

The resumption of wool exports to China offers lessons for government-industry engagement

The good news of the past week in South Africa's agricultural sector was the resumption of wool exports to China after nearly four months of suspension. China had cited the foot-and-mouth disease outbreak as a reason to suspend South Africa's wool imports. The suspension happened despite the existence of a unique protocol to handle the wool shipments and avoid any contamination during a foot-and-mouth disease outbreak in South Africa.

South Africa and China agreed on this protocol following the 2019 outbreak, which weighed on exports. China may have faced capacity constraints during the covid-19-related lockdowns in recent months, possibly leading to delays in activating the protocol. Notably, the foot-and-mouth disease outbreak has been specific to cattle farms, not sheep farming. Hence, industry role players were appropriately dismayed when China suspended wool imports from South Africa, citing this reason.

Credit for assisting in the reopening of this critical trade channel for wool must go to the practical and quiet cooperation between the Department of Agriculture, Land Reform and Rural Development, the wool industry and Agbiz, amongst others, over the past few months. The reopening of exports comes at an opportune time as the wool season has recently started. As we stated previously, China is South Africa's primary wool export market, accounting for an average of 70% of exports. Other South African wool industry markets are the Czech Republic, Italy, India, Bulgaria, Germany, the US, Malaysia, Japan, and Mexico. But these are relatively small and thus could not absorb the volume usually destined for China over the past couple of months.

Importantly, wool will likely remain a significant contributor to South Africa's agricultural export revenue and not fall off the top exportable products list as we initially feared. In the first five months of this year, wool was the eighth largest exportable agricultural product, accounting for 3% (or US\$152 million) of the US\$5,1 billion in total agricultural exports during this period. Germany and Italy's share in exports increased from April as the Chinese exports declined notably. In fact, Germany and Italy accounted for a larger market share than China in May. The hope is that the European market could remain vibrant as the Chinese market also opens up to South African wool.

The wool industry is also amongst the agricultural subsectors with a large share of new entrant black farmers, whom we feared would experience financial pressures if the ban had continued for longer. For example, the National Agricultural Marketing Council estimates suggest that black farmers account for 18%, 13% and 34% of wool, mohair, and cattle production, respectively.

The cooperation between government, industry and organised agriculture during the wool ban challenges is yet another example of the approach that should be used to deal with challenges facing the sector. For example, foot-and-mouth disease, which continues to affect the livestock industry, needs industry and regulators' view on assembling a plan for the sector. On 16 August 2022, the Department of Agriculture, Land Reform and Rural Development aptly decided to restrict the movement of cattle for 21 days, reviewable weekly. The path forward at the end of this period requires the input and support of the cattle

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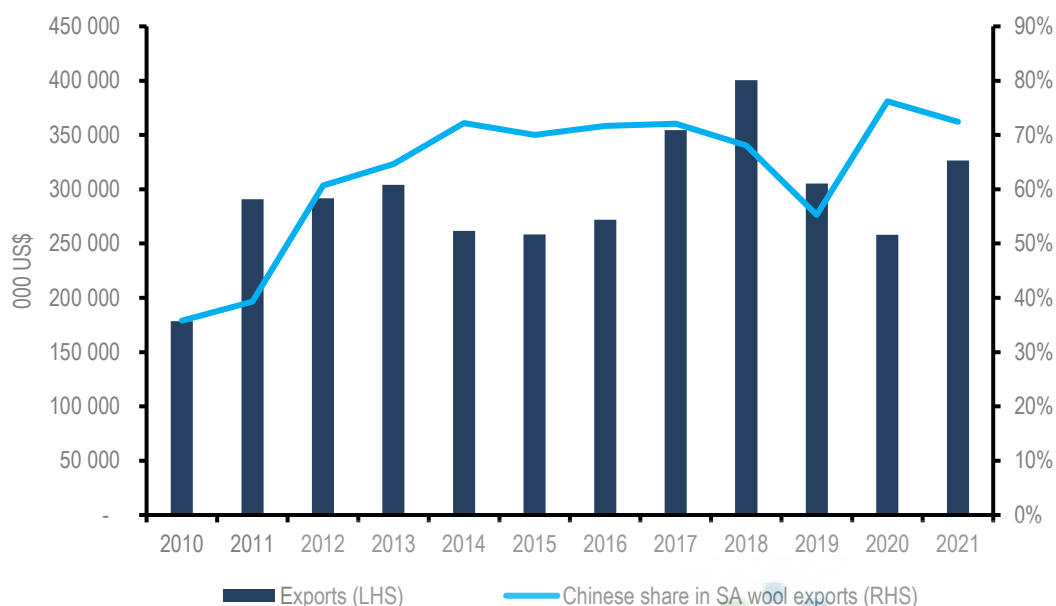
industry players while leaving sufficient room or flexibility for the regulators. The industry inputs will help enrich the government's understanding of the financial impact of their decisions on the industry but, importantly, collaborate on the scientific knowledge of helping to curb the spread of this disease. The industry role players might have various ideas, such as the need to issue cattle movement permits rather than a complete ban on movement or vaccination options. These are the kinds of discussion and much richer scientific insights that specialists in the field could exchange for the good of the South African cattle and, indeed, the broader livestock subsector. In the process, the wool industry should be consulted. The wool industry tends to be affected by the cattle industry developments, as has been the case with the China export ban.

Moreover, the "South Africa Inc" or collective approach between the industry and government is vital in the broader international trade terrain. Difficulties remain for long-term access in the EU for the South African citrus industry. The changes in the plant safety regulations for citrus purport to protect the EU from a quarantine organism, "false codling moth", by introducing stringent new cold treatment requirements, particularly on citrus imports from Africa, mainly impacting South Africa, Zimbabwe and the Kingdom of Eswatini. As stated before, South Africa has put rigorous measures to control false codling moth, which the EU uses as a pretext to restrict citrus imports from Africa. This is a cover to protect the EU's citrus-growing countries like Spain and will increase costs to the Southern African citrus growers. Resolving this challenge requires effective collaboration from South Africa in the engagements with the EU. This means that industry will primarily play a supporting role, and the government should take a firm and visible leadership role in engagements with their EU equals.

The same approach should apply within the Southern African region where the vegetable industry is experiencing losing access to its key markets, such as Botswana and Namibia. These countries combined account for roughly 30% of South Africa's annual vegetable exports of an average US\$200 million. The majority of these vegetable products are potatoes, onions and tomatoes. The vegetable farmers in the northern regions of South Africa, and indeed, South African food businesses in these countries, generally rely on these high-quality vegetable product exports, which are now at risk. However, the approach to resolving this challenge should again not be an aggressive approach between industry and government, but a collective "South Africa Inc" approach with our neighbouring countries.

Overall, South Africa's export-oriented agricultural sector faces numerous challenges in the export markets. Still, the success of the reopening of the wool exports and the effective collaboration between government industry and organised agribusiness offers a broad approach to the nature of engagements we should have, especially when dealing with foreign stakeholders and other domestic challenges. As we continue to struggle with foot-and-mouth disease, citrus exports in the EU, and vegetable exports challenges in the region, the collaborative approach will be key to finding a productive path for the good of South Africa's agriculture. In this process, government colleagues should take the lead and be more open to exchanging ideas with the industry, and the industry should reciprocate.

Exhibit 1: South Africa's wool exports



Source: Trade Map and Agbiz Research

Weekly highlights

SA agricultural jobs up marginally in Q2, 2022

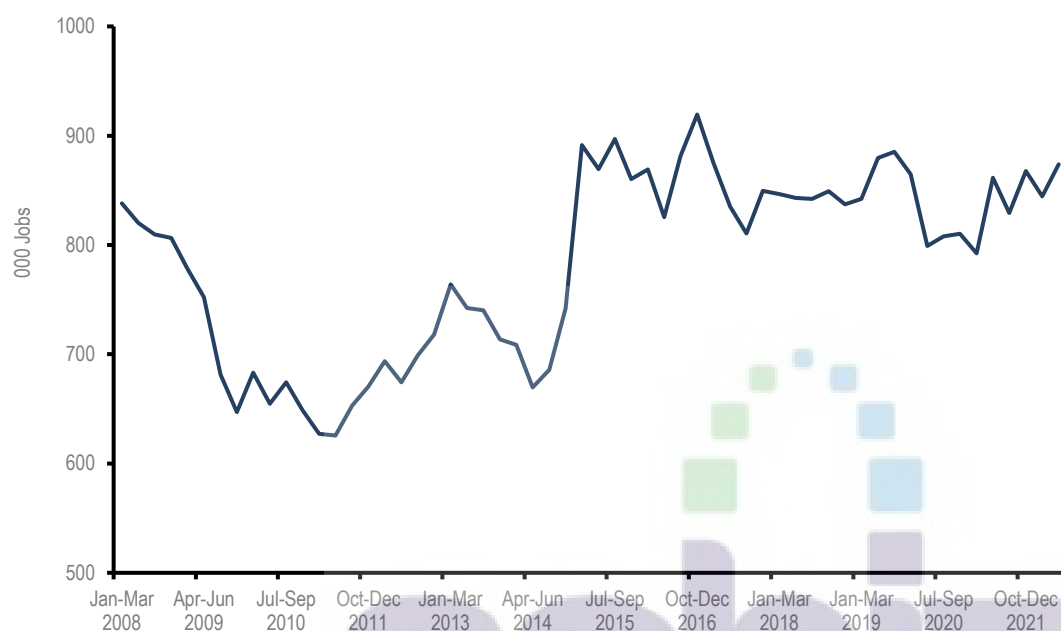
While the 2021/22 production season started on a rough footing of excessive rains, various subsectors of agriculture managed to recover when the rains slowed. We saw this recovery in the decent yields in horticulture, grains, sunflower seed and even record yields in soybeans. The primary agricultural jobs data also reflect the vibrancy of the sector. In the second quarter of this year, there were 874 000 people in primary agriculture, up by 1% year-on-year (and up 3% quarter-on-quarter). Notably, this is well above the long-term agricultural employment of 780 000. The increased farm activity during the harvesting process of some vegetables, fruits and field crops necessitated increased employment during the quarter. The subsectors that shaved jobs during this period were livestock and aquaculture (fish farms and hatcheries). The decline in employment in the livestock sector is understandable as the subsector faces the spread of foot-and-mouth disease, which has led to a temporary suspension of exports and numerous business activities, thus weighing on farmers' finances. Moreover, the higher feed costs are an additional challenge for the livestock industry.

Most provinces registered job gains from a regional perspective except for KwaZulu-Natal and North West. These are also amongst the regions that suffer from the spread of foot-and-mouth disease. The floods in KwaZulu-Natal in April this year might have also negatively affected the employment prospects in the second quarter of this year. With that said, these job losses were overshadowed by increased employment in other provinces. Hence, primary agriculture employment increased by 1% y/y (and 3% q/q), as stated above.

Looking ahead, data from the third quarter of the year could continue to show robust employment conditions, although possibly lower than the second quarter. The delayed harvest in some subsectors because of a relatively late start of the season will mean that people were in the fields harvesting for a more prolonged period than the previous year; hence we maintain a somewhat favourable view of employment conditions in the sector. Still, the financial pressures from animal disease and trade restrictions facing labour-intensive

subsectors like citrus remain the major risks to job prospects. Aside from the subsector-specific issues, South Africa's agriculture faces challenges around the inadequate functioning of network industries – roads, rail, ports, water, and electricity, and poorly functioning municipalities, leading to an increase in the cost of doing business. Moreover, the challenging economic conditions in the country have, in some areas, led to labour unrest, which also requires close monitoring.

Exhibit 2: South Africa's agriculture employment



Source: Stats SA and Agbiz Research

SA consumer food price inflation hit the highest level since January 2017

The higher agricultural commodity prices we've observed in the months since Russia invaded Ukraine continue to filter into the food price inflation data. Moreover, the higher fuel price inflation since the start of the war is an additional cost driver of food prices. The data released last week by Statistics South Africa show that in July 2022, the consumer food price inflation accelerated by 10,1% y/y, from 9,0% y/y in the previous month. This is the fastest pace since January 2017, which was a drought period in agriculture where costs were driven by higher agricultural commodity prices. The higher global grains and oilseed prices for much of the first half of this year have been the drivers of the costs of "bread and cereals" and "oils and fats" in the consumer food price inflation basket. These are also products with a relatively higher weighting within the food basket. For example, within the food basket, the key products are meat (35%); bread and cereals (21%); milk, cheese and eggs (17%); vegetables (8%); sugar, sweets and desserts (4%); oils and fats (3%); and fruit (2%).

The grains and oilseeds prices, which have been the major drivers of the surge in inflation, are starting to soften and this shows in the global indices. In fact, the FAO's Global Food Price Index averaged 140.9 points in July 2022, down by 9% from June. This was the fourth consecutive monthly decline, led by the drop in the prices of grains and oilseeds. These global developments are starting to show also in South Africa, and the lag could also reflect on the consumer food price inflation data in the coming months. Therefore, we suspect this might be a peak in the domestic food consumer price inflation.

In the case of fruits and vegetables, South Africa has a sizable harvest and the disruption in fruit exports within the Black Sea and the EU could add downward pressure on domestic

prices. This bodes well for the consumer in the near term (and the opposite is true for the farmers). The one essential product whose price trend remains uncertain is meat. The outbreaks of foot-and-mouth disease have led to the temporary closure of some key export markets for the red meat industry. Ordinarily, this would add downward pressure on prices as it implies that we would see an increase in domestic meat supplies. But this time around, the spread of the outbreak is vast, to an extent that we might see a decline in slaughtering in major feedlots, which would ultimately keep red meat prices at relatively higher levels; the opposite of what we initially anticipated. This remains uncertain and we will closely monitor the monthly slaughtering activity. Positively, the suspension of the anti-dumping duties for poultry products could help contain the potential price increases in this product, at least in the near term. Still, the broad meat price trend will be dependent on the developments in the beef market.

Overall, as in the previous months, various factors in the South African food market will likely push in opposing directions in the coming months. Still, South Africa will likely remain an exception from the world, with food price inflation contained at relatively lower levels than most regions of the world. Importantly, the coming months could show moderation from the level we saw in July.

Exhibit 3: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research

Data releases this week

We start today with a global focus, where the United States Department of Agriculture (USDA) will publish its weekly **US Crop Progress** data. As always, in these data, our focus is on the US crop-growing conditions as the season progresses. In the previous release, in the week of 21 August 2022, about 55% of the maize crop was rated good/excellent, which is down by 5% from the same week a year ago. Moreover, about 57% of the soybean crop was rated good/excellent, which is up by 1% from the previous year's rating in the same week. The USDA will release the **US Weekly Export Sales** data on Thursday.

On the domestic front, on Tuesday, the Crop Estimates Committee will release the **seventh production forecast for summer field crops** for 2022. In addition, the Crop Estimates Committee will release the **revised area planted estimate and first production forecast for winter cereals** for 2022.

On Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 26 August 2022. This data will help us get insight into the progress of the maize harvesting activity. In the previous release of the week of 19 August, about 12,05 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 14,71 million tonnes. The soybeans and sunflower seed harvest have also advanced.

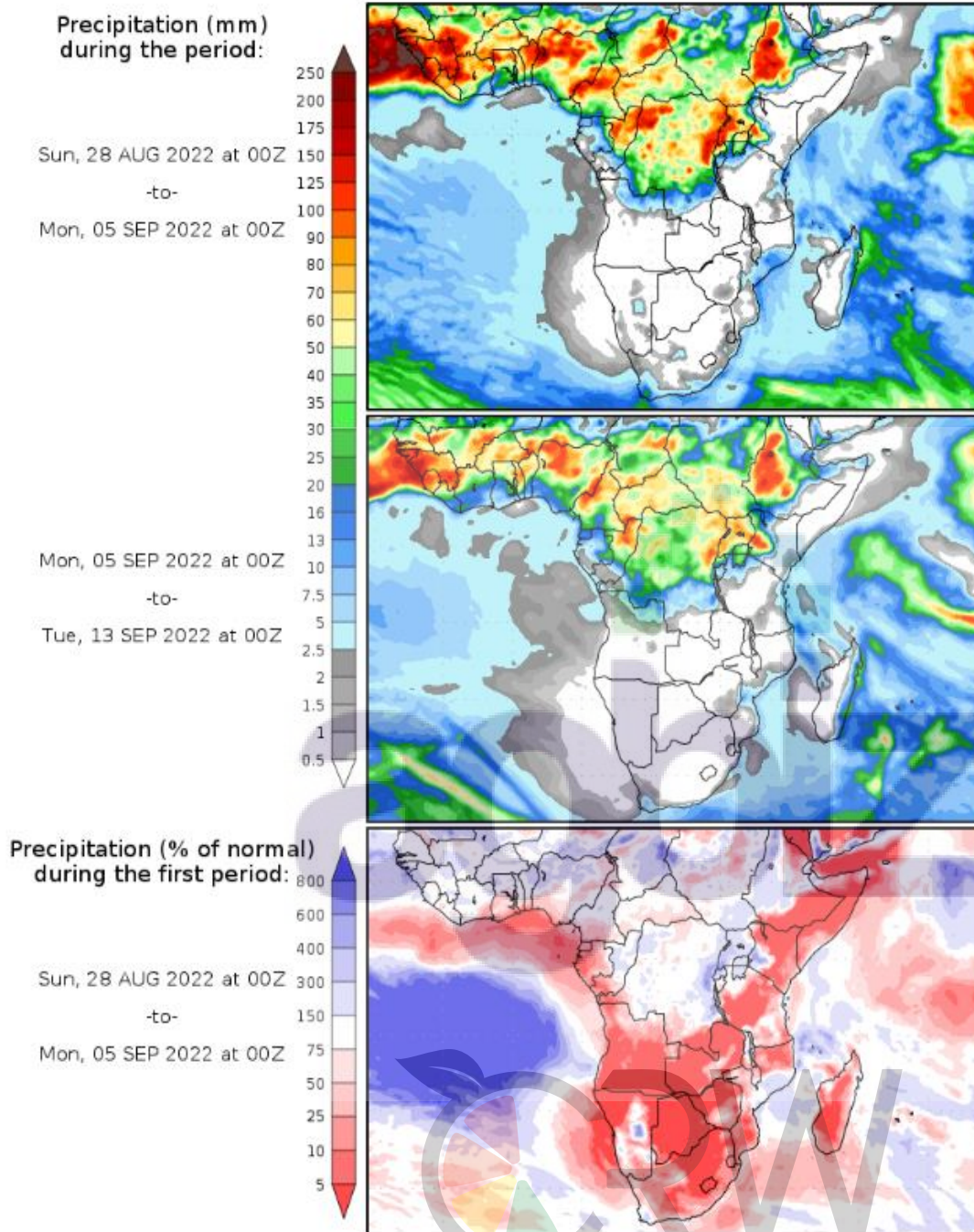
On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 26 August 2022. In the previous release on 19 August 2022, which was the 16th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 123 131 tonnes. The key markets were Taiwan, Vietnam, Japan, and the Southern Africa region. This brought the total 2022/23 exports to 1,44 million tonnes out of the seasonal export forecast of 3,20 million. This is slightly down from 4,10 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net wheat importer, and 19 August was the 47th week of the 2021/22 marketing year. The total imports are now 1,40 million tonnes out of the seasonal import forecast of 1,48 million tonnes (slightly below the 2020/21 marketing year imports of 1,51 million tonnes because of a large domestic harvest). The major wheat suppliers are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. As we stated in our previous notes, if one looks into South Africa's wheat imports data for the past five years, Russia was one of the major wheat suppliers, accounting for an average share of 26% yearly. The suppliers mentioned above have now replaced this.

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Precipitation Forecasts



Source: George Mason University (wxmaps)

Similarly, to the previous week, there are clear skies over much of South Africa this week.

This forecast weather will support the harvest activity that is at its tail end in the western regions of South Africa

Positively, the coastal regions of the Western Cape could receive showers which bodes well for winter crops in the province.