

04 February 2024

EU farms' protests have relevance in South Africa

- As the farmers' protests continue in various regions of Europe, the primary question on the minds of South African agriculturalists is what implications, if any, these will have on local production and exports. According to various media reports, the protests mainly centre on the declining EU's agricultural subsidies, the environmental policy to reduce chemicals and fertilizer use, and the need for protection against imports.¹ Whether or not the farmers are correct in raising their dissatisfaction about the EU's policies on these areas is a point of much discussion. But it is worth emphasizing that these events and the policy outcome in response to them will matter for South Africa's agriculture in two ways.
- First, South Africa's agricultural sector is strongly linked with the European Union (EU) through trade. The region is South Africa's second most important market for South Africa's agricultural products, accounting for 27% of the country's total agricultural exports, according to data from Trade Map. The EU and the rest of the world seek to implement urgent policy measures to combat the effects of climate change. In its 2030 climate target plan, the EU aims to reduce greenhouse gas emissions by 55% from 1990 levels. To that end, the EU has crafted the "Farm to Fork Strategy", a new approach that ensures that agriculture, fisheries, and the entire food system effectively contribute to achieving this target. The strategy seeks to ensure that farmers produce sustainably by setting targets that reduce the use of fertilizers and pesticides and revising legislation regarding feed additives and animal welfare. But these production changes will not only apply to EU farmers, but trading partners like South Africa as well. Hence, monitoring whether the farmers' protests make a dent in persuading EU lawmakers to adjust these regulations is vital for South African agricultural exporters.
- From a South African perspective, sustainable agricultural practice is cause worthy of our collective support, and various farmers domestically are pursuing better production methods to ensure soil and environmental health. To that end, attaining a balance between agro-chemical use and productivity in pursuit of environmental sustainability is critical. In that sense, a drastic reduction of agrochemicals use and fertilizers is not ideal as that would negatively impact the harvest quality and output. Hence, a reasonable transition under the framework of a moderate approach with feasible timelines, which EU farmers are advocating for, is worth supporting. Such a reasonable outcome would imply that the EU's trading partners do not have to significantly reduce agrochemicals and fertilizer use to lower productivity levels. This would also ensure that trade between South Africa and the EU continues on the current terms.

¹ The Economist, "Europe's grumpy farmers are a symptom of wider malaise", February 1, 2024. Access online: <https://www.economist.com/europe/2024/02/01/europes-grumpy-farmers-are-a-symptom-of-wider-malaise>

- Second, there seems to be a growing protectionist sentiment among the various protesting farmers, arguing that EU lawmakers should consider protecting the farmers against unfair world competition. South Africa worries about this particular line of argument as an export-oriented sector with strong links with the EU. The South African agricultural sector has faced various protectionist tendencies in the EU market, particularly in citrus. For example, the EU recently used non-tariff barriers by alleging a "False codling moth", a citrus pest, in South Africa and requiring that citrus products be kept at certain temperatures before accessing the EU market. This happens while South Africa has already treated the products to eliminate the chances of such pest occurrence. This was a subtle form of protecting the Spanish farmers, who are also major citrus producers within the EU market. With an outright view from farmer groupings in the EU that they face unfair competition in the global agricultural market, we worry that using various non-tariff barriers may be common.
- The aspect of subsidies that the EU farmers also argued for is perhaps not mainly on top of mind for a South African farmer. Over nearly three decades, the South African agricultural sector has had to grow and be globally competitive with minimal government producer support relative to the EU and the US. The key aspects currently relevant for South Africa are matters pertaining to trade, which are environmental policies and the talk of unfair trade policies.
- Overall, the outcomes of the EU farm protests will be consequential to South Africa, mainly the fruit, wine and beef industries with a specific interest in deepening trade with the EU region. More importantly, the environmental laws in the EU, because of the importance and influence of the area in the world, will likely be applied in other regions over time. Such development would have notable implications for the exporting nations, again illustrating the importance and relevance of the ongoing developments in the EU.
- Beyond the EU challenges, what we observe today – rising tension within regions and countries and amongst regions and countries – implies that each country must always seek to diversify its markets. South Africa's primary reliance on the EU region is one such risk, so exploring markets such as China, South Korea, Japan, Vietnam, Taiwan, India, Saudi Arabia, Mexico, the Philippines, and Bangladesh is always essential. Notably, such market expansion should coincide with maintaining the EU market access – it remains vital and strategic to South Africa's agriculture.

WEEKLY HIGHLIGHT

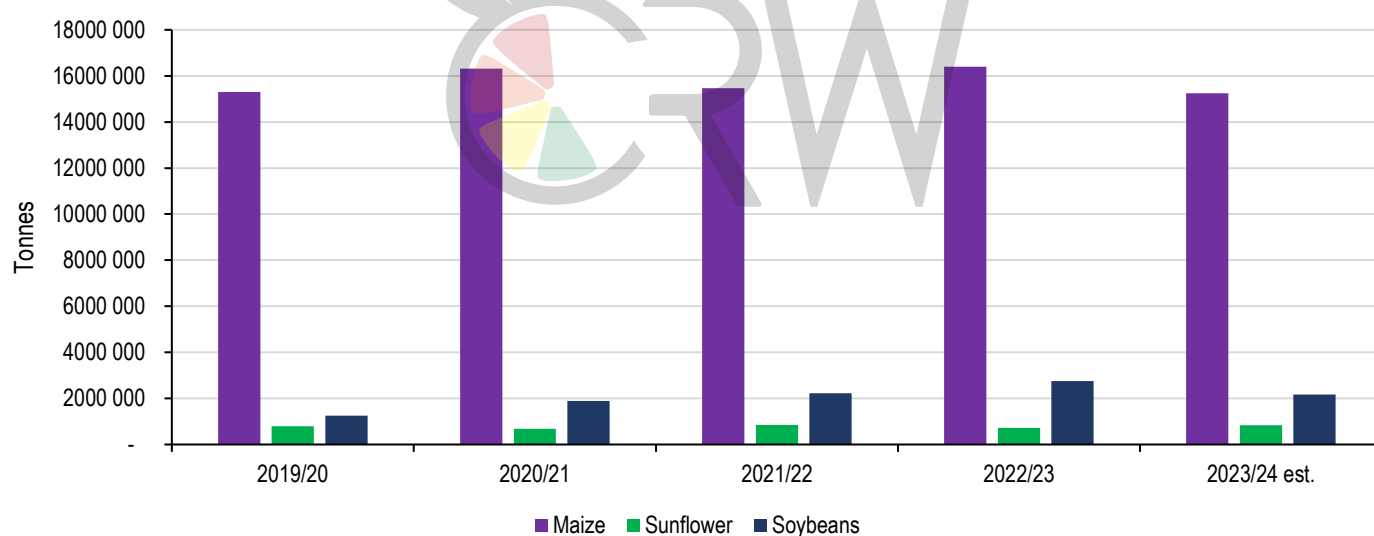
SA could have a decent summer grains and oilseed harvest in the 2023/24 season

- South Africa could have yet another decent summer grains and oilseeds harvest in the 2023/24 production season. The data released last week by the Crop Estimates Committee puts the preliminary area plantings for summer grains and oilseeds at 4,41 million hectares, up by 0,4% y/y (albeit down mildly from 4,48 million hectares of the intended area when the season started). This increase is not limited to a few crops but across most summer crops except for soybeans, where

plantings possibly fell by 10% y/y to 1,04 million hectares (which is still well above the 5-year average area of 867 240 hectares). The area plantings for other major grains, such as maize and sunflower seed, is also well above the 5-year average.

- White maize plantings are forecast at 1,56 million hectares, up 2% y/y, with yellow maize planting at 1,08 million hectares, up 2%/y. This places the total commercial maize planting estimate at 2,64 million hectares, 2% more than the 2022/23 production season. If we consider a 5-year average maize yield of 5,78 tonnes per hectare in an area of 2,64 million hectares, South Africa can have a maize harvest of 15,25 million tonnes. This crop would be well above South Africa's 5-year production of 14,95 million tonnes, although down 7% y/y. Notably, a maize harvest of this size against South Africa's annual maize consumption of roughly 12,00 million tonnes implies that the country would remain a net exporter of maize.
- Similarly, applying a 5-year average soybean yield of 2,09 tonnes per hectare on an area planning of 1,04 million hectares would lead to a possible harvest of 2,17 million tonnes. While this would be 21% down y/y, it would be well above the 5-year average harvest. Importantly, it would mean South Africa remains a net exporter of soybeans. Sunflower seed area is forecast to recover notably to 613 200 hectares in the 2023/24 production season, up 10% y/y. With a 5-year average yield of 1,37 tonnes per hectare, this area provides a possible harvest of 840 084 tonnes (up 16% y/y). The ground nuts area is 41 200 hectares (up 32% y/y), with sorghum at 39 600 hectares (up 17% y/y) and dry beans at 39 400 hectares (up 8% y/y).
- The weather has remained favourable since the start of the season, with widespread rainfall across most regions of South Africa. Thus, we remain optimistic that yields will likely reach the average levels. The one province that hasn't received as many showers as the rest of the country is the North West. Still, the crop looks decent in the province. With the weather prospects for the coming weeks still reasonably favourable across the country, we are compelled to believe that South Africa could have yet another decent summer grain and oilseed harvest in the 2023/24 production season.

Exhibit I: South Africa's 2023/24 summer crop production prospects



Source: CEC and Agbiz Research

WEEK AHEAD

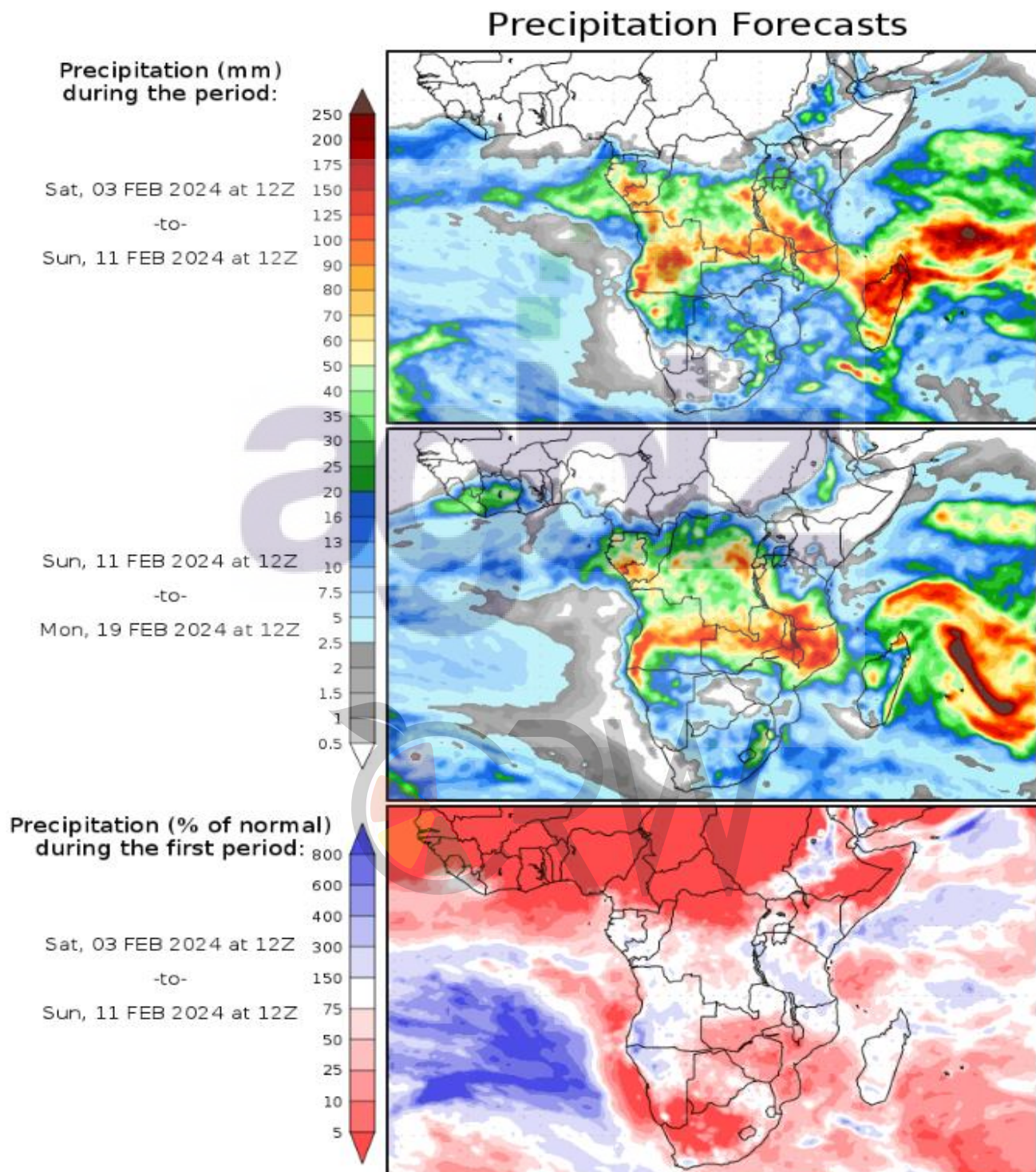
What we are watching this week

- This is a quiet week on the international front, we only have two major data releases. The United States Department of Agriculture (USDA) releases its **weekly U.S. grains and oilseeds export sales** data on Thursday. On the same day, the USDA will also release the **World Agricultural Production** data.
- Within the domestic front, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for February 2 on Wednesday. In the previous release on January 26, South Africa's 2023/24 maize producer deliveries were about 35 337 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 14,8 million tonnes out of the overall harvest of 16,4 million.
- On the same day, the soybean deliveries were about 2,7 million tonnes of soybeans out of the harvest of 2,8 million tonnes. The sunflower seed producer deliveries amounted to 716 430 tonnes out of the harvest of 724 110 tonnes.
- Also worth noting is that South Africa's winter wheat harvest is towards completion. Last week, 10 986 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,8 million tonnes out of the expected harvest of 2,2 million tonnes.
- On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for February 2. In the previous release on January 26, the 39th week of the 2023/24 marketing year, South Africa exported 47 582 tonnes of maize. Of this volume, 57% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 2,8 million tonnes out of the seasonal export forecast of 3,3 million.
- South Africa is a net wheat importer, and January 26 was the 17th week of the new 2023/24 marketing year, with 20 041 tonnes of imports from Latvia. This placed South Africa's 2023/24 wheat import at 641 129 tonnes out of the seasonal forecast of 1,6 million tonnes (down from 1,7 million tonnes in the 2022/23 season).
- On Friday, Statistics South Africa will release the **Manufacturing: Production and sales** data for December 2023. Our focus in this data will be on the food category.

South Africa's Precipitation forecast

- The weather forecast for the coming week shows prospects of clearer skies over the central regions of South Africa, with possible light showers in the northern and eastern regions. Given the favourable showers in the past few weeks, the expected slightly drier weather this week is not a concern.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)