What to make of Minister Didiza's latest budget vote speech?

22 July 2019

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

www.agbiz.co.za

In her first policy speech as Minister of Agriculture, Land Reform and Rural Development, Thoko Didiza's message was centred on the ethical and efficient implementation of the department's programmes, as well as the collaboration with stakeholders in the sector. Although it was her first policy speech, it, however, cannot be read as a blueprint of the department for a number of reasons that we outline below.

Land reform perspective

There was little of note in terms of the new policy in the budget speech, but rather a sense of urgency on implementing land reform in a sustainable way. Didiza intends to have close cooperation with landowners – including farmers, companies, and trusts. There was little detail on how such an approach would be carried out. We suspect that the reason might be because there are still ongoing consultative processes amongst policymakers following the submission of the Presidential Advisory Panel report on Land Reform and Agriculture in June.

The immediate focus for Minister Didiza is likely to be on the revitalisation of land reform farms that are currently underutilised – both restitution and redistribution farms – and any other state-owned land. Such an approach would not only be transformational, but it will also ensure that agriculture contributes to rural economic development and job creation.

Minister Didiza also noted that "...in the reorganisation of the new department, we bring requisite skills and capabilities to accelerate implementation. Ethical conduct is also very important in the public sector since we are given stewardship over public resources to enhance livelihoods and create opportunities for our citizens." This is important because the implementation of land reform has previously been linked to maladministration.[1]

The Department of Agriculture, Land Reform and Rural Development cannot survive in isolation. Hence, we had previously argued that Minister Didiza will have to work collaboratively with the Department of Human Settlements, Water, and Sanitation. These departments have more to gain by working together as land reform is not limited to agriculture but is also crucial for human settlement, especially in the urban areas. There are policy synergies between these two departments that should be fully exploited. But the Minister did not make a pronouncement on this matter in her speech. She did, however, announce that the Minister of Environment, Fisheries and Forestry has signed a memorandum of understanding with her department. This will ensure the ease of decision-making in areas of interest within these departments. A similar approach is needed with the Department of Human Settlements, Water, and Sanitation.

Agricultural perspective

The growth of the South African agricultural sector has been export-driven. The country exports approximately 49% of its produce in value terms. This means the areas that could temper with the ease of exports needs to be continuously monitored. One such area in the recent past has been animal health, which includes the recent outbreaks of foot-and-mouth

[1] Business Day, 2019. Officials looted millions in land reform scam: https://www.businesslive.co.za/bd/national/2019-01-24-officials-looted-millions-in-land-reform-scam/

disease and African swine fever in parts of South Africa. To industries such as wool, and beef, the former had financial implications as it led to a ban on exports. Hence, we were pleased when Minister Didiza noted that "…focus will be to prioritise biosecurity in order to mitigate risks of animal and plant disease. The national department will ensure that budget support goes towards stepping up surveillance of foot and mouth disease red line zones. This is mainly Limpopo, Mpumalanga and KwaZulu-Natal".

Still, on the trade theme, Didiza intends to expand South Africa's agricultural footprint in export markets; develop an agribusiness master plan, and re-look at the poultry industry. We will keep a close eye on the details and progress in these points over the coming weeks and months.

In closing, the role of competition policy is likely to be an addition to the typical policy leavers in the agricultural sector under the new administration. Minister Didiza noted that "the food value chain remains highly concentrated amongst a few players. This is hardly the basis of building a sustained agricultural economy that serves all. We need to work together to open up the sector…" While the implementation of competition policy is outside the Minister's domain, this matter is likely to dominate debate in the food sector in the coming months.

Concluding remarks

Overall, we view Didiza's budget vote speech as a measured approach for a good start for the new department – which is the revitalisation of the underutilised government and land reform farms and also increased focus on trade (market access). There were no new bold policy propositions, understandably so as the departments are still in the reorganisation of the internal functions. The emphasis on ensuring private sector participation in the policy and programmes design and implementation is also encouraging.

In the near term, the important matter to monitor is a possible announcement regarding land reform policy. This will in all probability come from the Inter-Ministerial Committee on Land Reform and Agriculture, and the Cabinet. The recently submitted Presidential Advisory Panel report on Land Reform and Agriculture will at best inform the land reform policy discussions in the aforementioned structures.

Essential for all the aforementioned points is the smooth integration, harmonisation, rationalisation and capacitating of the two departments – into what now is called Department of Agriculture, Land Reform and Rural Development. This is to ensure there is a great deal of alignment in their core mandates, philosophical outlook, and priorities.

SA ports challenges could weigh on agricultural exports

South Africa's agricultural exports reached a record level of US$10.6 billion in 2018

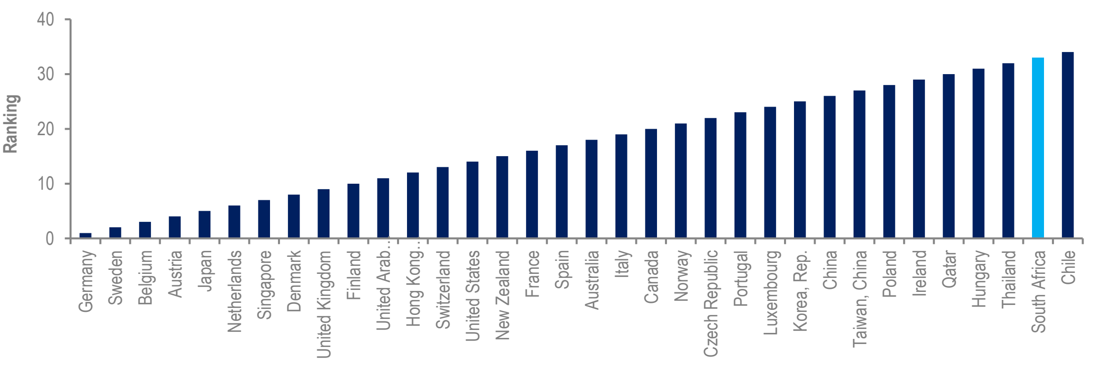
In the introduction section of this note, we highlighted one of Minister Didiza's focus areas – ensuring export-led growth in South Africa's agricultural sector. This would be a build upon an already success story, as South Africa's agricultural exports reached a record level of US$10.6 billion in 2018. But for this to succeed, South Africa does not only need to ensure that there is demand for its product in the global market, but there needs to be an effort to improve domestic logistics so that products can be shipped to various destinations swiftly. In the near term, this might be a challenge that could weaken the Minister's plan to expand South Africa's agricultural footprint in export markets.

The challenges Durban port is facing are primarily technical, but could lessen agriculture exports if not addressed

In terms of labour-related challenges, we are seeing various media reports of growing strikes in South African harbours as workers demand an increase in pay and also promotion disputes.[2] But there are also industry reports which suggest that the strikes have been resolved. Whatever the situation, the bottom line is that there will be delays in export activity. On an infrastructure perspective, the Citrus Growers' Association of Southern Africa recently expressed concern about the poor performance of the Durban port, which has led to delays in shipments of citrus products. The challenges Durban port is facing are primarily technical, including the narrowness of Bayhead Road, which often leads to congestion; a lack of investment in maintaining and upgrading the port; insufficient cold storage infrastructure; and the long-term need for a dug-out port.

This is concerning as South Africa has recently been hailed for having logistics that are comparatively more efficient than most industrialising countries, albeit having regressed from 2016's ranking. We base this view on the World Bank's logistics performance index (LPI), which ranked SA in 2018 at 33 out of 160 countries surveyed, down from number 20 in 2016 — with number one being the best in the ranking and 160 the worst (Figure 1).

Figure 1: World Bank's Logistics Performance Index Rankings (top 34)



Source: World Bank, Agbiz Research

The LPI essentially reflects perceptions of a country's logistics system. The subindices that make up the overall LPI are the efficiency of the customs clearance process, quality of trade and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics services and competence, ability to track and trace consignments, and the frequency with which shipments reach the consignee within the scheduled time. Overall, South Africa needs to urgently address the aforementioned challenges in order to remain on its export-led growth path.

[2] Business Day, 2019. Strike threatens to sour citrus exports: https://www.businesslive.co.za/bt/business-and-economy/2019-07-21-strike-threatens-to-sour--citrus-exports/

Data preview

This is a busy week on the domestic agricultural data front. There are four 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 19 July 2019. It will mainly be an affirmation that the harvest process is towards completion for all summer crops.

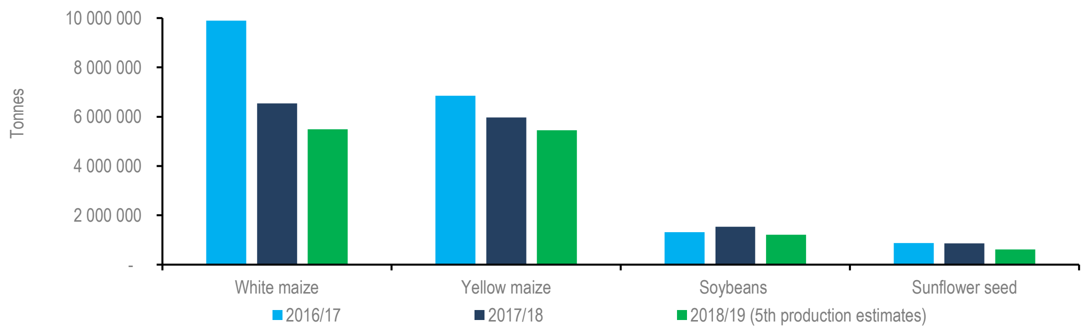
- On Thursday we will get the **weekly grain trade** data for the week of 19 July 2019. We expect the data to show the continuation of maize and wheat export activity at a usual pace of fairly small volumes. From a maize perspective, the key point is that we expect South Africa to remain a net exporter of maize in the 2019/20 marketing 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 88 453 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 63% of the seasonal forecast. The leading suppliers have been Germany, Russia, Lithuania, Canada, Czech Republic, the U.S. and Latvia, amongst others.

- Still, on Thursday, the National Crop Estimates Committee will release its sixth production estimates for **all summer grains and oilseeds** and also the preliminary area estimates of **winter crops** for 2019. We don't expect any changes in major summer grains and oilseeds estimates, which are shown in Figure 2. We are, however, concerned about the maize yields in North West. Farmers in areas around Lichtenburg report maize yields of about 2.2 tonnes per hectare, compared to expectations of the average yield of 3.4 tonnes per hectare across the province. If yields would average at levels lower than the Crop Estimates Committee's 3.4 tonnes per hectare for the province, then South Africa's overall maize expectations of 10.9 million tonnes would have to be lowered somewhat. This would largely be on white maize which is predominantly produced in North West. For perspective, the North West is a key contributor to South Africa's maize production, accounting for an average of 15% to the country's maize.

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 2: South Africa's summer crop fifth production estimates for 2018/19 season



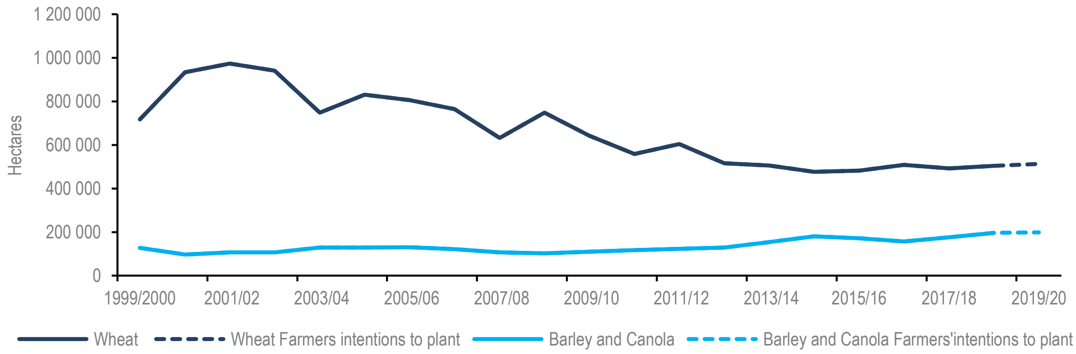
Source: Crop Estimate Committee, Agbiz Research

- In terms of winter crops; to recap, farmers intended to increase the area planted to winter wheat by 2% from last year to 513 450 hectares (Figure 3). The upward revision was set to mainly be in the Western Cape, Eastern Cape and Limpopo. We think farmers managed to plant the intended area, particularly in the Western Cape, which is the leading wheat-producing province. Therefore, we don't expect a deviation from the aforementioned 513 450 hectares when the CEC releases its data this week.

We think farmers managed to plant the intended area for South African winter crops this year.

- While it is still early to be certain of the potential harvest, the possible plantings of the aforementioned area would lead to a potential wheat harvest of 1.8 million tonnes. This is under the assumption of a five-year average yield of 3.4 tonnes per hectare, which is less than the 2018/19 yields of 3.7 tonnes per hectare, thus the overall harvest could also be marginally less. Under this scenario, South Africa could remain a net importer of wheat, with the volume roughly unchanged from the current season where imports could amount to 1.4 million tonnes.

Figure 3: South Africa's 2019/20 winter crop plantings estimates

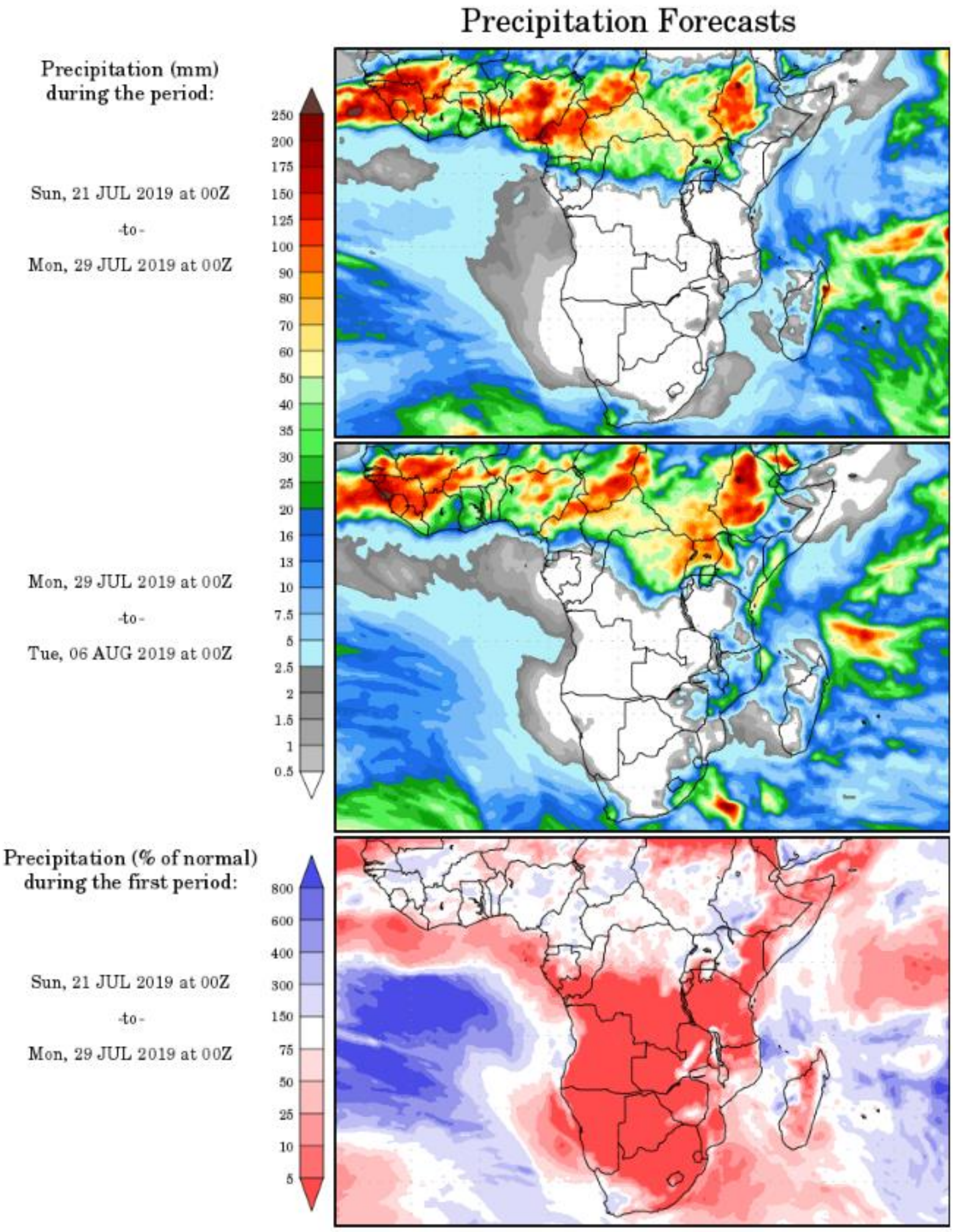


Source: SAGIS, Agbiz Research

- Moreover, South African farmers intended to increase the 2019/20 canola plantings could by 4% year on year to 80 000 hectares. We believe that this area was successfully planted in the Western Cape. Assuming favourable weather conditions, South Africa's canola production could lift marginally to 104 000 tonnes. Meanwhile, barley plantings were expected to decline marginally from the 2018/19 production season to 118 500 hectares (Figure 3).

- Lastly, SAGIS will release the **monthly grains and oilseeds** data on Thursday. This dataset will present South Africa's grains and oilseeds monthly usage, stocks, trade, etc. for the month of June 2019.

Figure 4: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for this week show clear skies over the summer crop growing areas of the country which should support the harvest activity. The winter crops growing areas will, however, receive moisture, which is good for crop development

Key Data Releases in the Agricultural Market:

- U.S. Crop Progress report: 22/07/2019
- SAGIS producer deliveries data: 24/07/2019
- SAGIS weekly grain trade data: 25/07/2019
- SAGIS monthly data (grains stocks data, consumption, etc.): 25/07/2019
- National Crop Estimates Committee's monthly data: 25/07/2019