Agriculture and Economics

2nd South African Conference on Essential and Vegetable oils

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21 July 2022

For today…….

1. **Food Security and Competitiveness imperative**

2. Political economy context:

   - Major Global & African risks and challenges
   - Major South African risks and challenges

3. Confidence and growth in SA Agriculture

4. Wrap up

Global media headlines in the week of May 20, 2022

THE POST'S VIEW

Opinion | Putin is starving millions of people around the world

By the Editorial Board

May 22, 2022 at 7:00 a.m. EDT

FINANCIAL TIMES

RLD US COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HOW TO SPEND IT

Food security ✓ Added

'Millions' at risk of death as Ukraine war hits food supplies, Egypt warns

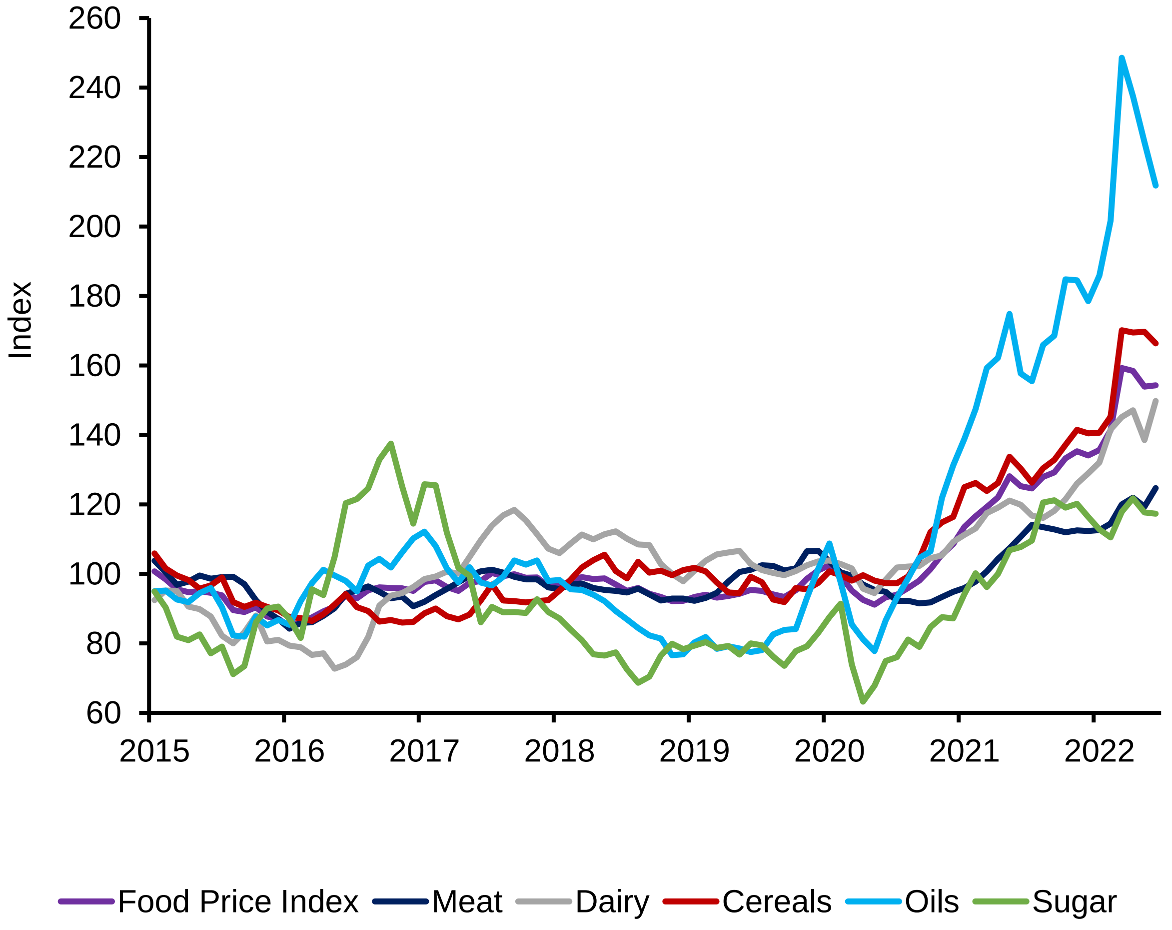
Finance minister Mohamed Maait echoes UN warning that crisis could last for years

Home / WEF opens with discussion on the global food crisis

WEF opens with discussion on the global food crisis

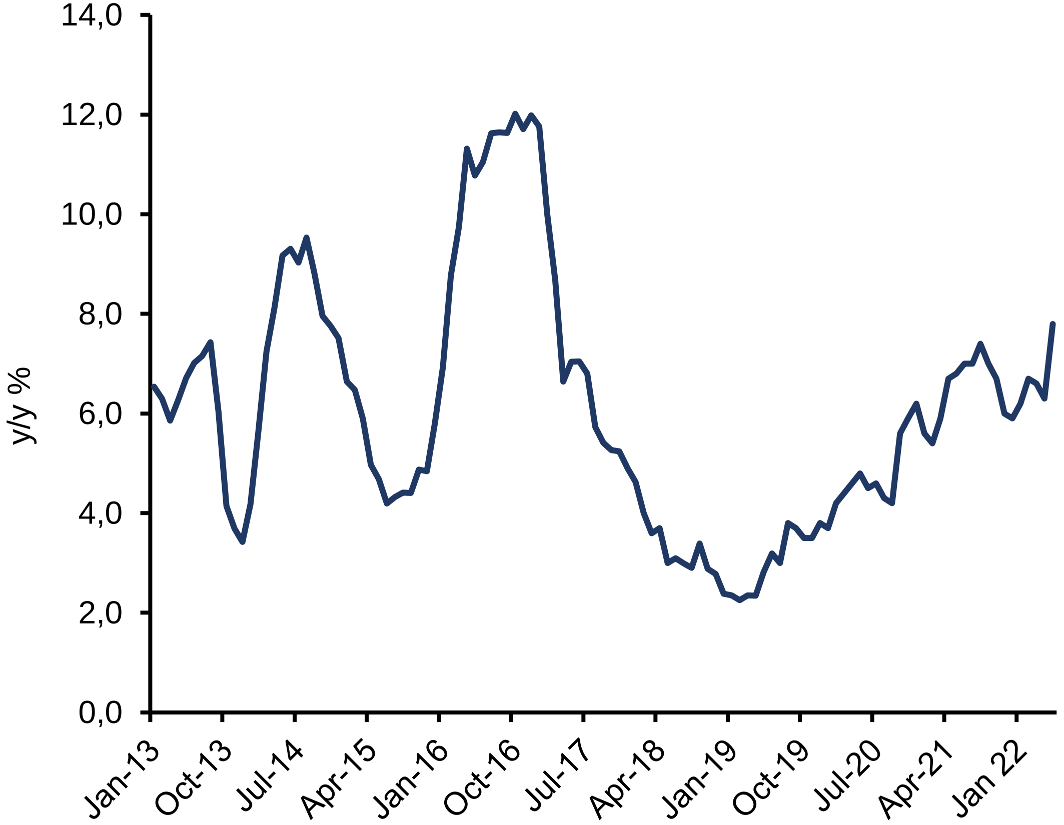
Food prices are rising globally, but not all countries are affected the same way

Global Food Price Index



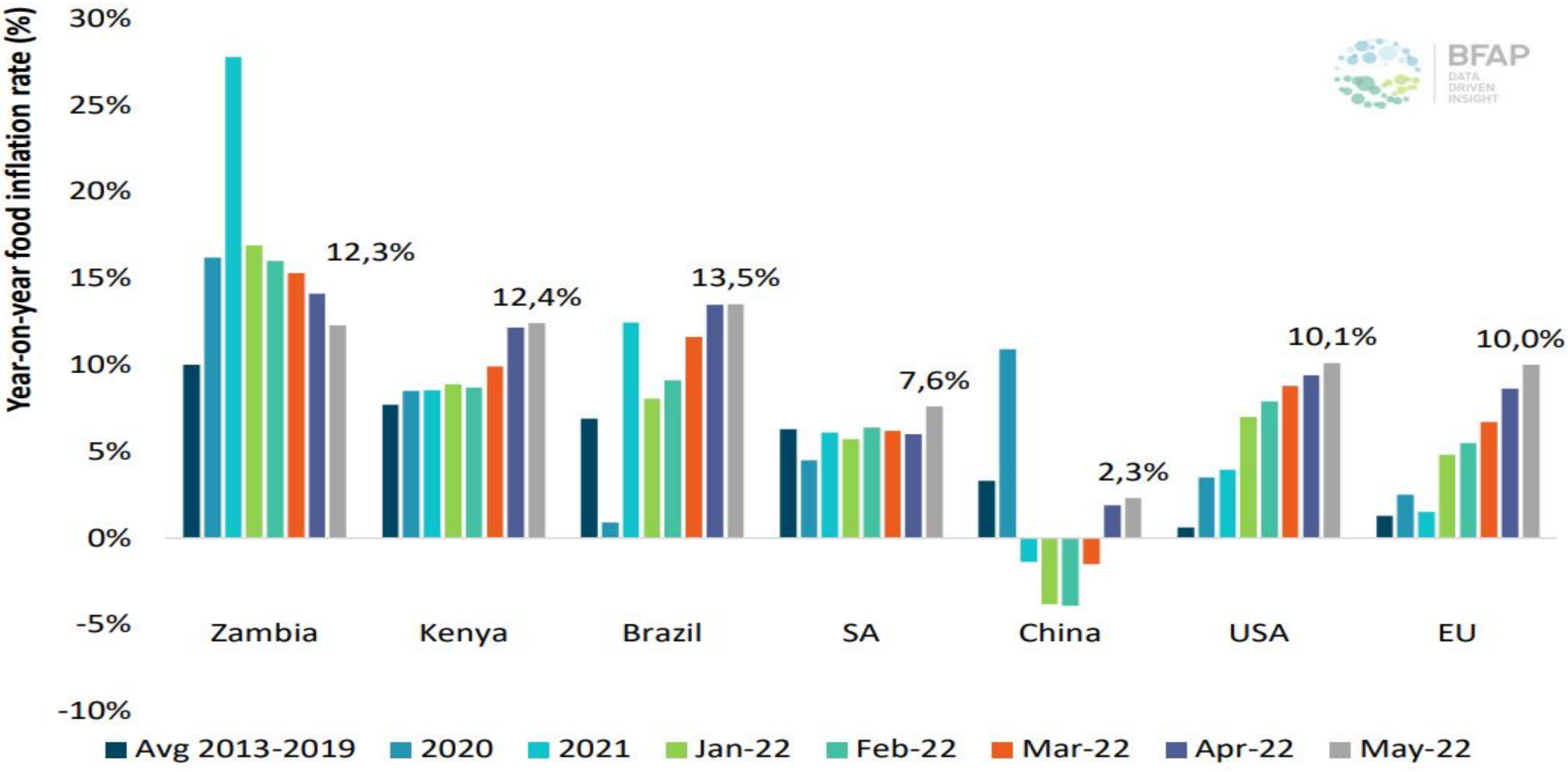
SA consumer food price inflation

Rise to 9.0% y/y in June, from 7.8% y/y in May, 2022.



Source: FAO, Stats SA and Agbiz Research

International consumer food inflation comparison

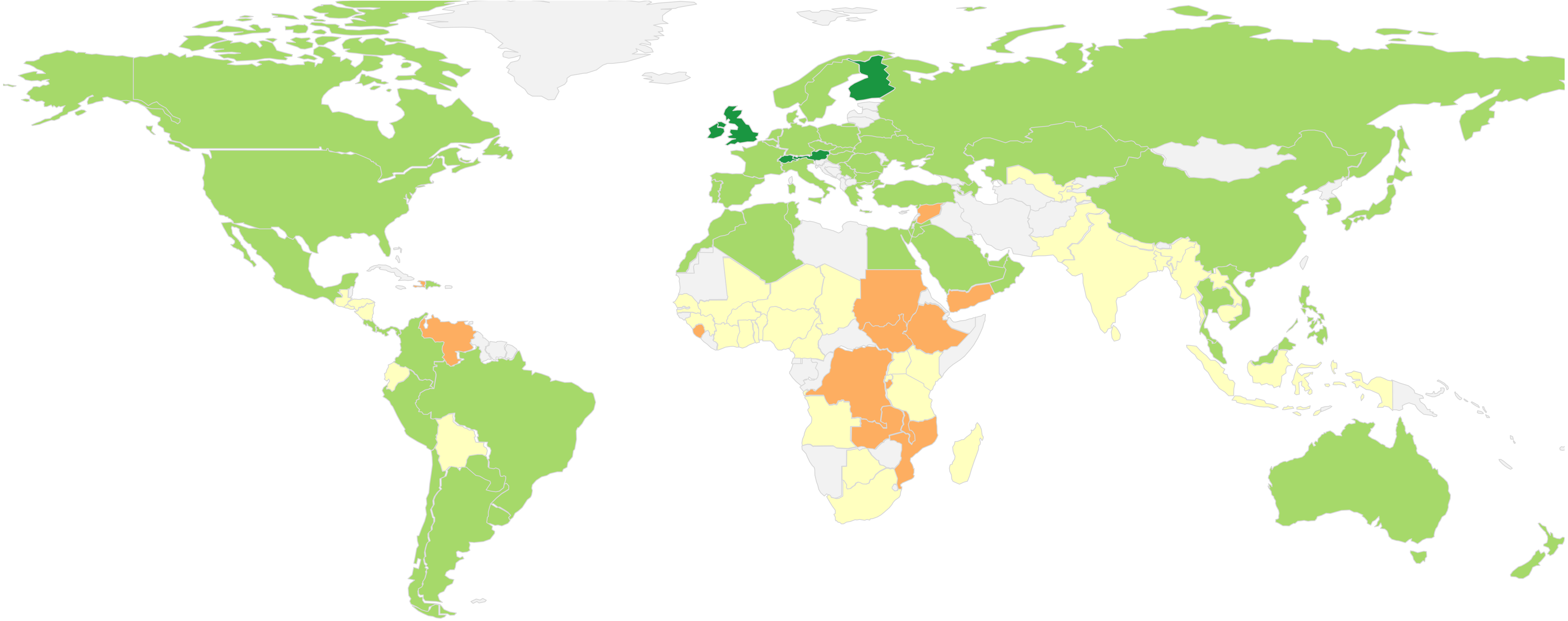


Source: BFAP

The Economist INTELLIGENCE UNIT

Global Food Security Index 2020: User guide

SUPPORTED BY CORTEVA agriscience



Global Food Security Index, 2021

Table shows 2021 score (latest available) and change in score since 2020
Scores are normalized 0-100, where 100=most favorable food security environment
Δ = change in score since 2020

VERY GOOD SCORE 80+		Δ
Ireland	84,0	-0,5
Austria	81,3	+1,2
United Kingdom	81,0	+0,4
Finland	80,9	-4,3
Switzerland	80,4	+0,2

GOOD SCORE 60-79.9		Δ
Netherlands	79,9	-0,1
Canada	79,8	+1,8
Japan	79,3	-1,0
France	79,1	+0,7
United States	79,1	-0,9
Germany	78,7	-0

MODERATE SCORE 40-59.9		Δ
Bolivia	59,9	+0,9
Ecuador	59,6	+0,7
El Salvador	59,5	+1,7
Honduras	59,4	+1,3
Indonesia	59,2	-2,2
South Africa	57,8	-0,2

WEAK SCORE 20-39.9		Δ
Venezuela	39,4	-1,1
Congo (Dem. Rep.)	39,1	+1,0
Sierra Leone	38,1	-1,7
Zambia	38,0	-0,9
Haiti	37,8	+2,1
Syria	37,8	-1,7

VERY WEAK SCORE 0-19.9		Δ

Food Security Imperative: South Africa 2021

South Africa

The diagram below shows country performance in 2021 (latest available data)

Scores are normalized 0-100, where 100=most favorable food security environment

Δ = change in score, 2021 compared with 2020

↑ = Score improved ↓= Score deteriorated - = no change in score

	Score	Δ
OVERALL FOOD SECURITY ENVIRONMENT	**57,8**	↓ -0,2

	Score	Δ
1) AFFORDABILITY	**63,1**	↓ -0,7
1.1) Change in average food costs	78,0	↓ -4,0
1.2) Proportion of population under global poverty line	59,9	-
1.3) Inequality-adjusted income index	31,2	↑ +0,5
1.4) Agricultural import tariffs	78,4	↓ -0,3
1.5) Food safety net programmes	75,0	-
1.6) Market access and agricultural financial services	64,7	-

	Score	Δ
2) AVAILABILITY	**49,4**	↓ -0,1
2.1) Sufficiency of supply	65,1	↓ -1,1
2.2) Agricultural research and development	59,6	↑ +2,3
2.3) Agricultural infrastructure	53,0	-
2.4) Volatility of agricultural production	0,0	-
2.5) Political and social barriers to access	70,4	↑ +0,1
2.6) Food loss	76,5	-
2.7) Food security and access policy commitments	0,0	-

	Score	Δ
3) QUALITY AND SAFETY	**72,1**	-
3.1) Dietary diversity	40,3	-
3.2) Nutritional standards	76,5	-
3.3) Micronutrient availability	86,6	-
3.4) Protein quality	66,8	-
3.5) Food safety	92,7	↑ +0,3

	Score	Δ
4) NATURAL RESOURCES & RESILIENCE	**49,4**	↑ +0,2
4.1) Exposure	79,8	-
4.2) Water	10,0	-
4.3) Land	30,1	-
4.4) Oceans, rivers and lakes	13,0	-
4.5) Sensitivity	81,6	↓ -5,1
4.6) Political commitment to adaptation	59,2	↑ +2,4
4.7) Demographic stress	61,6	↑ +4,1

Scores 80-100 VERY GOOD | Scores 60-79.9 GOOD | Scores 40-59.9 MODERATE | Scores 20-39.9 WEAK | Scores 0-19.9 VERY WEAK

Joint Statement by the Heads of the Food and Agriculture Organization (FAO), International Monetary Fund (IMF), World Bank Group (WBG), World Food Programme (WFP), and World Trade Organization (WTO) on the Global Food Security Crisis July 15, 2022

Washington, DC: The COVID-19 pandemic, interruption in international supply chains, and the war in Ukraine have severely disrupted food, fuel, and fertilizer markets, which are interlinked. By June 2022 the number of acute food insecure people – whose access to food in the short term has been restricted to the point that their lives and livelihoods are at risk – increased to 345 million in 82 countries according to WFP. Making matters worse, around 25 countries have reacted to higher food prices by adopting export restrictions affecting over 8 percent of global food trade.[1] In addition, complicating the food supply response is the doubling of fertilizer prices over the last twelve months, reflecting record-high costs of inputs such as natural gas. Global stocks, which steadily increased over the last decade, need to be released to bring prices down. All this is happening at a time when fiscal space for government action is already severely constrained following the COVID-19 pandemic. Beyond the short term, climate change is structurally affecting agriculture productivity in many countries.

Avoiding further setbacks to achieving the Sustainable Development Goals requires short and long-term actions in four key areas: **(i) providing immediate support to the vulnerable, (ii) facilitating trade and international supply of food, (iii) boosting production and (iv) investing in climate-resilient agriculture.**

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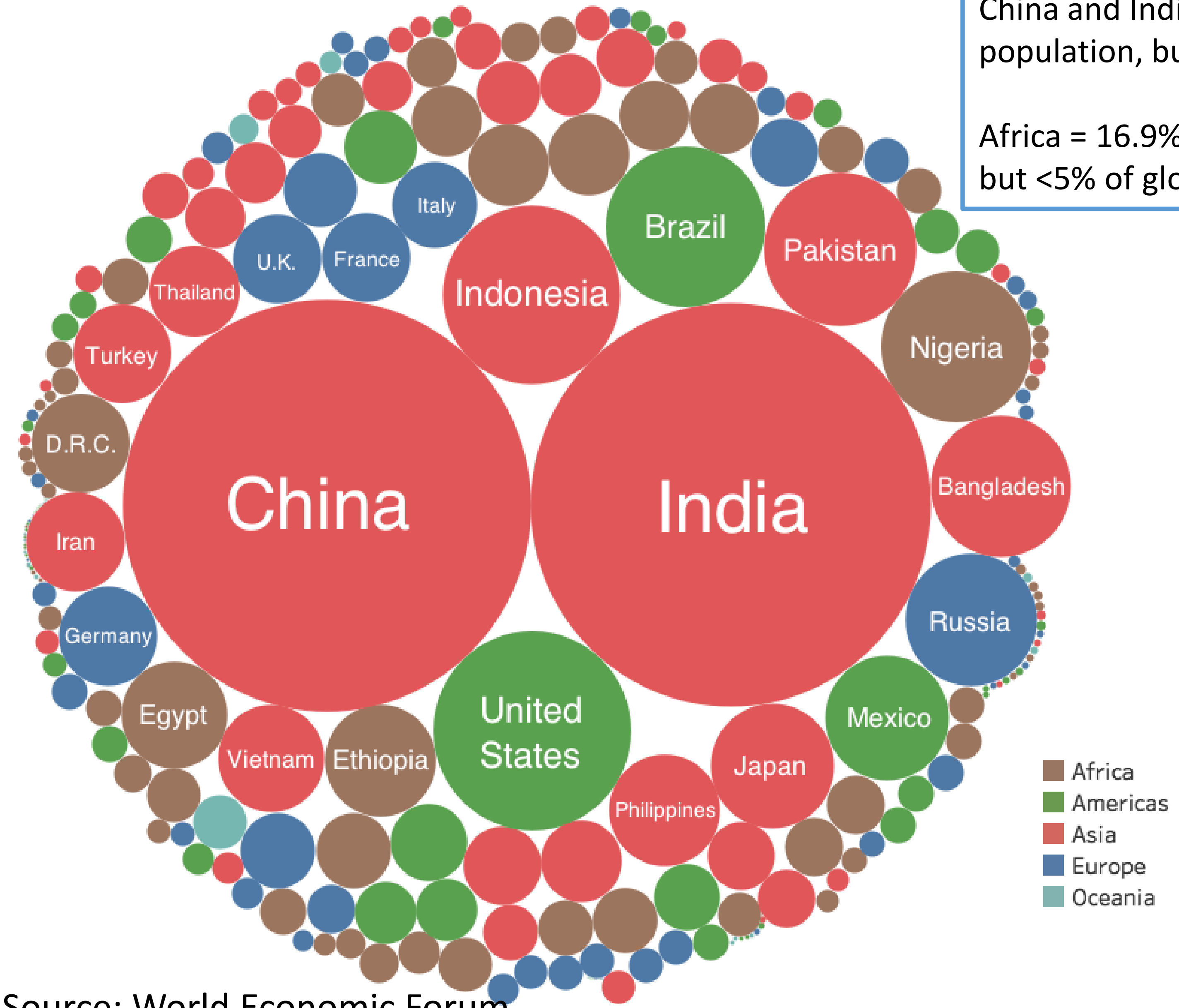
Major Global Risks and Challenges

- Multi-polar global power dynamic – Greater polarisation due to Russia invasion of Ukraine
- Brexit impact on UK and EU New Green Deal: Important markets for SA Agri-exports.
- **Globalisation & Africa's demographic 'dividend'. AfCFTA a game-changer? Unlikely.**
- Globally interconnectivity (4th IR) remains a massive driver, despite general protectionist and localization developments, especially in the agro-food business.
- Mass migration due to political instability, conflict and globalisation remains.
- Environmental sustainability issues, e.g. climate change and extreme weather, water availability and quality, biodiversity loss, pollution/waste, fossil fuels, etc.
- Biosecurity issues: human (Covid-19, etc), animal and plant.
- Global GDP rebounded by 6,1% in 2021, but will slow to 3,6% in both 2022 and 2023 - IMF
- War-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7 percent in advanced economies and 8.7 percent in emerging market and developing economies. (IMF - 14 July 2022).

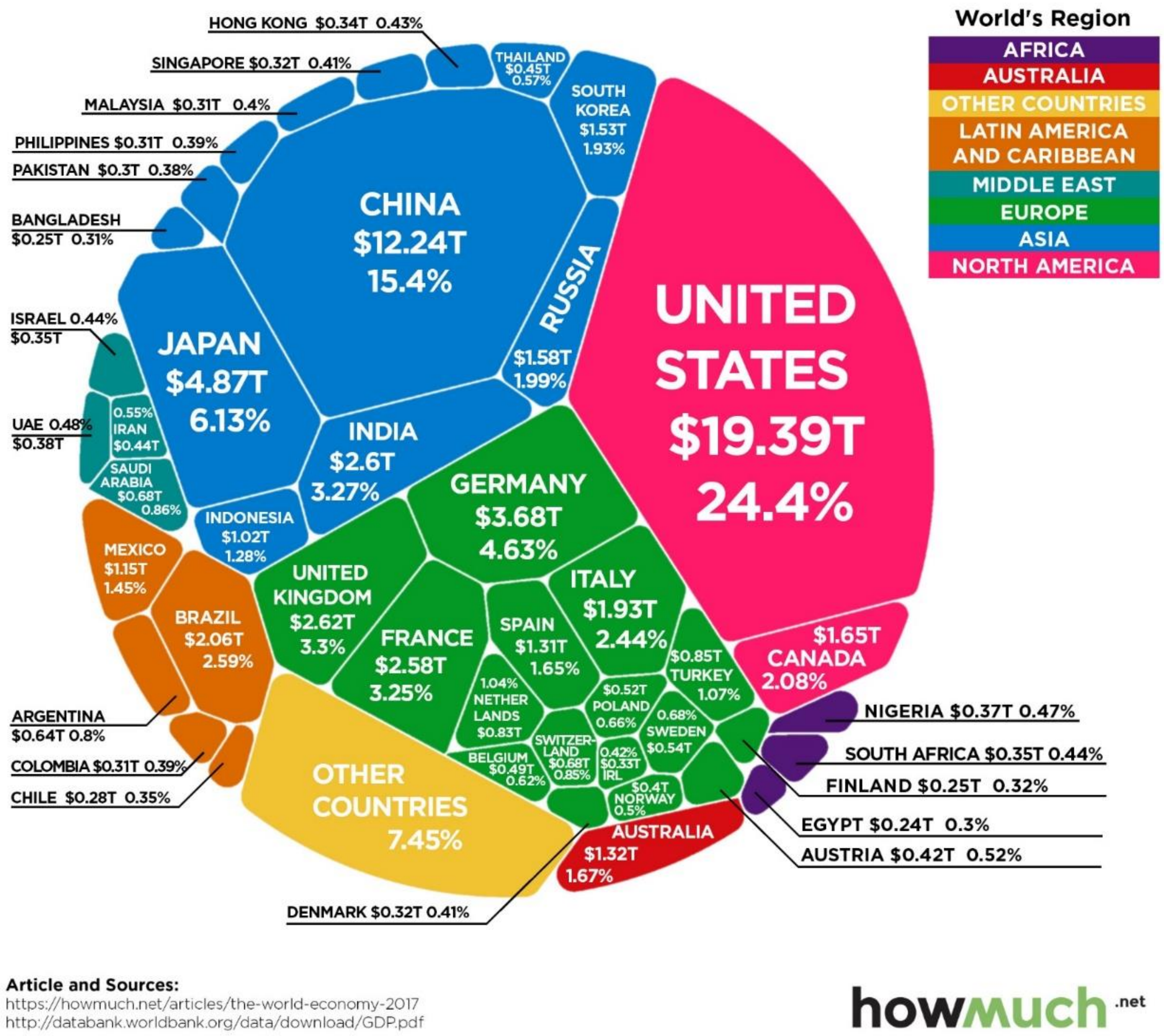
Countries by Population Size



China and India = 36.2% of global population, but 18,7% of global GDP

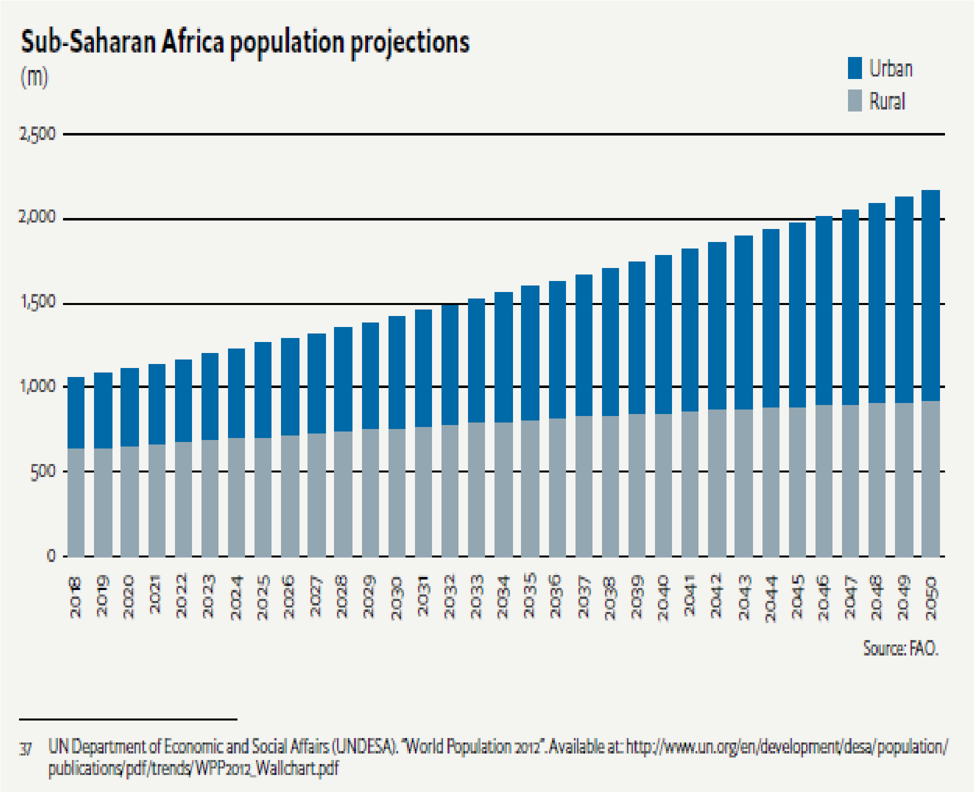
Africa = 16.9% of global population, but <5% of global GDP

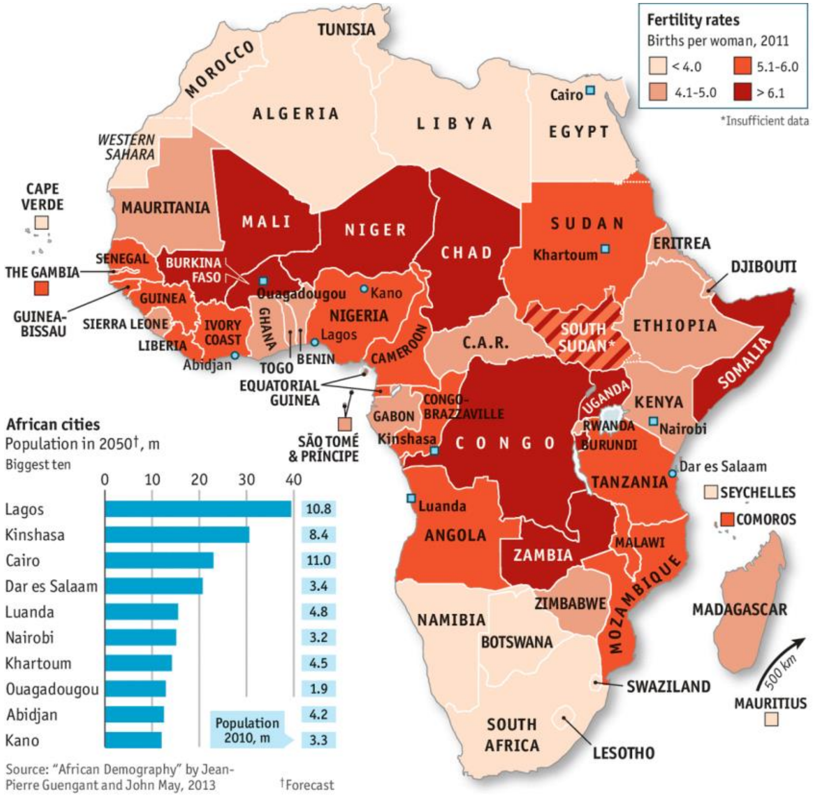
Source: World Economic Forum



Source: World Economic Forum

Africa Urbanisation and Demographics…..





Africa's population to exceed 2.0 billion by 2050.
Africa's population to exceed 4.0 billion by 2100.

World population to reach 11.2 billion by 2100

Either massive opportunity, or a critical risk……!

Context and challenges in Africa’s agriculture

- Agriculture is an important driver of employment and exports. Roughly 60% of the population of sub-Saharan Africa is smallholder farmers. About 23% of sub-Saharan Africa’s GDP comes from agriculture.
- However, sub-Saharan Africa still has the common fundamental problems that existed before the Russia-Ukraine war and Covid-19, which continue to compromise resilience of its agricultural sector.
  - Climate change with its associated shocks – frequent droughts, flooding, famine, etc.
  - Biosecurity – managing animal diseases e.g., highly pathogenic avian influenza (HPAI), foot-and-mouth disease (FMD)
  - Pest infestations - fall armyworm (FAW), locusts and others
  - Low farm and off-farm productivity
  - Lack of adequate infrastructure and expensive logistics
  - Conflicts or wars (West africa, East Africa and Mozambique in Southern Africa)
  - Fragmented food value chains and poor price-discovery mechanisms (markets)
  - More recently the rising input costs, partly because of the Russia-Ukraine war

Agriculture is an important sector to focus on for these reasons

- More broadly, growth in agriculture is two to three times more effective at reducing poverty than an equivalent amount of growth generated outside agriculture.

- The advantage of agriculture over non-agriculture in reducing poverty is largest for the poorest individuals in society and extends to other welfare outcomes, including food insecurity and malnutrition.

- An important source of the poverty-reducing benefits of agricultural growth is the widespread adoption of innovations that increase producer returns and wage labour opportunities and reduce consumer prices.

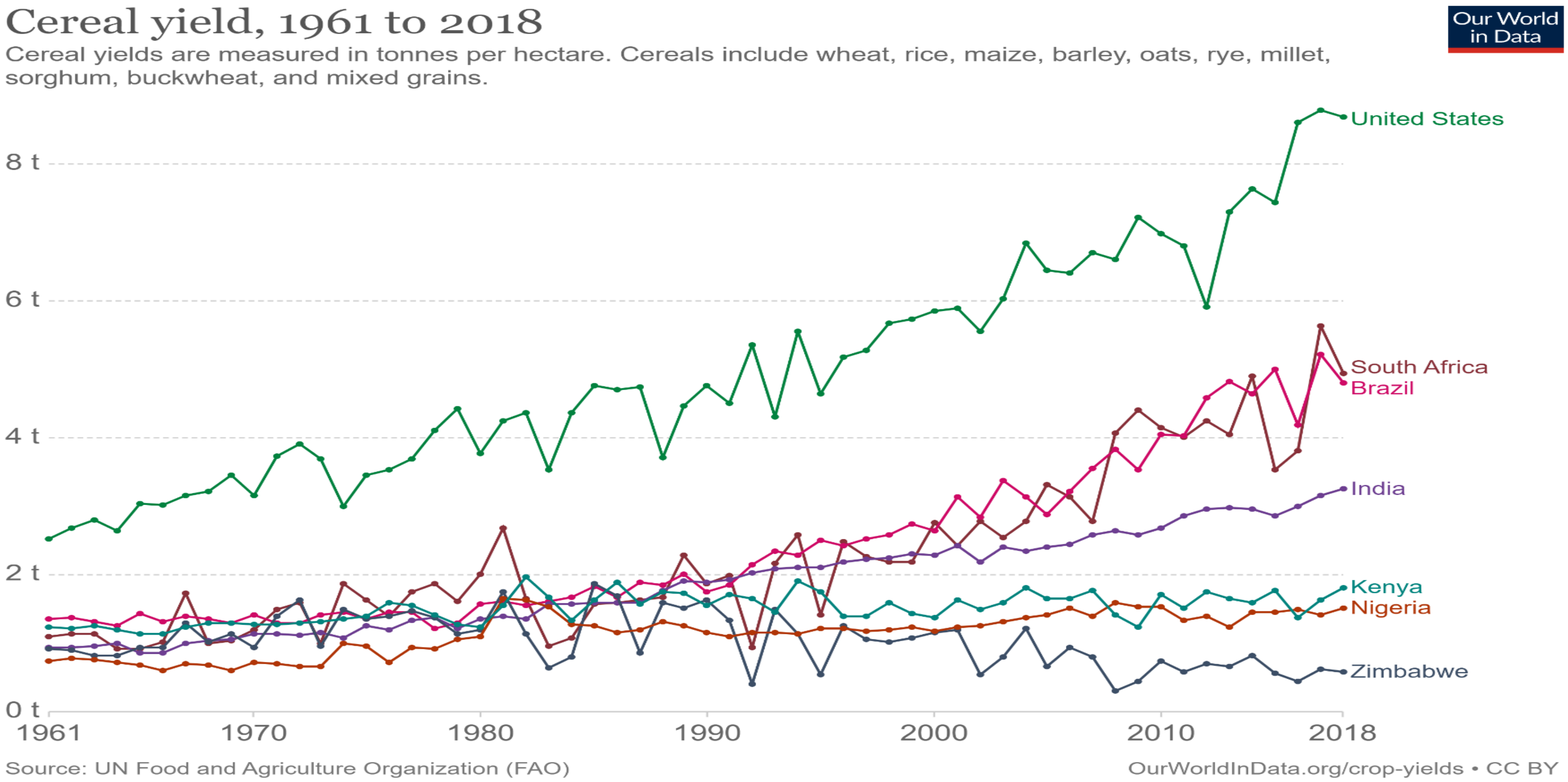
- Rising agricultural productivity reduces poverty by releasing agricultural labour to non-agricultural activities and pulling surplus labour from less productive home production into commercial agriculture.

Source: NDP (2012) and Christiaensen, L and Martin, W. 2018. *Agriculture, structural transformation and poverty reduction: Eight new insights*. World Development Journal.

The African continent is most exposed to global food price shocks

- Within the African continent, which is typically a net importer of roughly US$50 billion of food and agricultural products a year, the challenge is severe.
- The African countries imported agricultural products worth US$4 billion from Russia in 2020. About 90% of this was wheat, and 6% was sunflower oil. Major importing countries were Egypt, which accounted for nearly half of the imports, followed by Sudan, Nigeria, Tanzania, Algeria, Kenya and South Africa.
- Similarly, Ukraine exported US$2.9 billion worth of agricultural products to the African continent in 2020. About 48% of this was wheat, 31% maize, and the rest included sunflower oil, barley, and soybeans.
- In the East Africa region, the conflict in regions of Ethiopia, for instance, had already displaced farmers and resulted in food insecurity worries.
- The drought in the region, leading to potentially poor harvest in Kenya, among other countries, was an additional pre-existing challenge which will now be exacerbated by the Russia-Ukraine war disruption on grains and oilseeds, along with fertiliser and fuel prices.

Much of the African continent also has agriculture productivity challenges



Source: Our World in Data

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- Biosecurity issues: human (Covid-19, etc), animal and plant.
- Global GDP rebounded by 5,4% in 2021, but - IMF.

South Africa’s Political Economy: Risks & Challenges

- **Political turmoil and uncertainty.** Translates into **policy uncertainty**, e.g. Land Reform.
- **President Ramaphosa’s SONA** in February 2022: Right direction, but can State implement? **Capability of the state has been badly eroded – seen in Departments and SOE’s, especially Eskom and energy security.**
- **GDP growth: Recovery to 4.9% in 2021, but slows to 2.3% in 2022 and 1.8% in 2023 (BER estimate, July 2022)**
- **Biggest concern: Lack of GDP growth, Competitiveness decline (WEF) and escalating debt.**
- **Massive unemployment** (>29% pre-Covid), especially amongst the Youth (>50%).
- **Inequality** – SA top of GINI Coefficient (WEF, 2018): populist calls & demands will persist.
- Service delivery and other **protests increasing**, **and more violent – KZN insurrection in July 2021**.
- **Land & water reform** will be at the centre of demands as we approach 2024 election year.
- **Crime & Security factor**, including corruption and farm/rural safety, a huge and increasing concern. **Rule of Law** under pressure.
- **Rural decline, and municipality failure,** well publicized by my colleague Wandile Sihlobo and others (AG).

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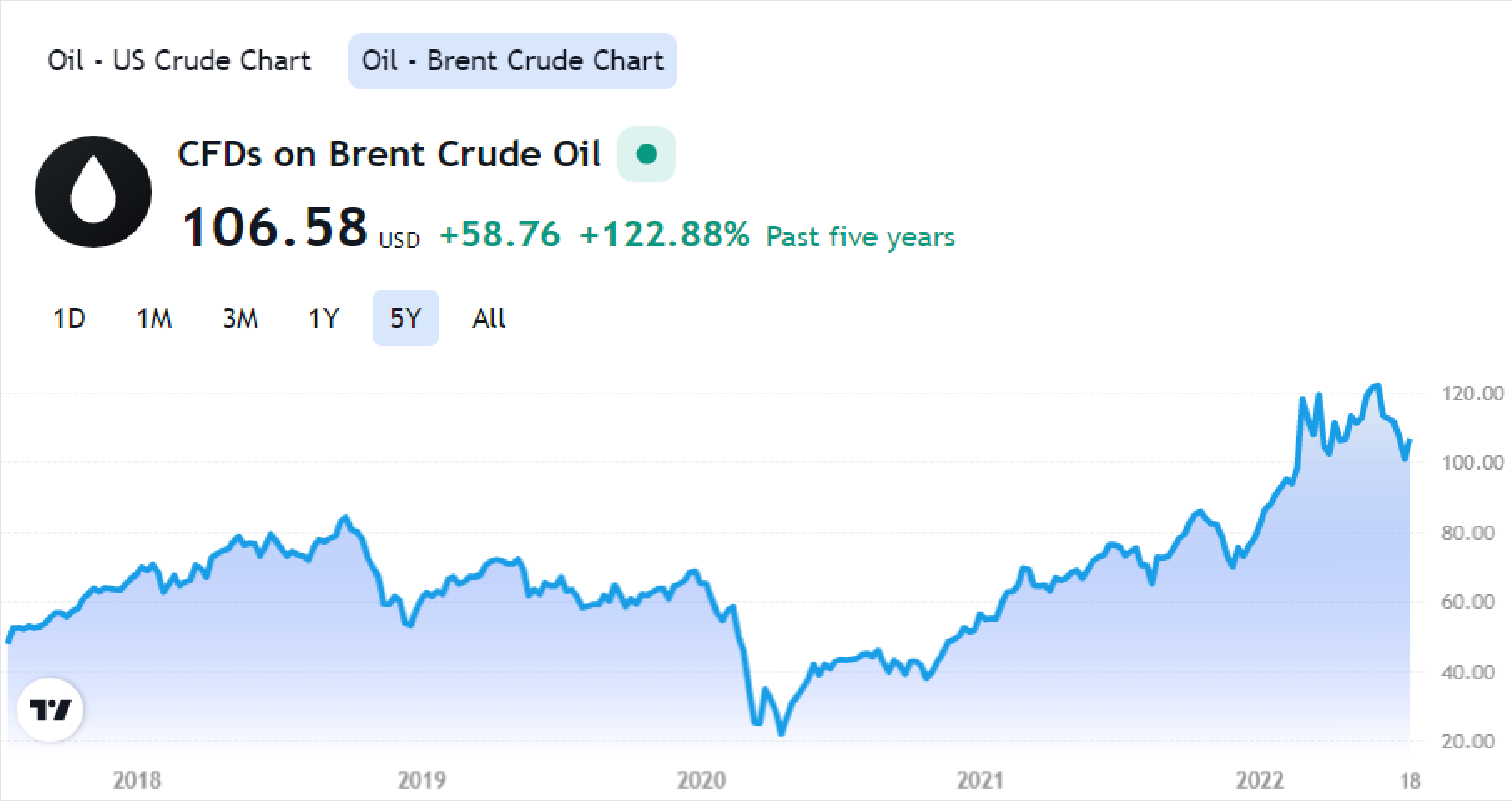
Brent Crude Oil Price (US$/barrel)



Freightos Baltic Index (FBX) Global Container Index

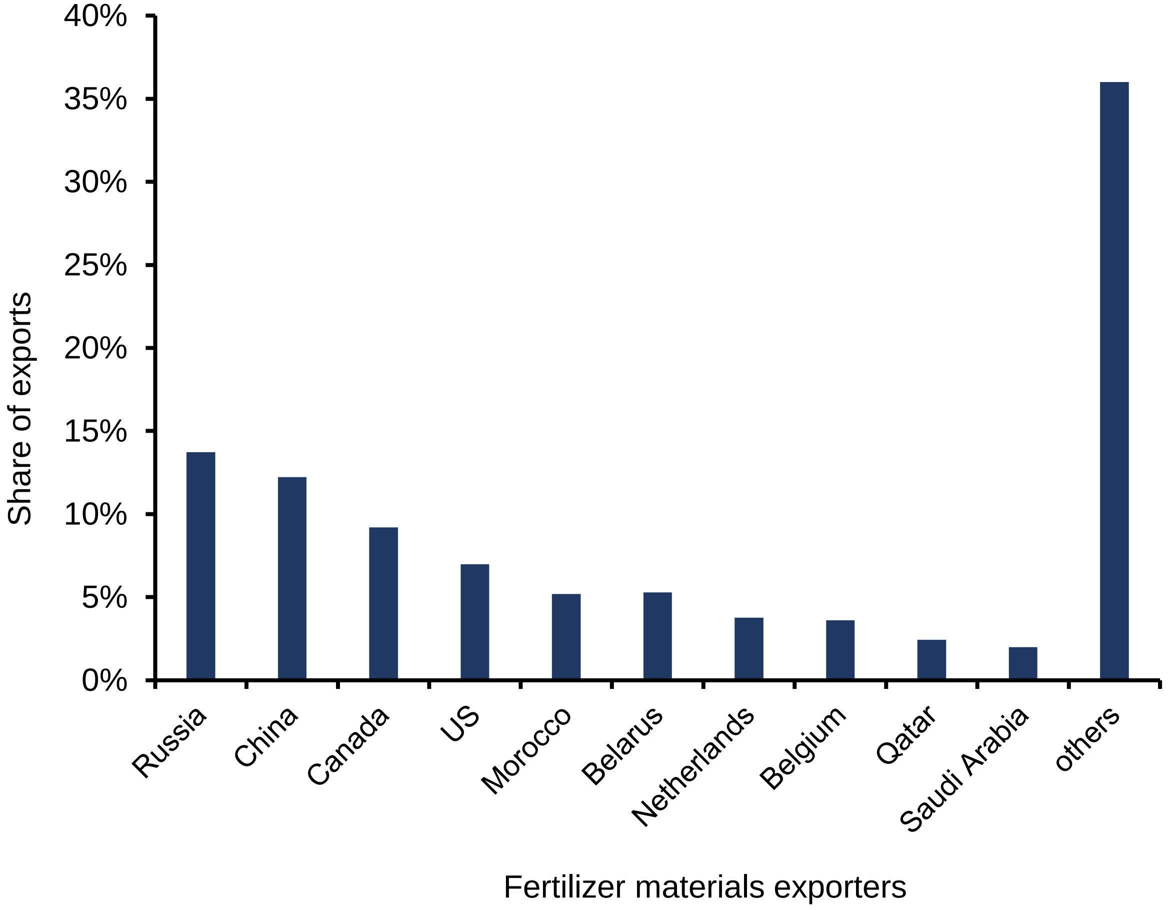
i) Facilitating market expansion, improving market access, and promoting trade

ii) Improving localised food production, reducing imports and expanding agro-processing exports.

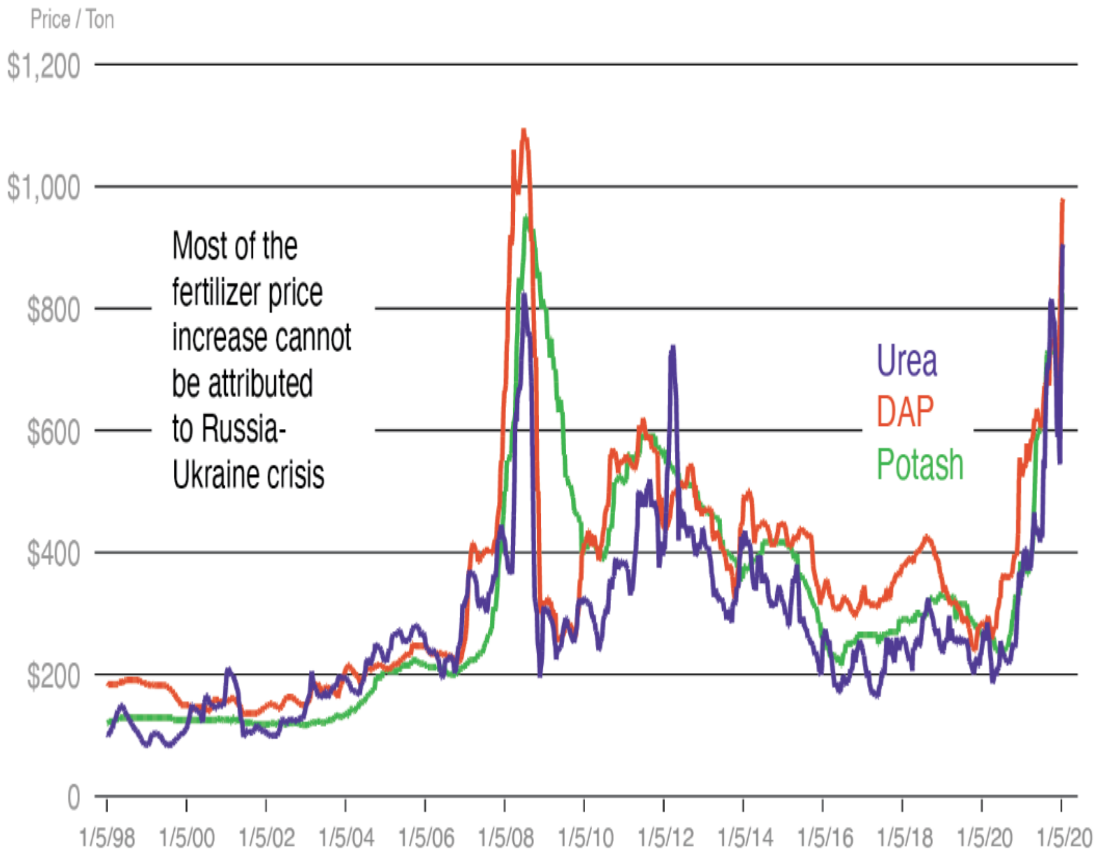
Fertilizer prices (along with agro-chemicals and fuel) remain key risk for farmers

Farmers will experience rising input costs

(Chart shows share ranking of world's top fertilizer exporters by value)

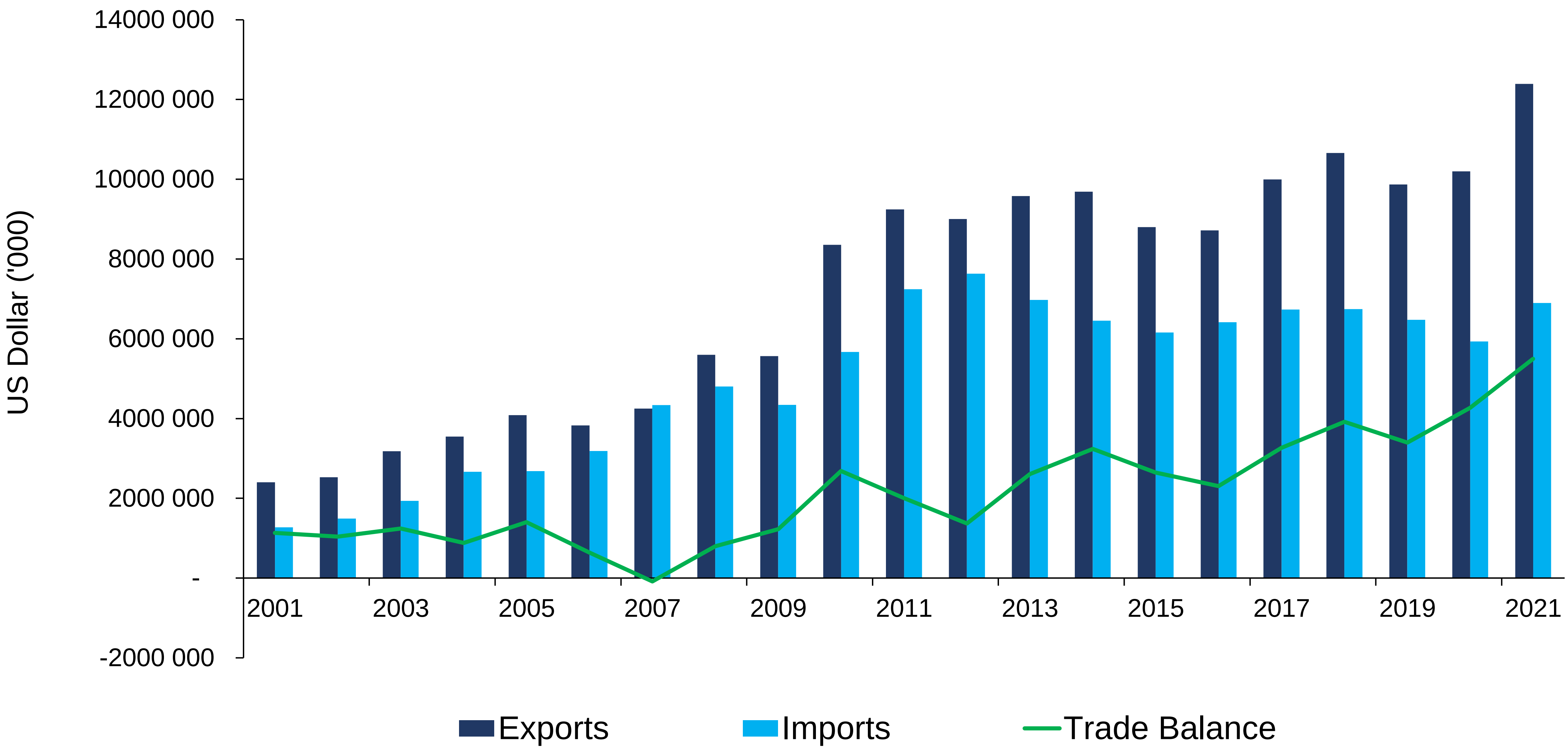


Global fertilizer prices



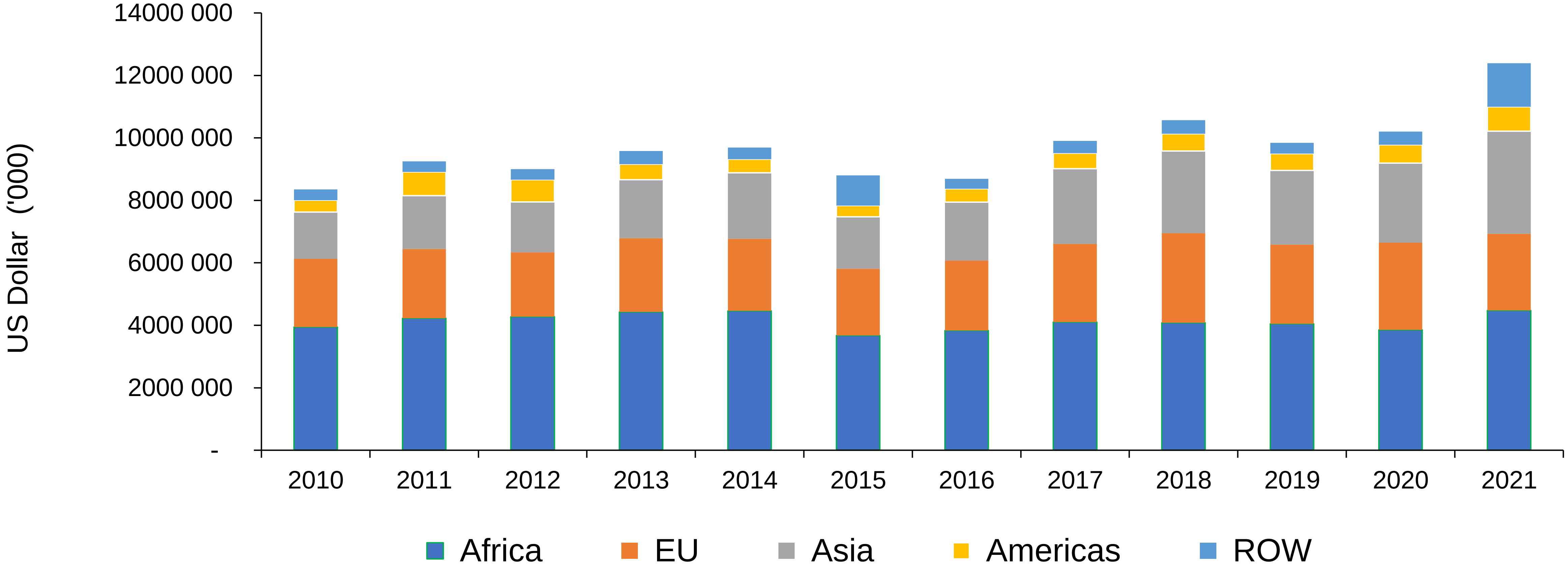
Source: Trade Map, Grain SA, Peterson Institute for International Economics and Agbiz Research

SA's agriculture trade



Source: Trade Map and Agbiz Research

SA’s agriculture exports by region

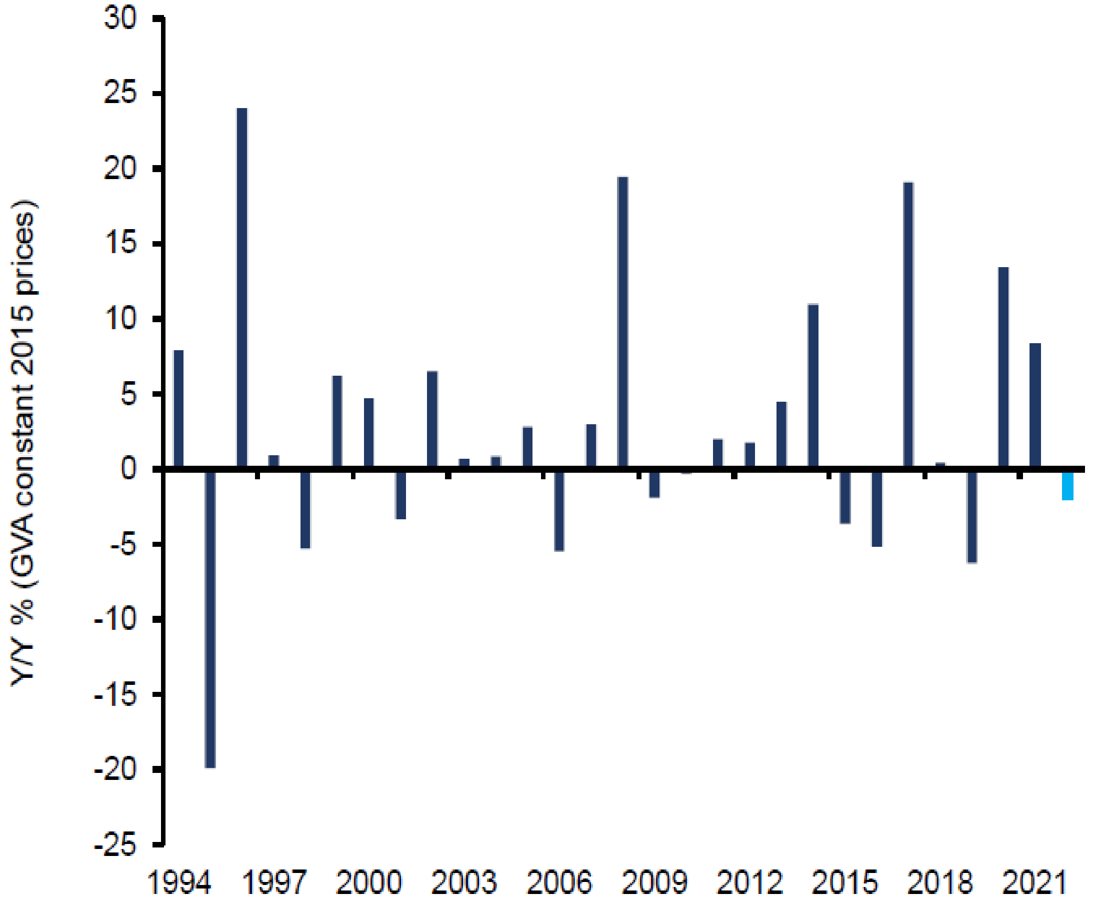


ROW *represents Rest of the World*

Source: Trade Map and Agbiz Research

SA agriculture economy remained on solid footing in 2020-21, but there's risks ahead

SA agriculture could slightly contract in 2022

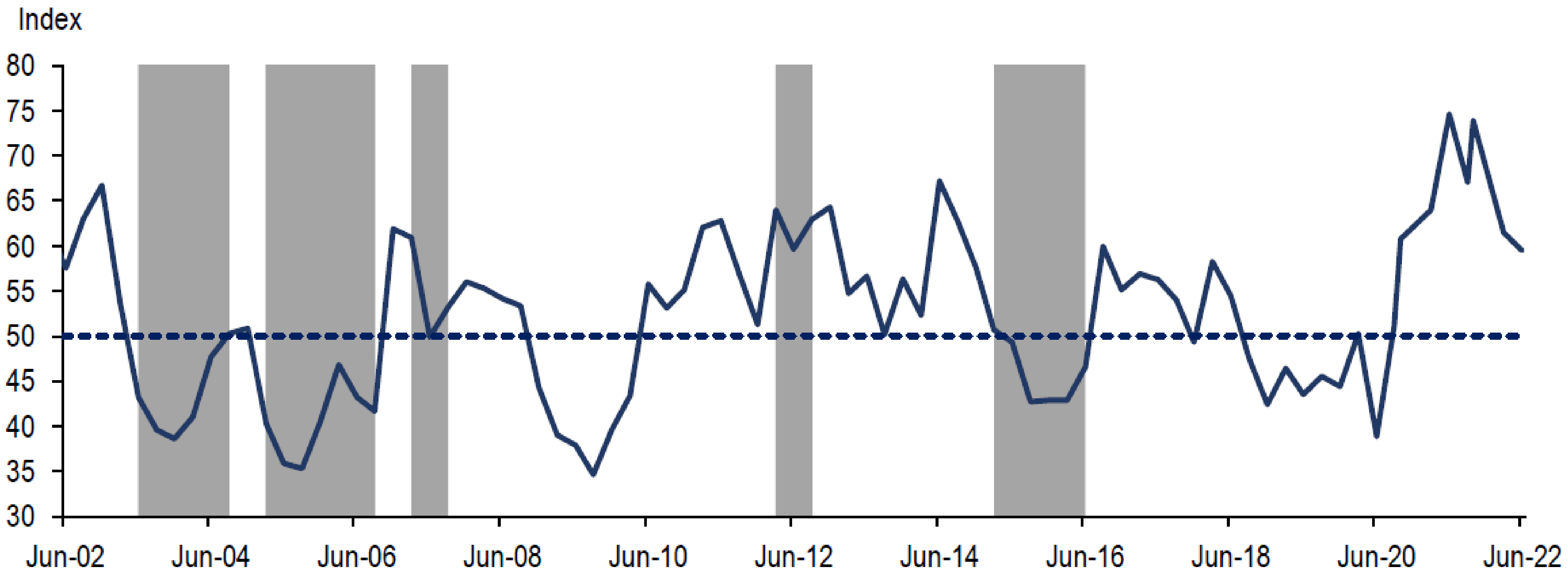


SA agricultural employment could slow further in 2022

Source: Statistics South Africa and Agbiz Research

Agbiz/IDC Agribusiness Confidence Index moderates further in Q2, 2022

Figure 1: Agbiz/IDC Agribusiness Confidence Index[1]



Source: Agbiz Research, South African Weather Service
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

SA farm economy on a growth path

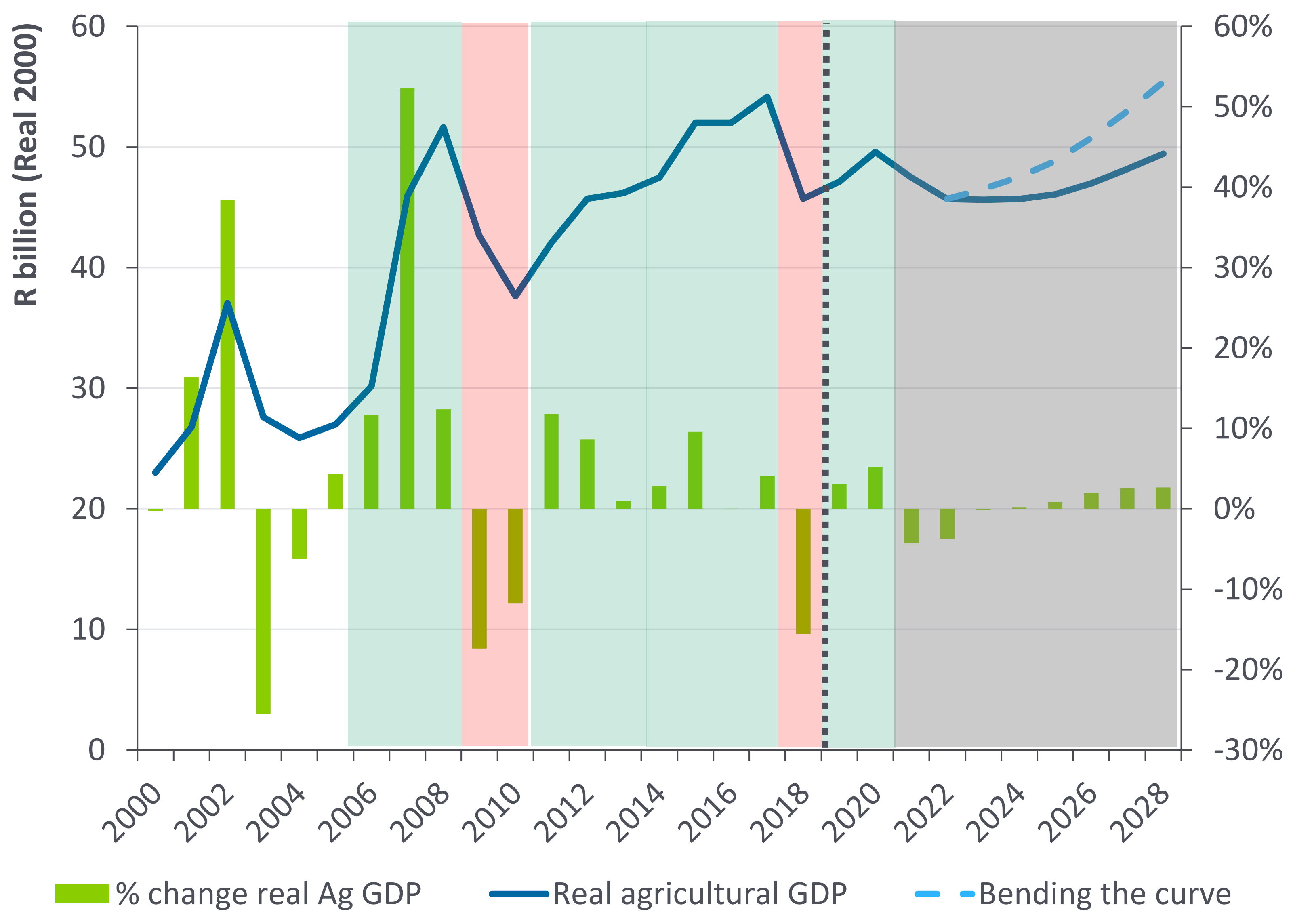
Growth in gross value since 2010

Agriculture	44%
Horticulture	70%
Animal products	43%
Field crop	22%
Agro-processing	13%

Growth in production volume since 2010

Agriculture	19%
Horticulture	23%
Animal products	21%
Field crop	12%

Performance: Agricultural GDP



Growth Periods:

International factors:

- New level for international prices – Biofuel & China Economy
- Consecutive droughts in USA & low stocks

Domestically:

- Sustained investment & export driven expansion

Weak periods:

Global recession

Domestic weather & animal disease impacts

Going forward:

Short term global support?

Business as usual vs. accelerated growth

Initial impressions on SA's 2022/23 summer and winter crop seasons

- The weather outlook for the 2022/23 production season is fairly positive, generally neutral, which is good after a season of excessive rains.

- The current weather forecast suggests that we are still in the La Niña phase.

- The planting intentions will be released in October 2022, but we are generally positive that farmers will maintain a decent area plantings of around 4,3 million hectares for summer grains and oilseeds. The improved financial position form the past two years should help farmers tolerate the current higher input costs.

- The winter crop, specifically wheat, will benefit from potential expansion in the Free State and Limpopo, where the summer rains have improved soil moisture. The weather outlook for the season is also favourable.

- The conversations with fertilizer suppliers have also been encouraging, from a supply availability perspective, although prices could remain elevated, along with the global dynamics.

Are extreme weather events in the Northern Hemisphere highlighting a growing climate risk to global food production?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Extreme weather

Dangerous heatwaves engulf parts of China, US and Europe

At least 86 Chinese cities issue alerts, while temperatures soar in south-west and central US and Iberian peninsula

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By – Roxana Hegeman, Associated Press

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Economy Jun 17, 2022 5:04 PM EDT


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Climate change ✓ Added

Farmers feel heat as northern Italy suffers worst drought in decades

Lack of rain linked to climate change threatens power generation and agricultural output

Wrap up………

- Relatively healthy and robust agri-food industry due to open market system, **but faces various major challenges and risks.**
- **Challenges:** Investment environment, Agro-logistics, water availability and quality, environmental sustainability, R&D, crime and security, labour relations & legislation, land reform, climate change, droughts, trade agreements, sustainable transformation, disrupted global supply chains, global conflict, trade protectionism, etc.
- **Opportunities:** Growing population, consumer spending trends, new markets (especially to Africa and Asia), new technologies & improved productivity, etc.
- Major contributor to Food Security, economic growth and employment in RSA – **a major South African asset.**
- **But we live in hugely uncertain times – many risks and variables, some controllable, others not or less so.**
- **Masterplan an attempt to bring greater certainty to role players and stakeholders, and create a common vision and unity of purpose for inclusive growth.**

Thank you