bill
 - Preservation & Development of Agricultural Land Framework Bill

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10 Factors determining the future of Agro-food system

1. Consumer trends & activism
2. Rate and impact of technological development, and adoption
3. Increased regulation of agro-food system
4. Climate change
5. Water availability and cost
6. Sustainable and efficient use of land and water
7. Trade agreements/trade wars (WTO role?)
8. Big Data and innovation
9. Improved and transparent/credible communication
10. Skills and talent factor

Wrap up

- Relatively healthy and robust agro-food industry: **open, competitive markets driving efficiencies**
- Relatively technologically advanced, globally competitive sector (Rand factor)
- **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), new technologies & improved productivity, etc.
- Major contributor to Food Security, growth and employment in RSA.
- **We live in uncertain times – many risks and variables, some controllable, others not or less so. The playing field and rules of the game are changing – need to adapt.**
- **However, risk creates opportunity, and concentrate on those risks you can manage!**

Thank you

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