BFAP BASELINE 2011

The Competition for arable land within South & Southern Africa

We will not make you sit THAT long!!

Presentation Overview

- **Session 1:**
    - Overview and context of Baseline
    - Competition for land
    - …….Brunch (9:30 – 10:15)
- **Session 2:**
    - 10-Year Outlook: Grains, Oilseeds, Sugar
    - Global market fundamentals
    - ……..Tea (11:45 – 12:15)
- **Session 3:**
    - 10-Year Outlook: Meat and Dairy
    - Global market fundamentals
    - Special section – employment and natural resources
    - ……...Refreshments (no time limit!!!)

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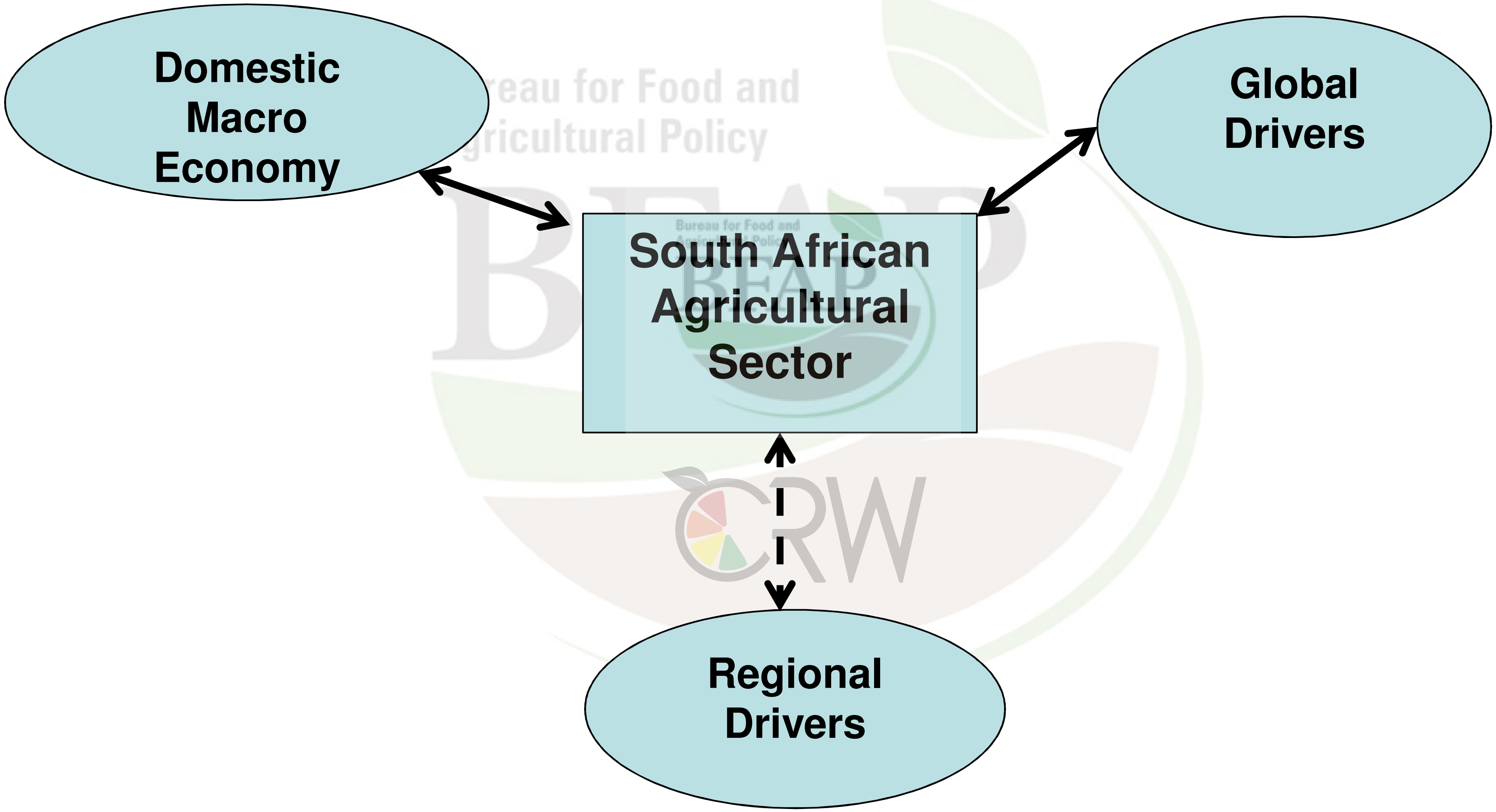
Overview and Context

BUREAU FOR FOOD AND AGRICULTURAL POLICY

Context


Domestic Macro Economy
Global Drivers
South African Agricultural Sector
Regional Drivers

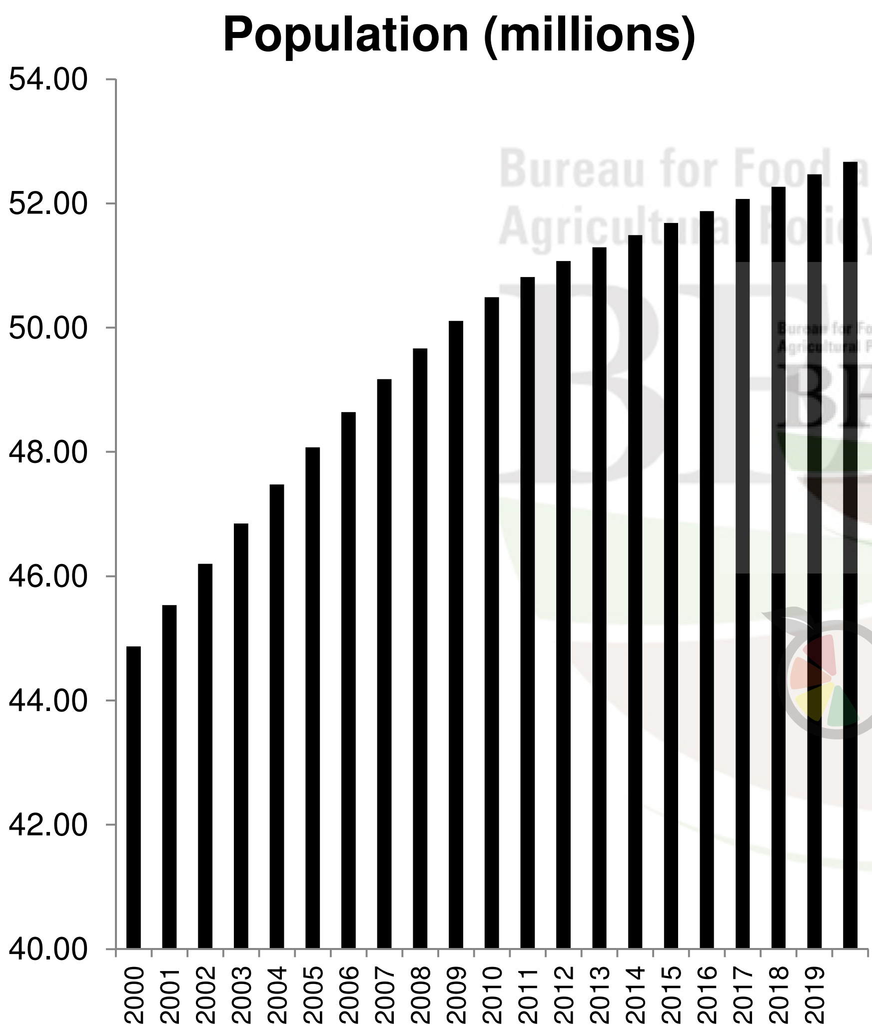
Presentation Outline

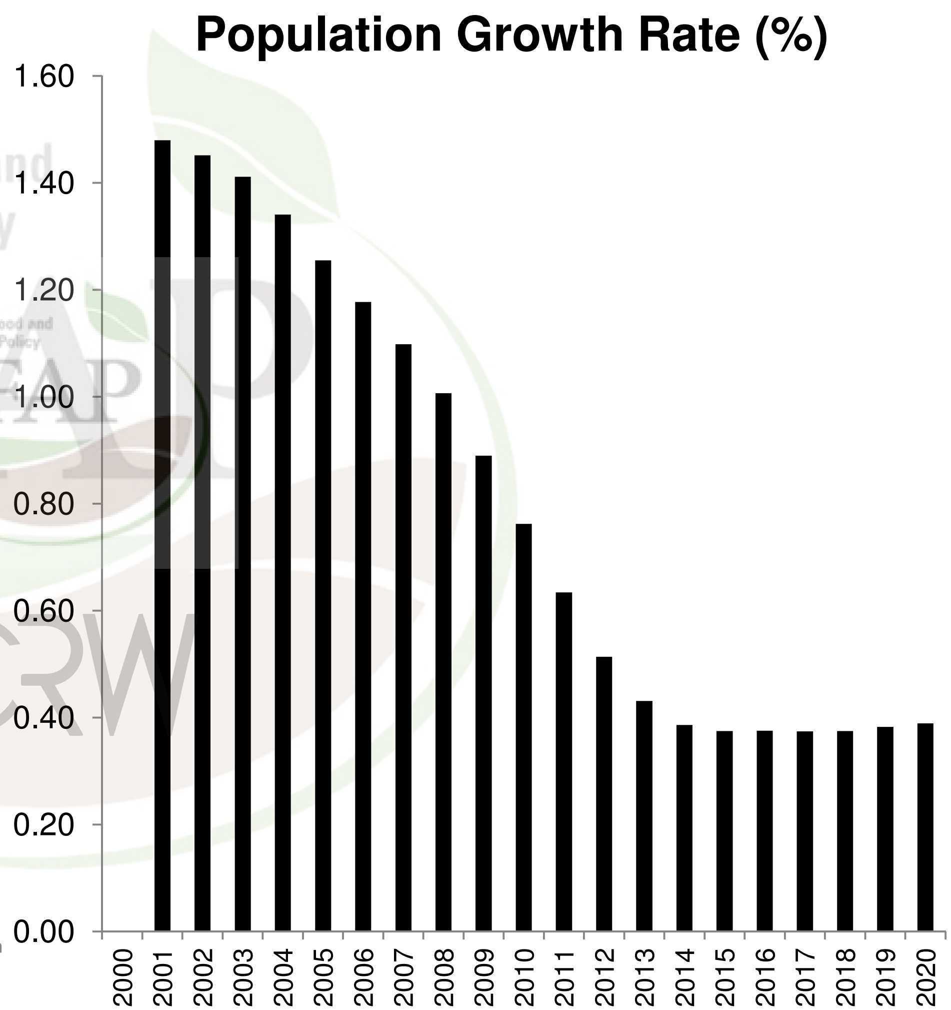
- Macro Drivers
  - Primary Domestic Drivers
  - Implications on South African Agriculture
- Panel Discussion:
  - Global Drivers
  - Regional Drivers

Overview: Domestic Drivers

- Slowing population growth rate
- Lower than expected income growth
- Weaker than expected U.S.D and Euro exchange rates

Driver: Population





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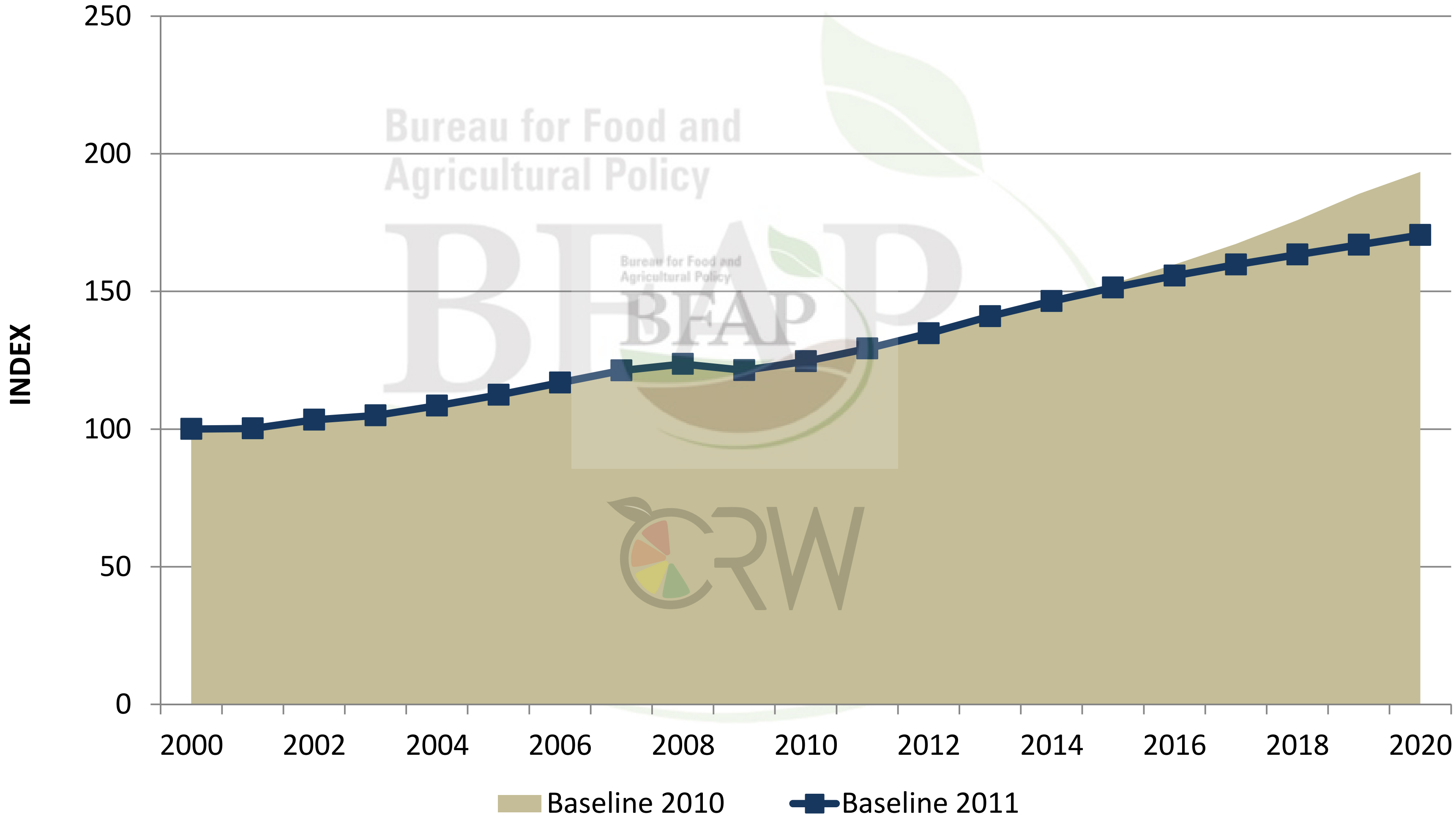
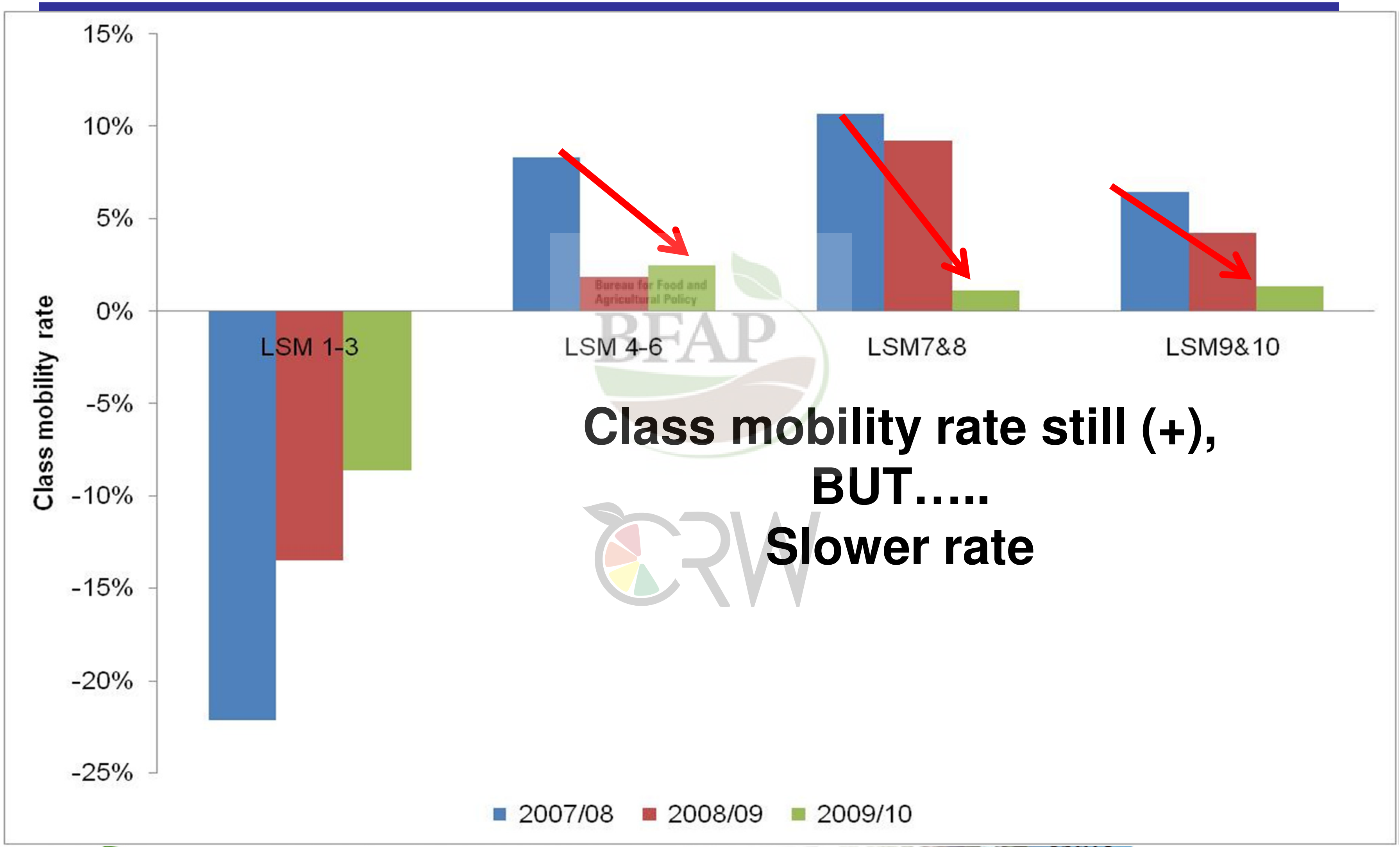
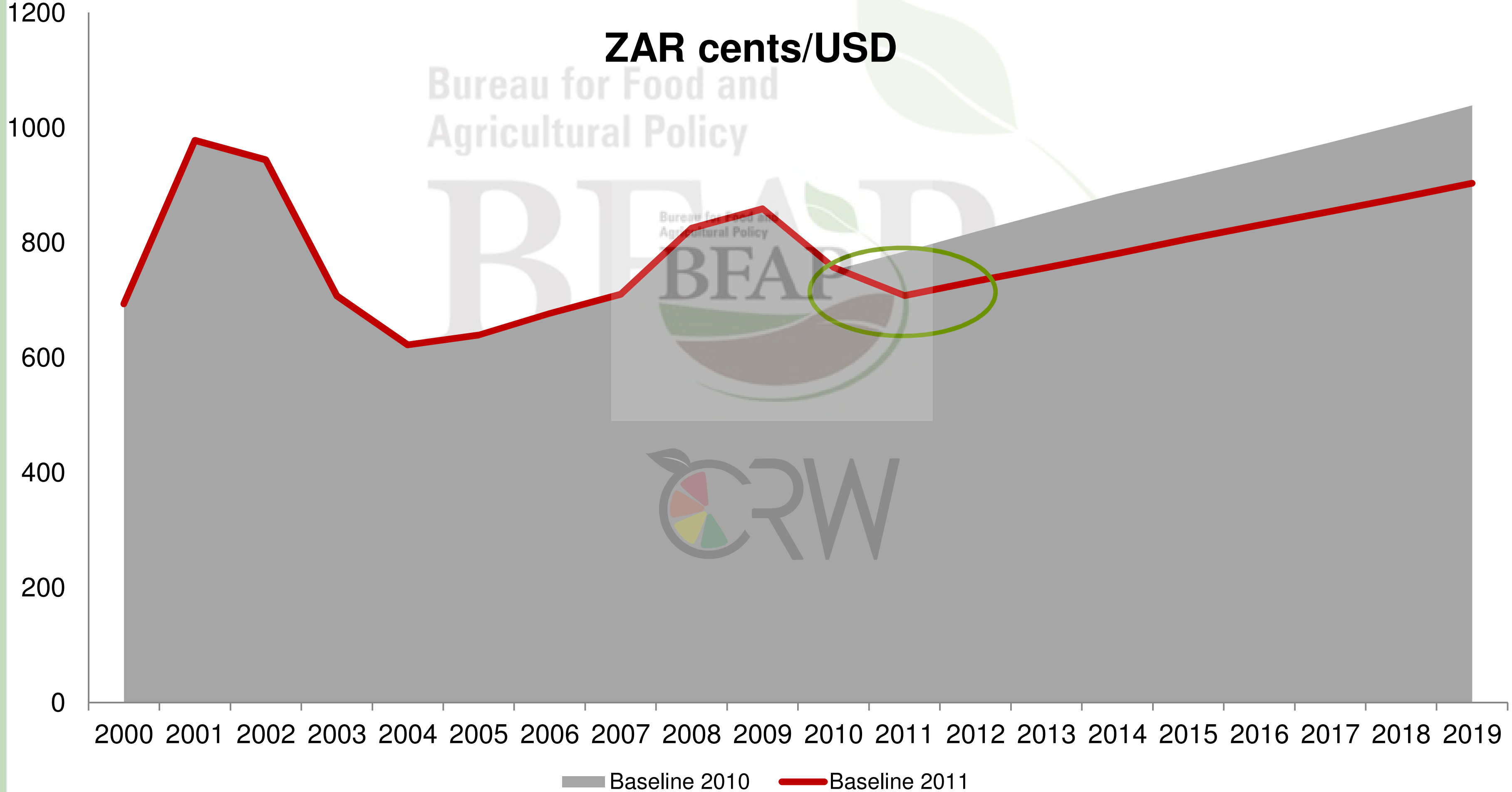
Overview: GDP per Capita



Class mobility rate



Overview: Exchange Rates



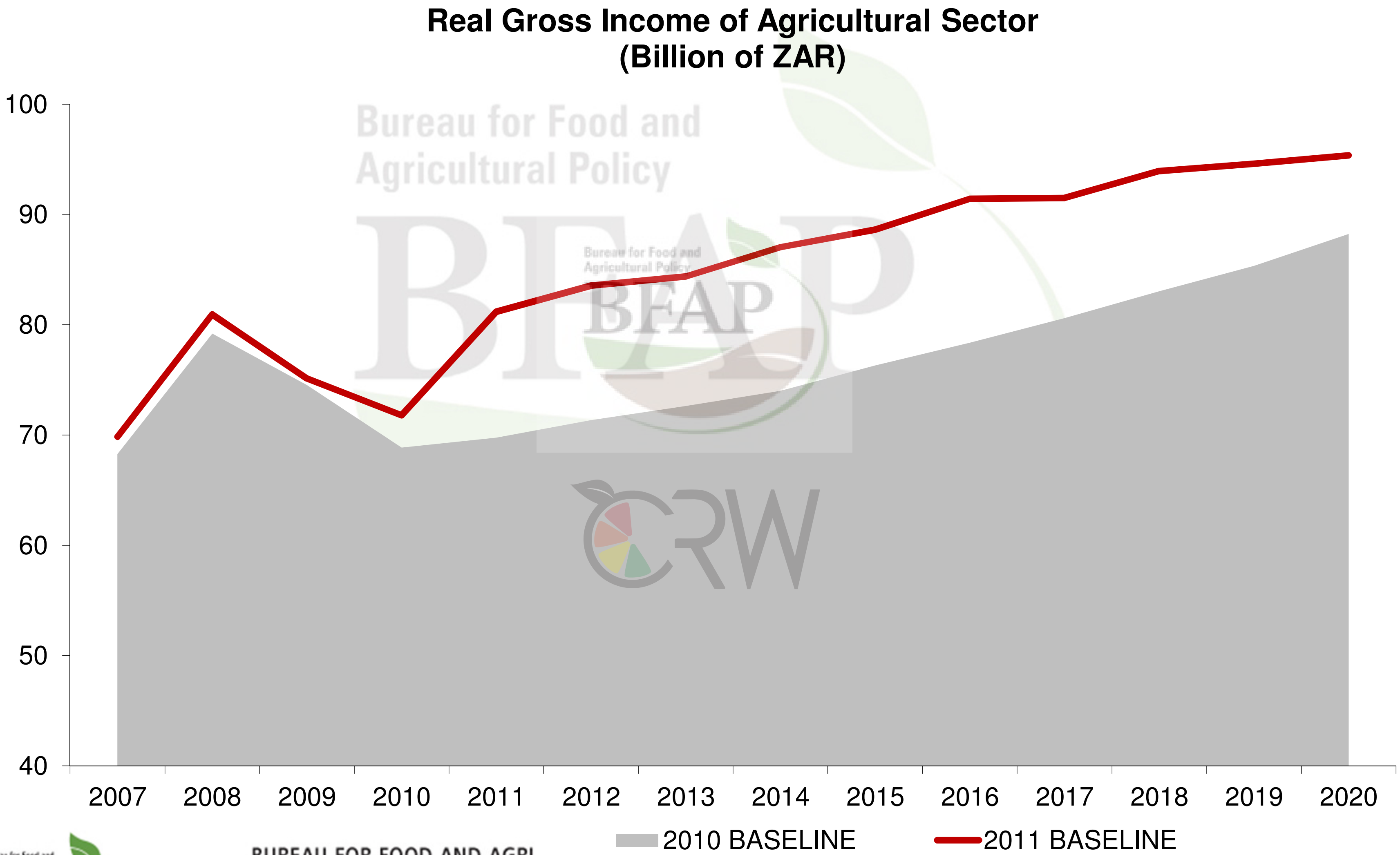
Summary: Domestic Drivers

Category	10-year Annual Average	
	2010 Baseline	2011 Baseline
Population growth (%)	0.4	0.4
GDP/capita (%)	4.3	3.1
Exchange Rate (ZAR cents/USD)	897.0	830.3

South African Agriculture

- Real Gross Income of Agricultural Sector
  - Going to increase, but at a decreasing rate
  - Animal products will be largest contributor to overall income growth of the sector
- Net Farm Income
  - Higher than expected increases within the short-run
  - Experience very little growth over the baseline

Implication on Income



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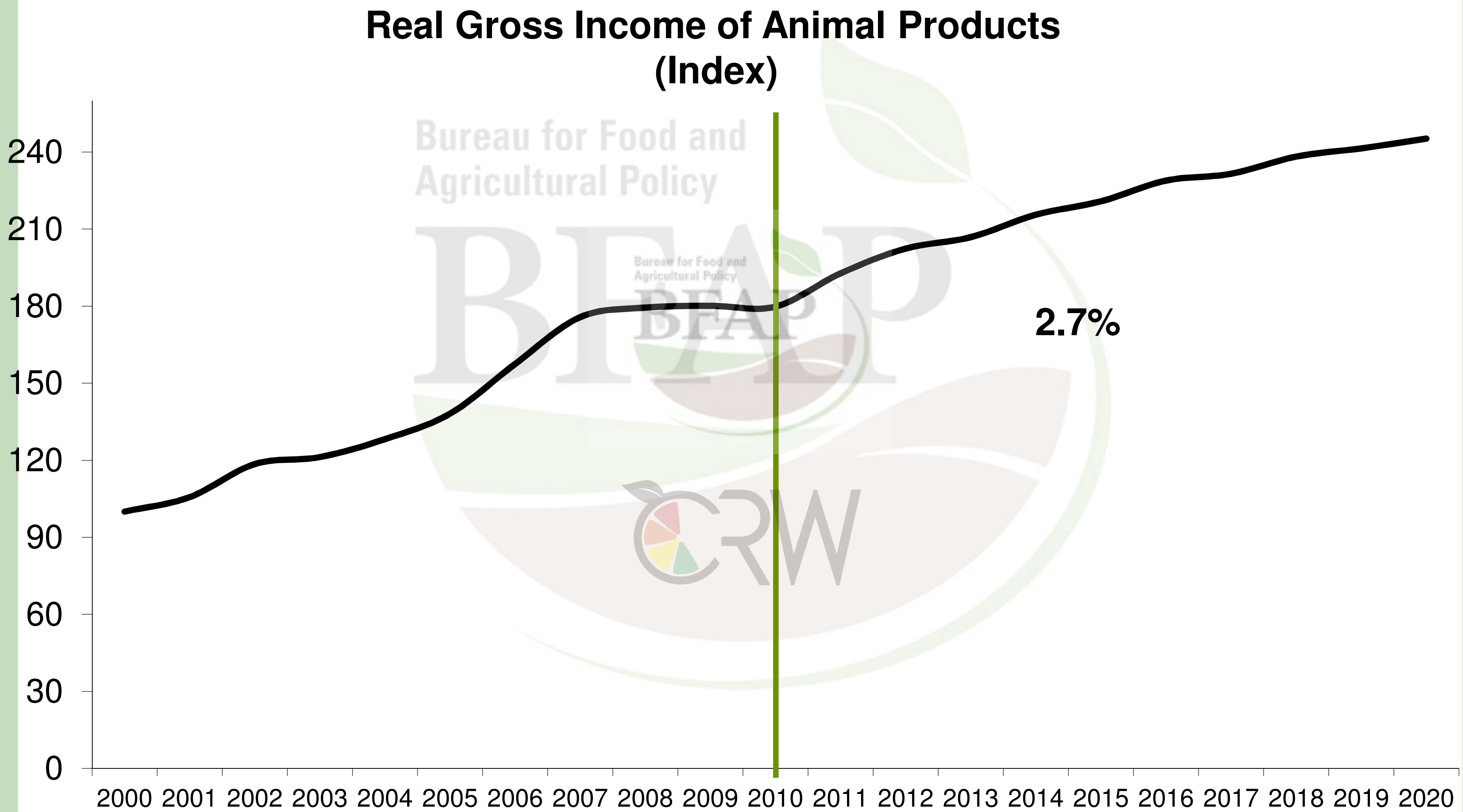
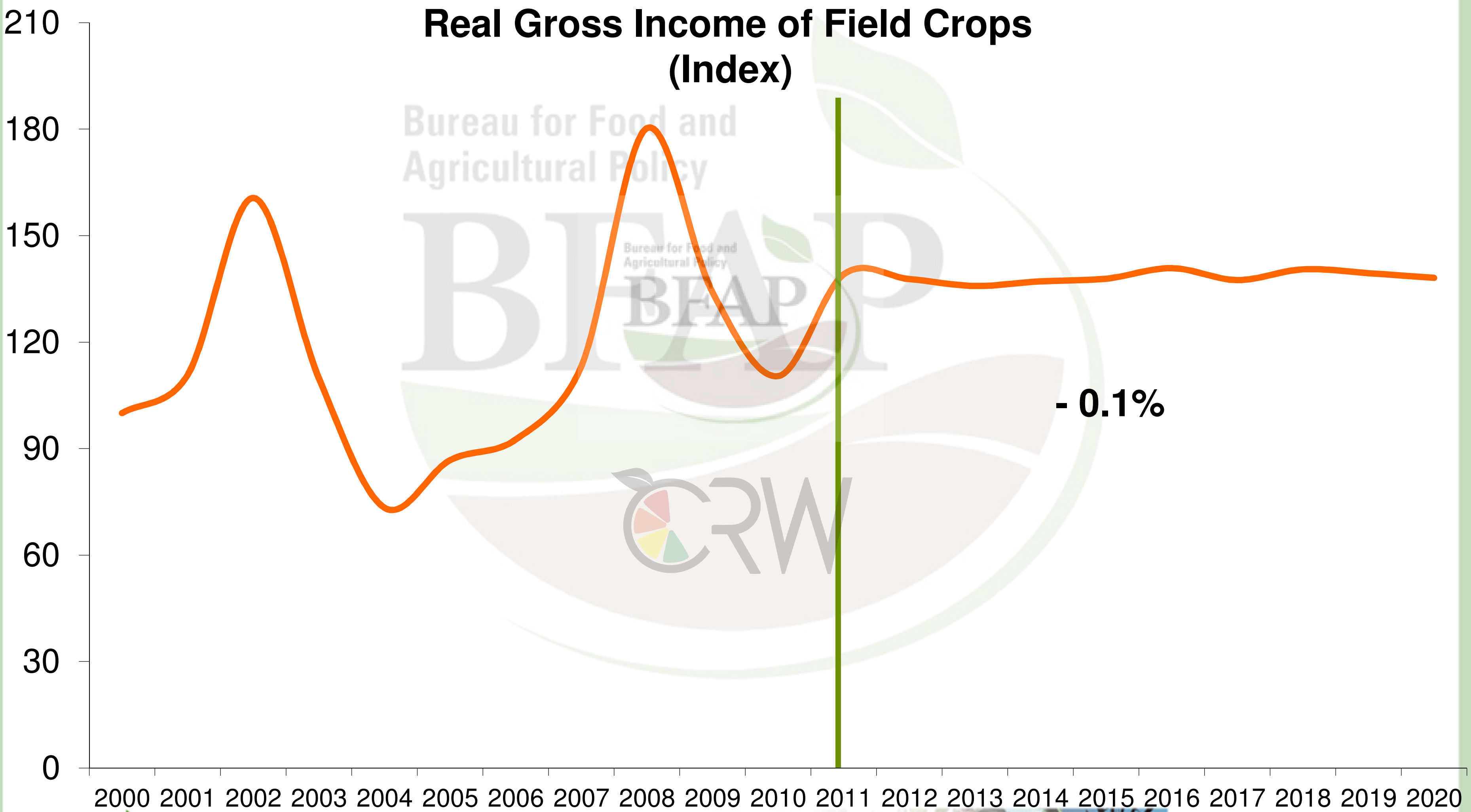
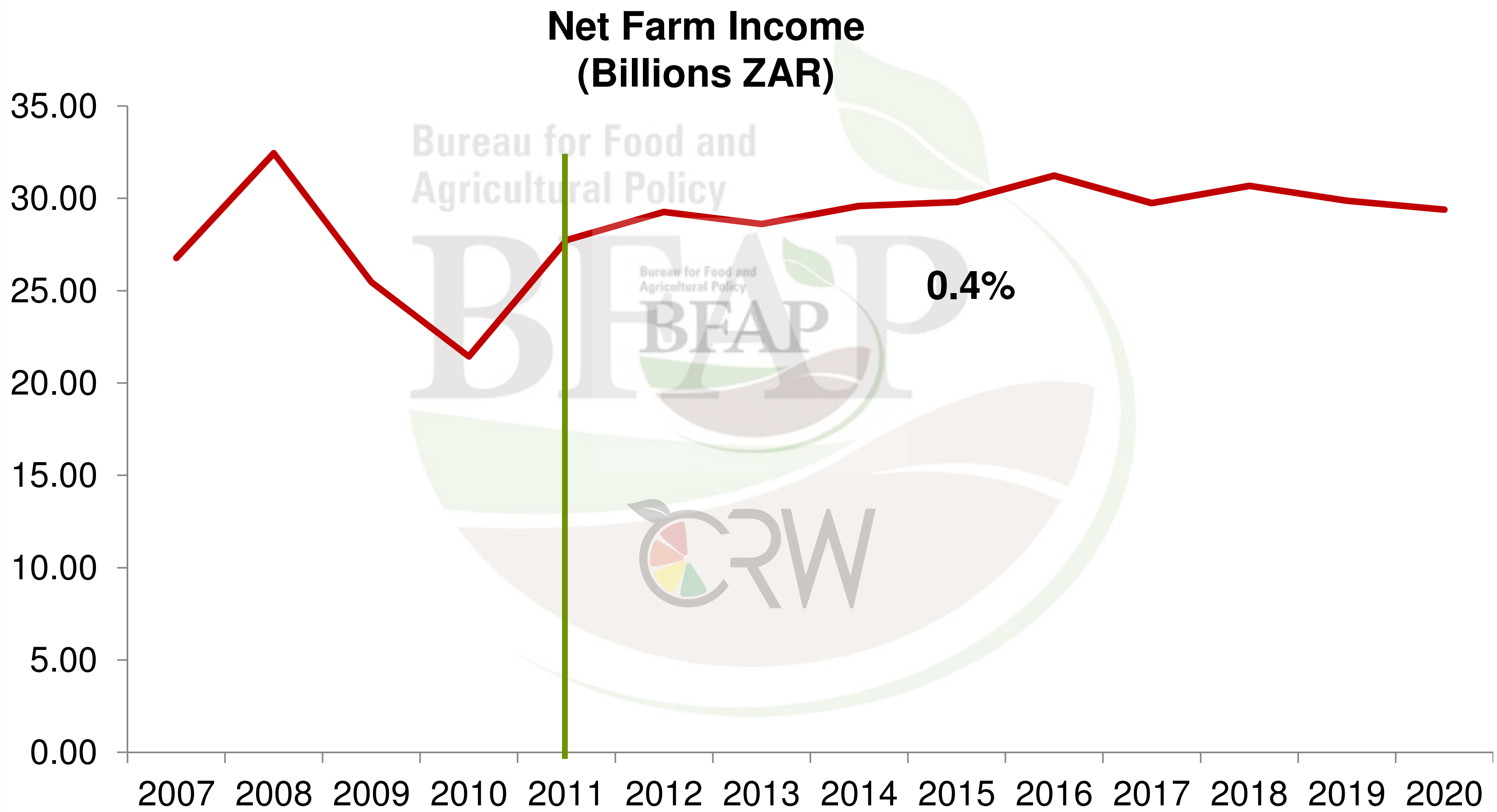
Implication on Income



Implication on Income



Implication on Income



Summary: Implications

Categories	10-Year Annual Average Income (ZAR Billions)	
	Baseline 2010	Baseline 2011
Animal Products	**42.0**	44.4
Field Crops	**15.9**	19.0
Total Agriculture	**77.13**	87.57
Net Farm Income	**26.3**	28.9

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Context

- Global Drivers
  - Rising commodity prices
  - Sluggish economic recovery
  - Debt crises: U.S. & Euro-zone
  - → weakening currency values
  - → U.S. Farm Bill & Biofuels Policy
- Regional Drivers
  - Competition for arable land
  - Foreign direct investment

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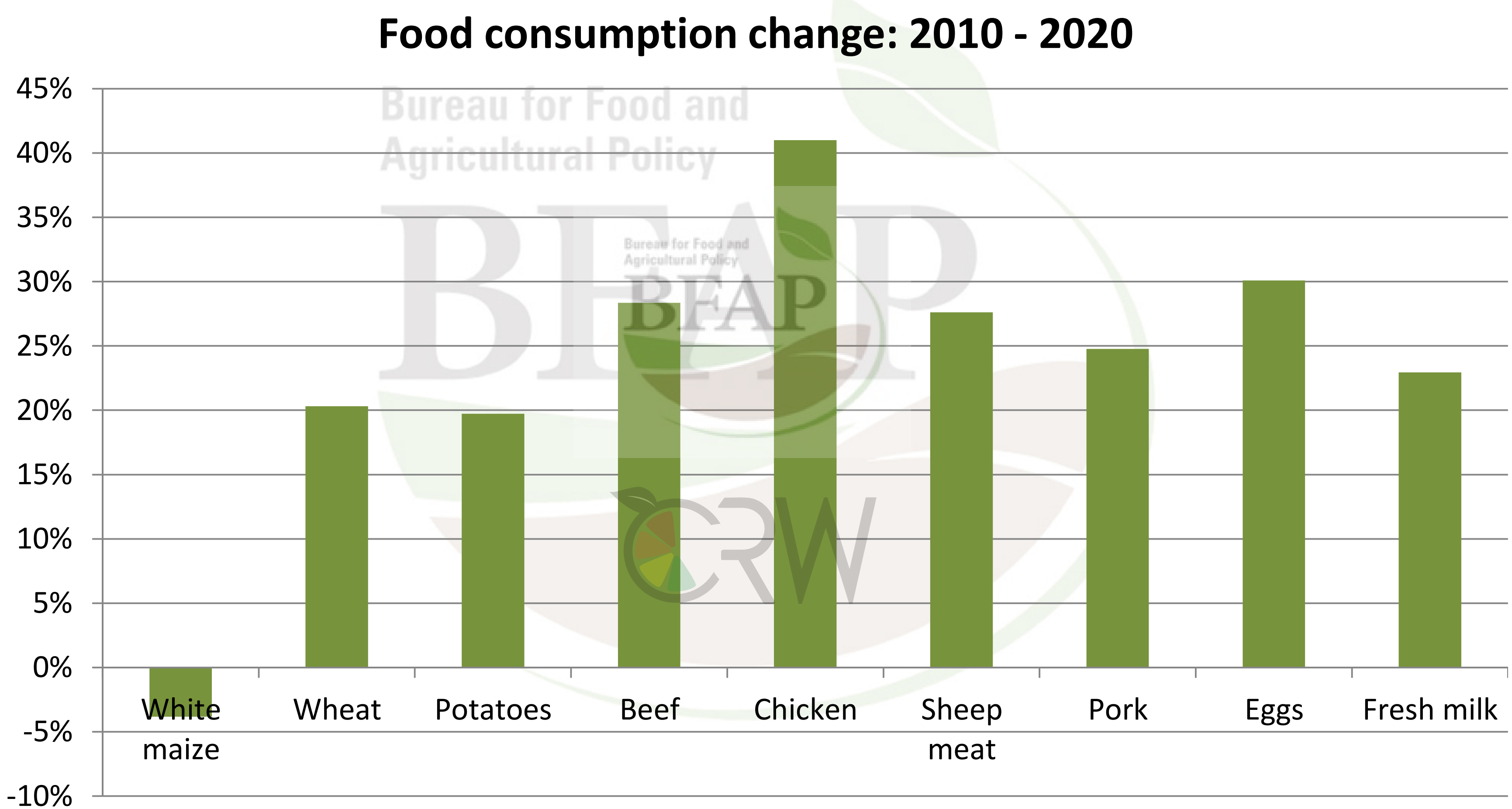
10-Year Agricultural Market Outlook
Field crops and Horticulture

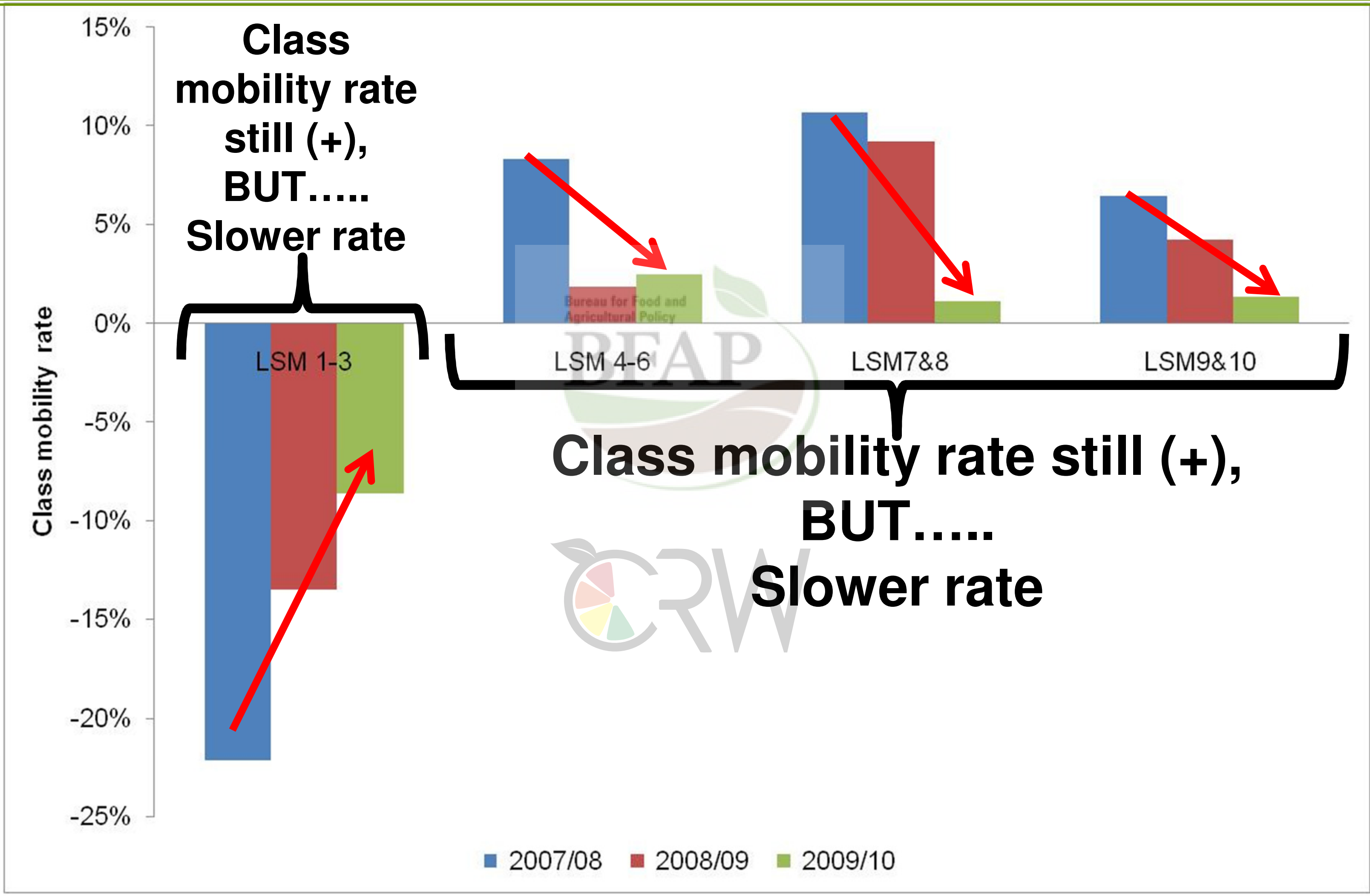
Key drivers and assumptions

- Macro-economic assumptions – as presented
  - Sluggish growth, relatively stronger Rand, high commodity prices
- General market trends from Global outlook by OECD-FAO in the case of field crops.
- “Normal / average” weather conditions

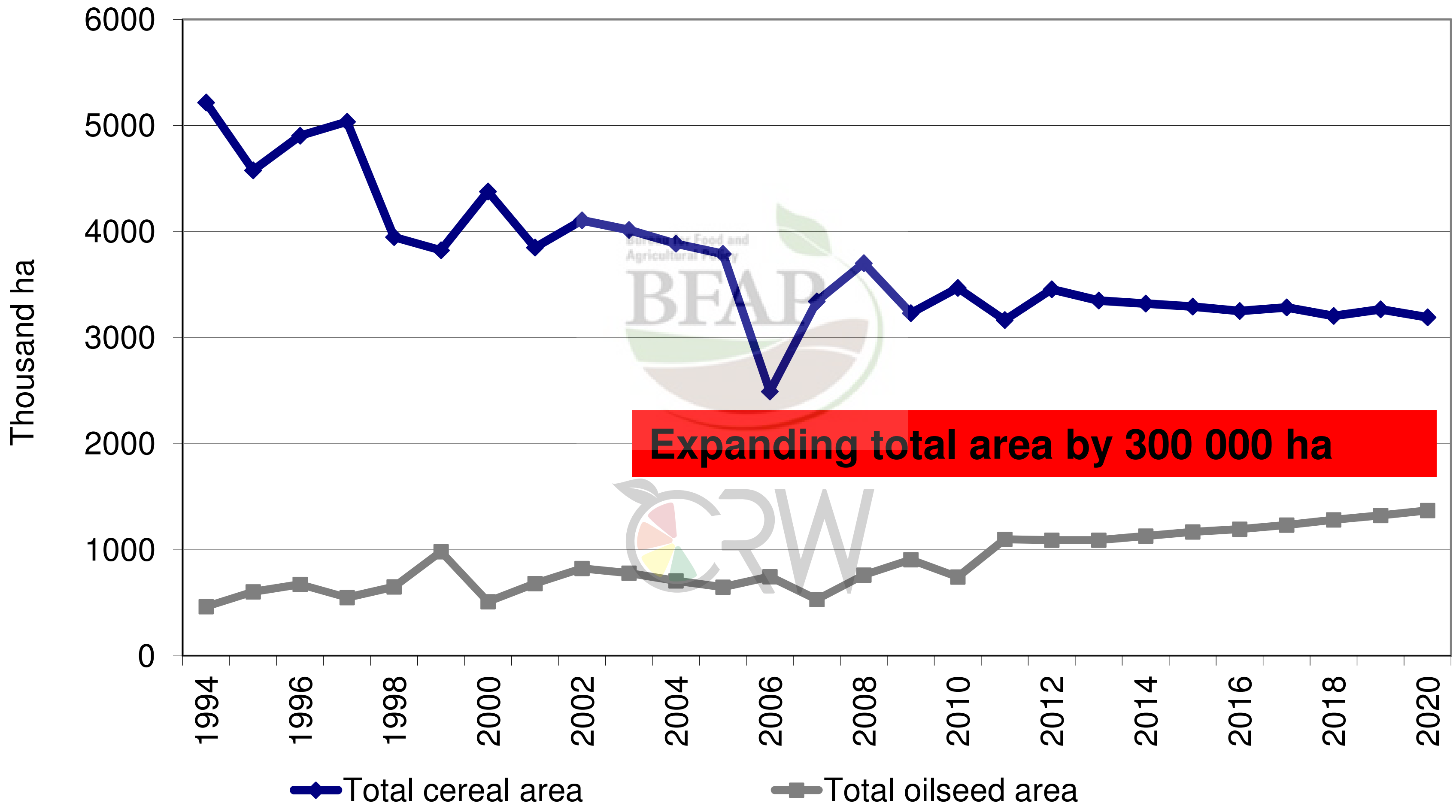
Food Consumption



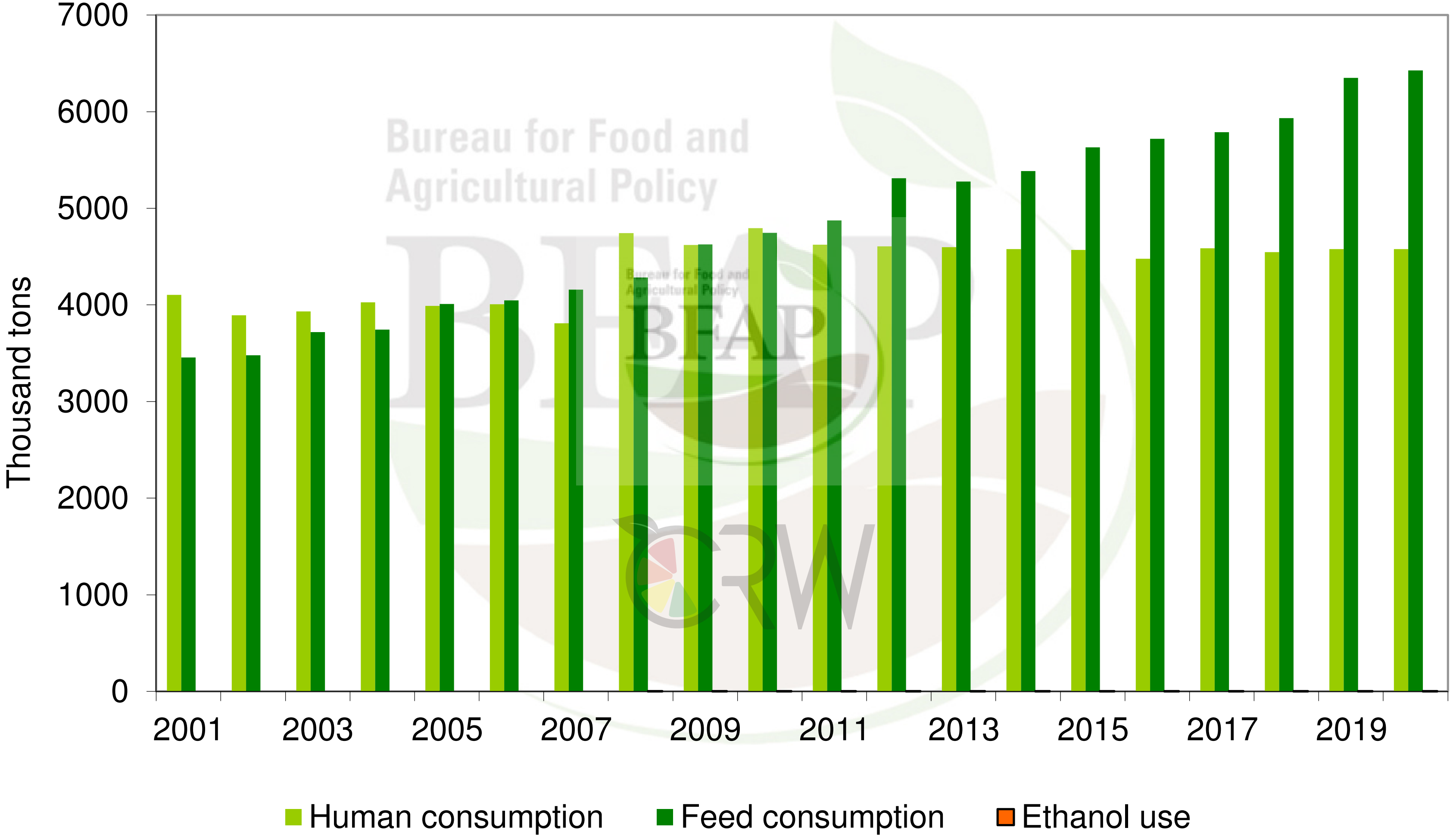
Class mobility rate *(2007 - 2009)*



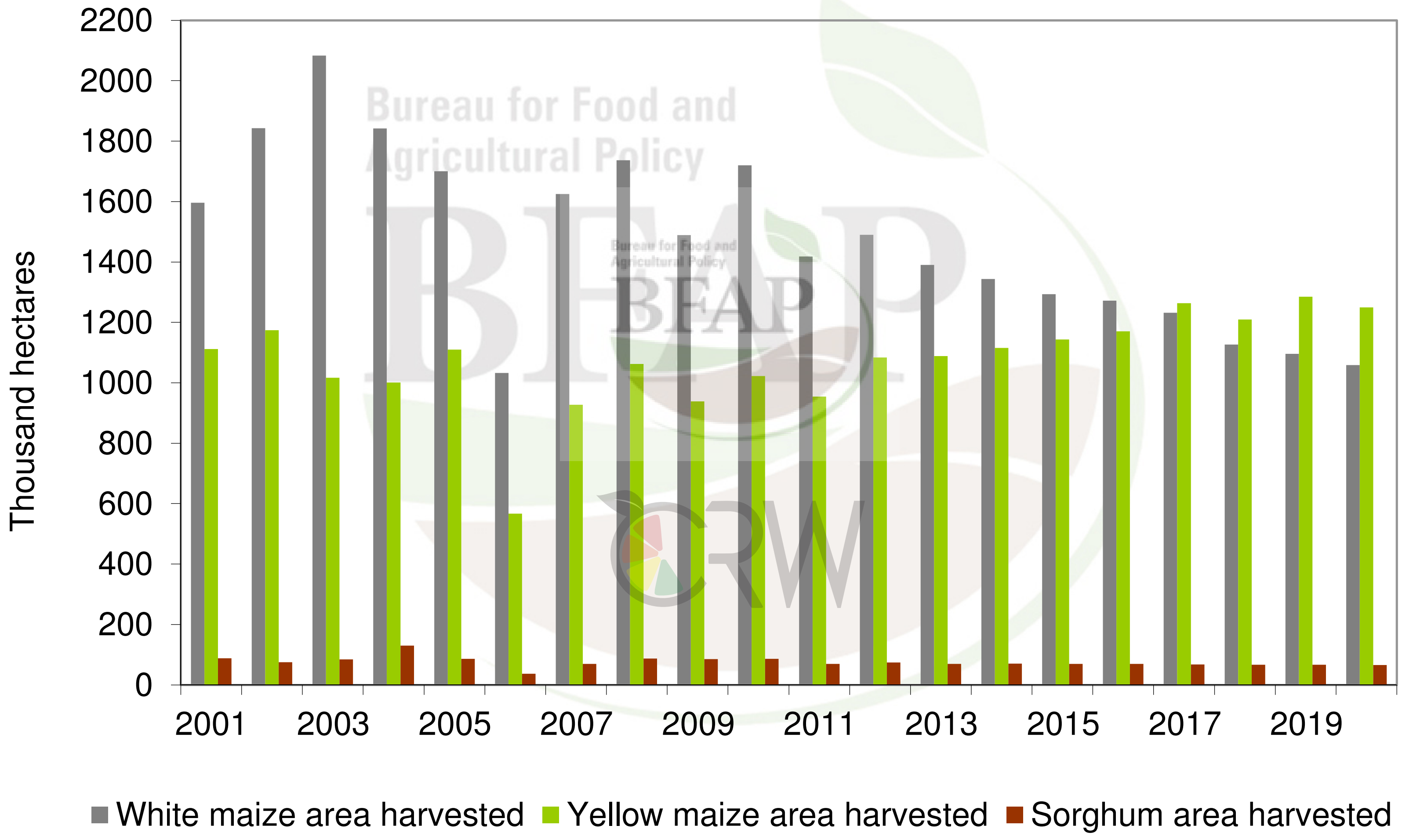
Supply Response



Maize Consumption



Summer Grains



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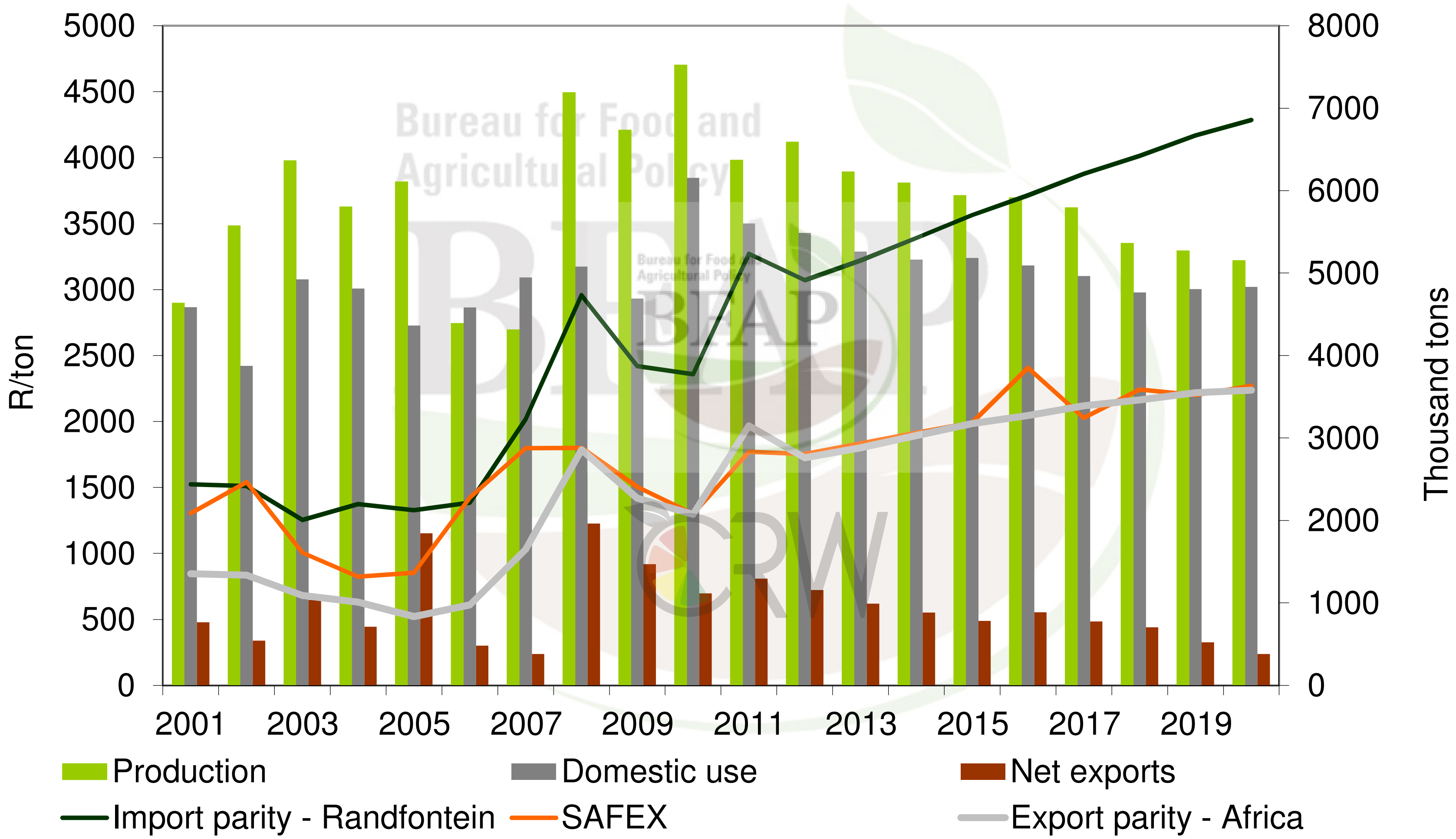
White Maize



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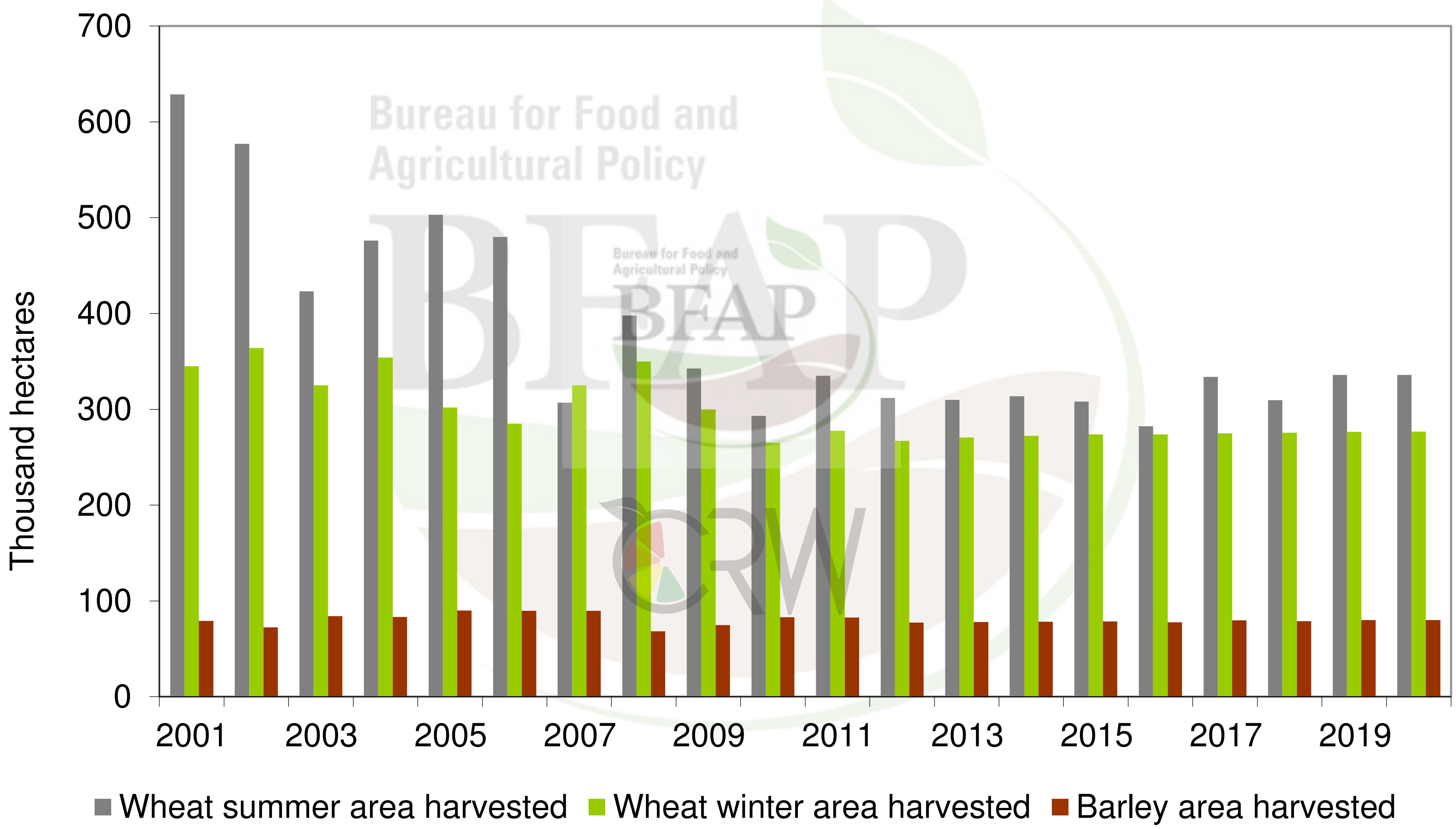
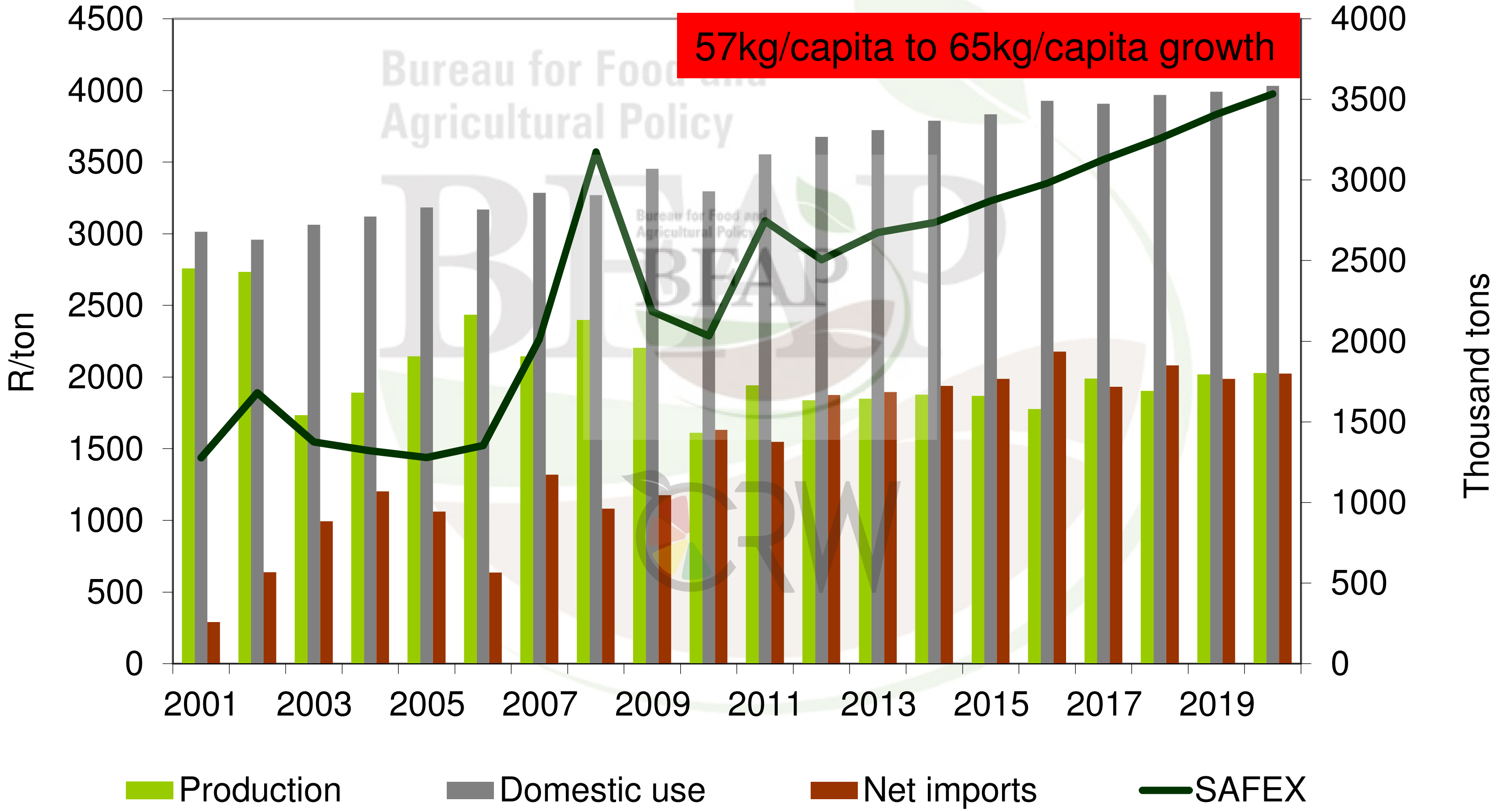
Winter Grains



Wheat



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South African food trends

A ‘new’ product perspective

Top 3 local trends (‘06 - ‘10): Indulgence, Convenience, Health

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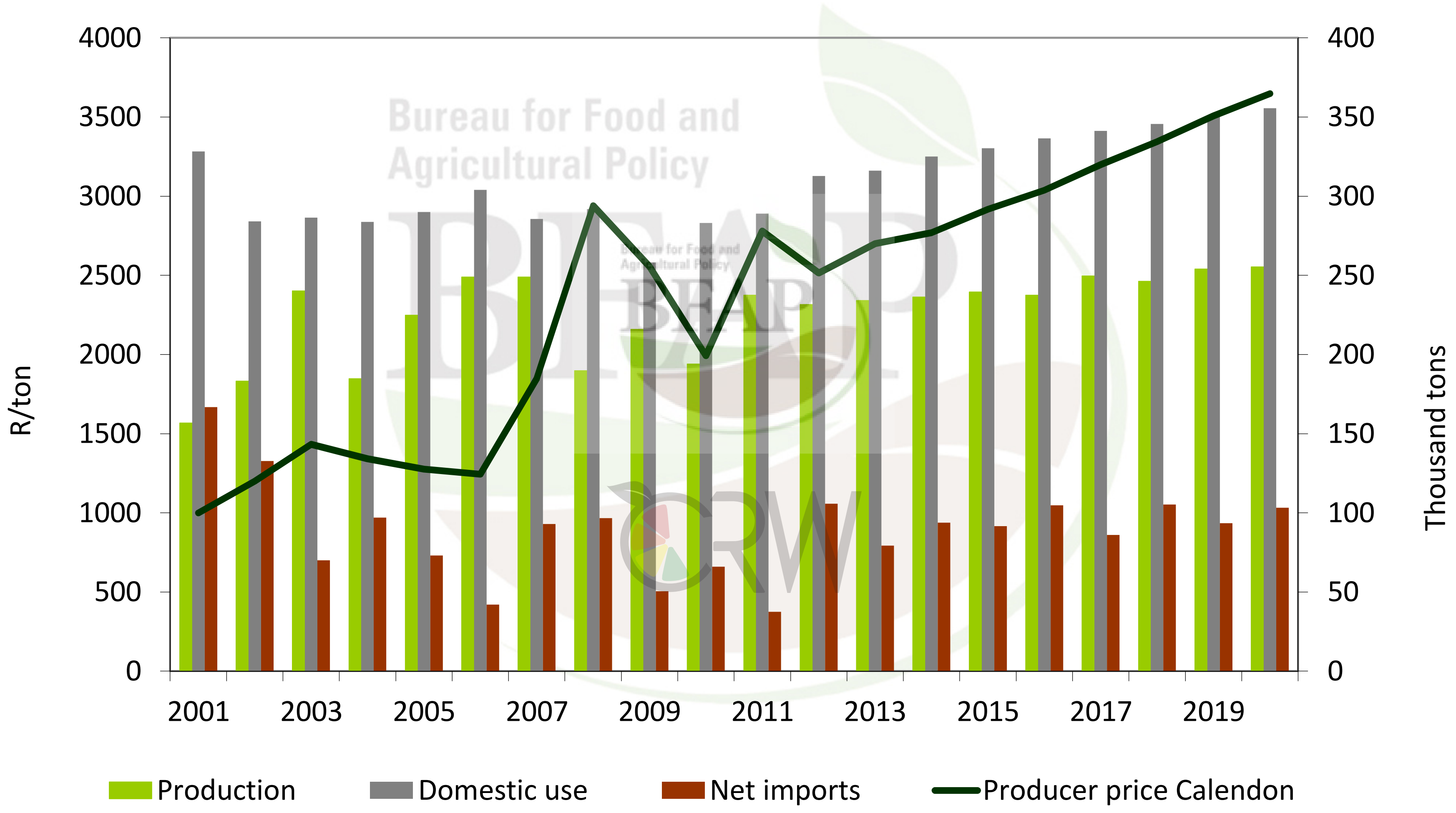
SA trend examples: Health trends in bread

- Bread…  no longer a ‘commodity’
- Whole grain or multigrain very popular in recent new launches in bread sector internationally
- SA example:

  – Sasko low GI speciality bread range
    - Whole wheat dumpy / Oats & Honey / Soy & Linseed / Seeded Brown
  – Sasko Low GI Soy & Linseed White Loaf
    - Low GI, high in energy, low in saturated fat, free of trans fatty acids
  – Price premium vs ‘regular’ bread: around 20-50%

Source: Food & Beverage Reporter April 2011; www.saskobaking.co.za

Barley



4000
3500
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2500
2000
1500
1000
500
0
R/ton
400
350
300
250
200
150
100
50
0
Thousand tons
2001
2003
2005
2007
2009
2011
2013
2015
2017
2019
Production
Domestic use
Net imports
Producer price Calendon

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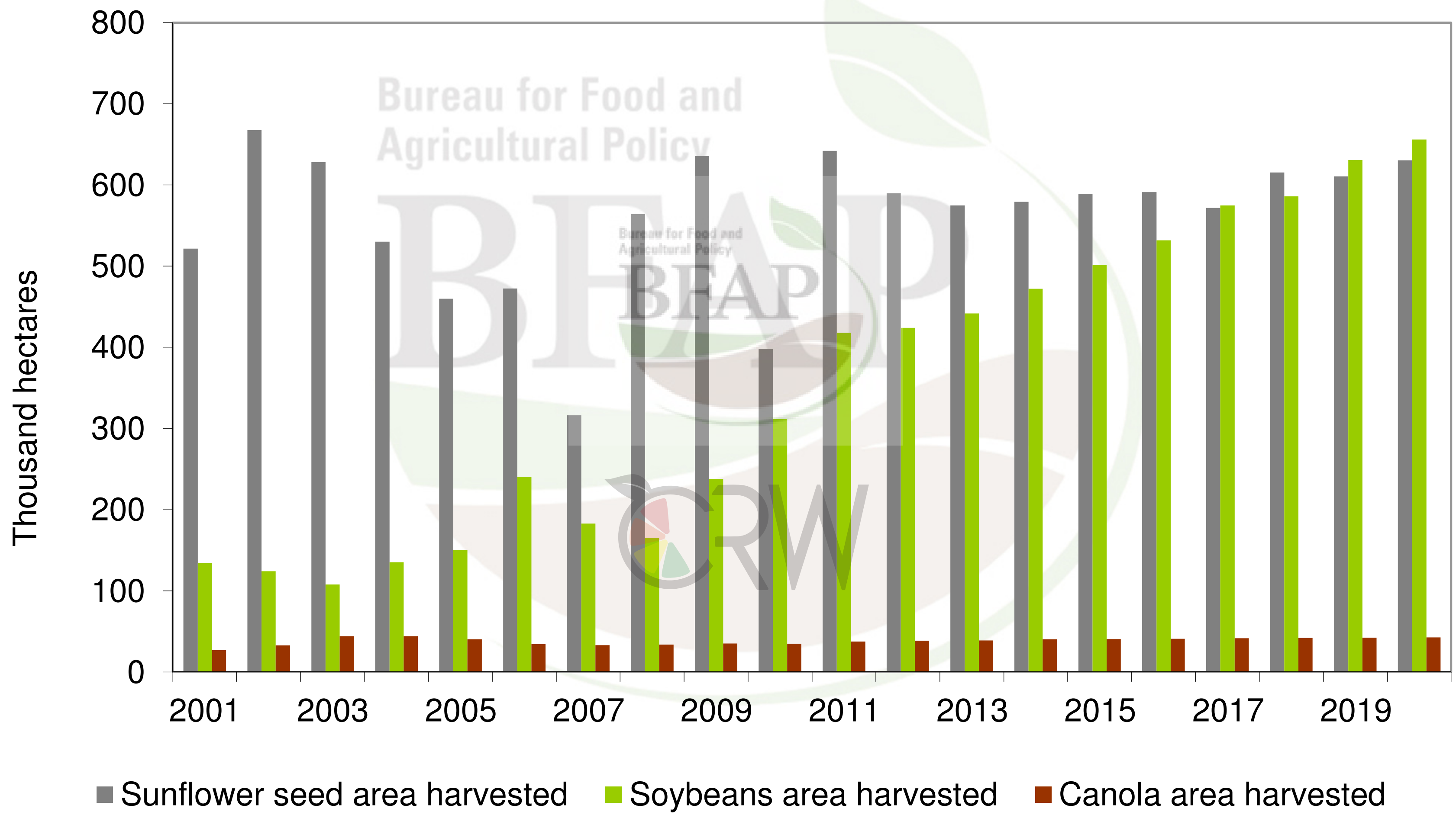
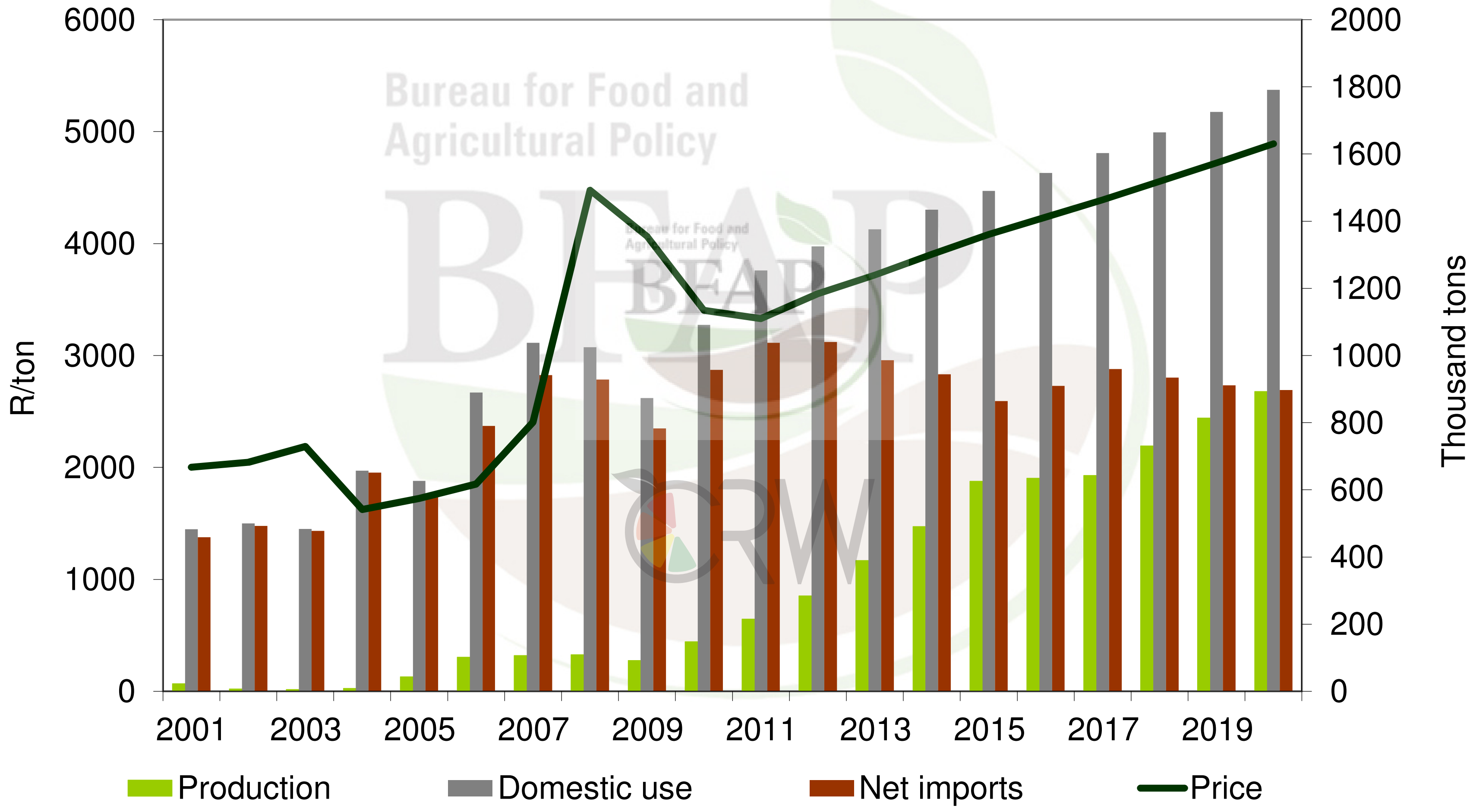
Oilseeds



800
700
600
500
400
300
200
100
0
Thousand hectares
2001
2003
2005
2007
2009
2011
2013
2015
2017
2019
Sunflower seed area harvested
Soybeans area harvested
Canola area harvested

Soybean oilcake



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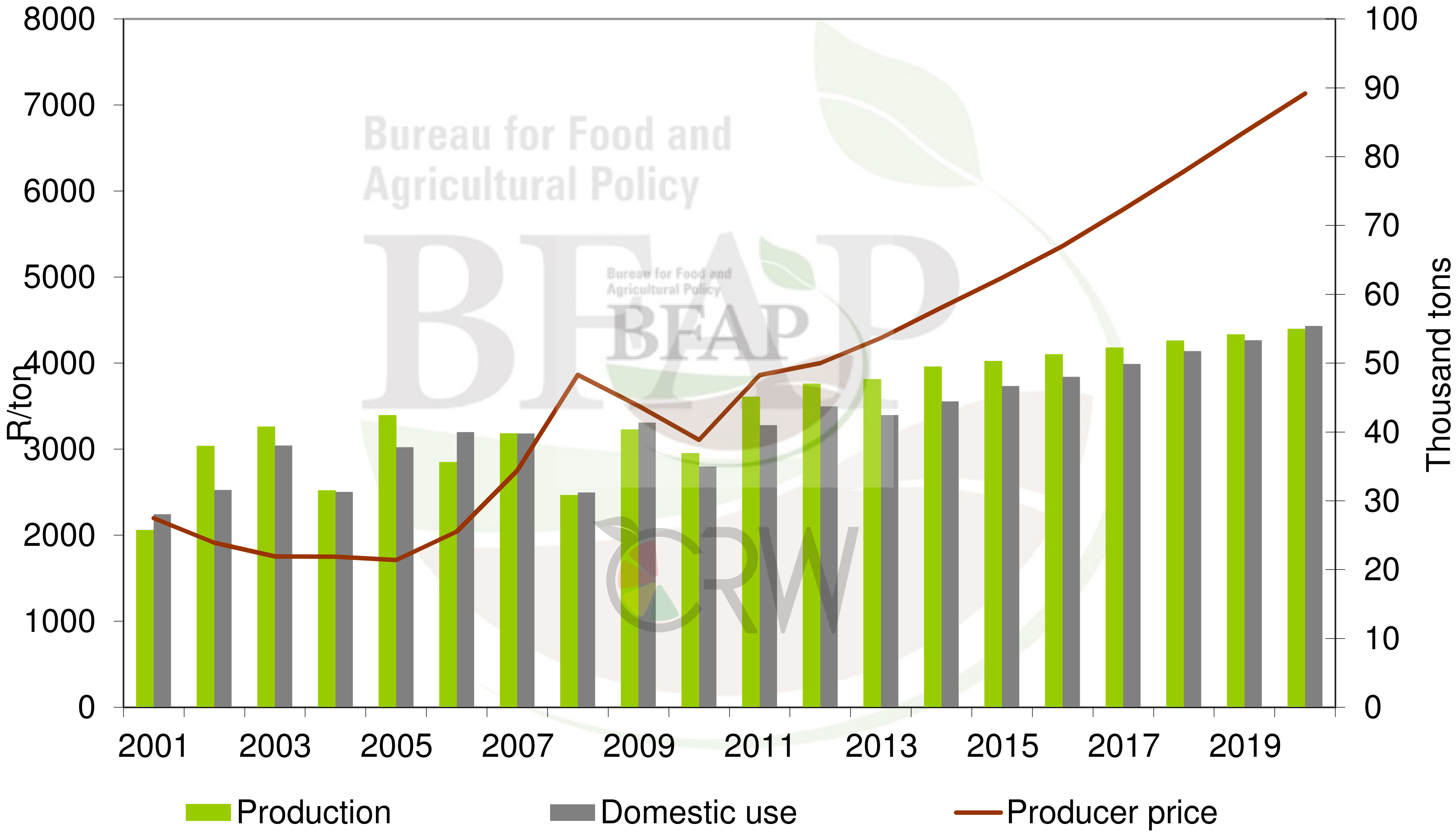
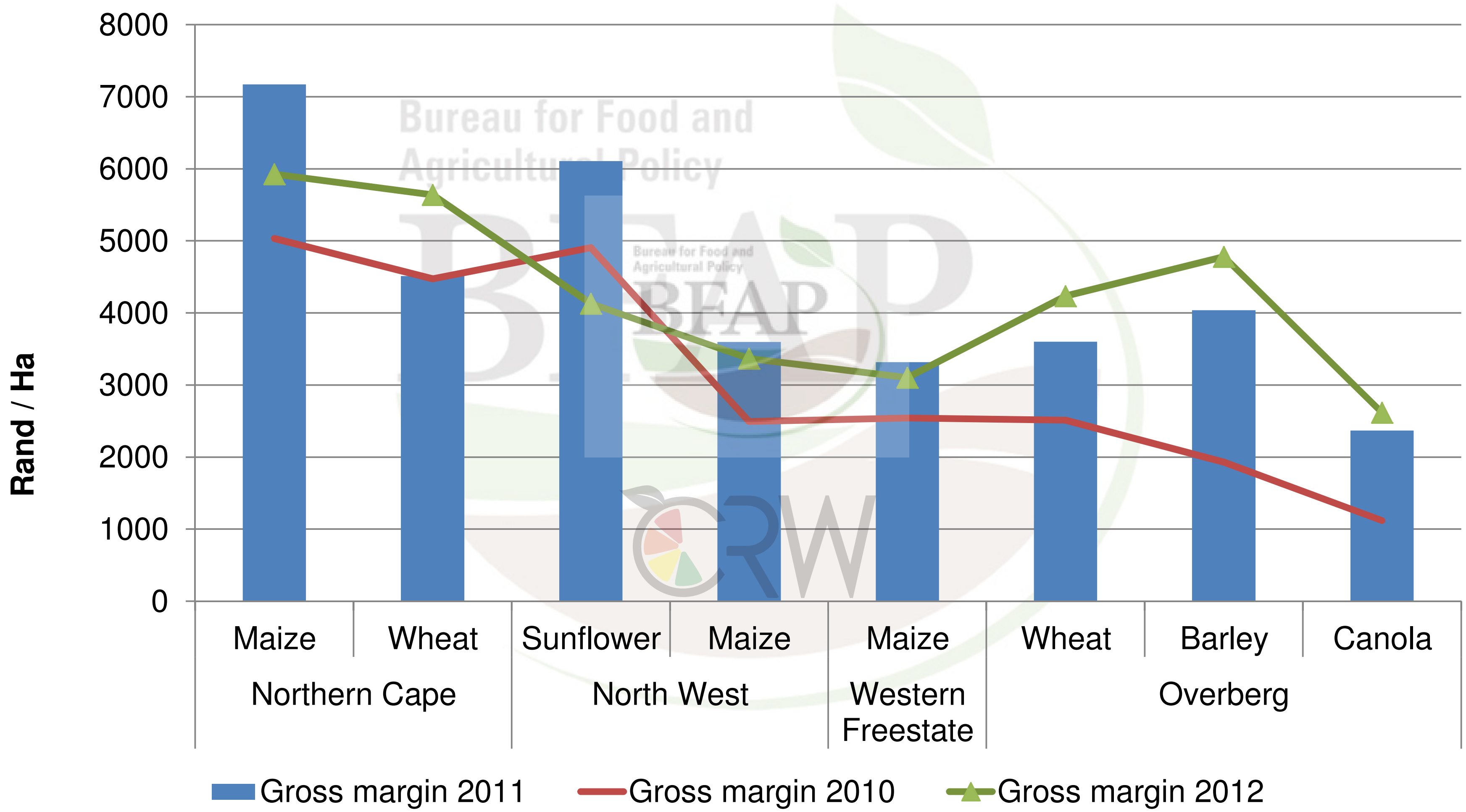
Canola



R/ton
Thousand tons
8000
7000
6000
5000
4000
3000
2000
1000
0
100
90
80
70
60
50
40
30
20
10
0
2001
2003
2005
2007
2009
2011
2013
2015
2017
2019
Production
Domestic use
Producer price

Farm-level Profitability



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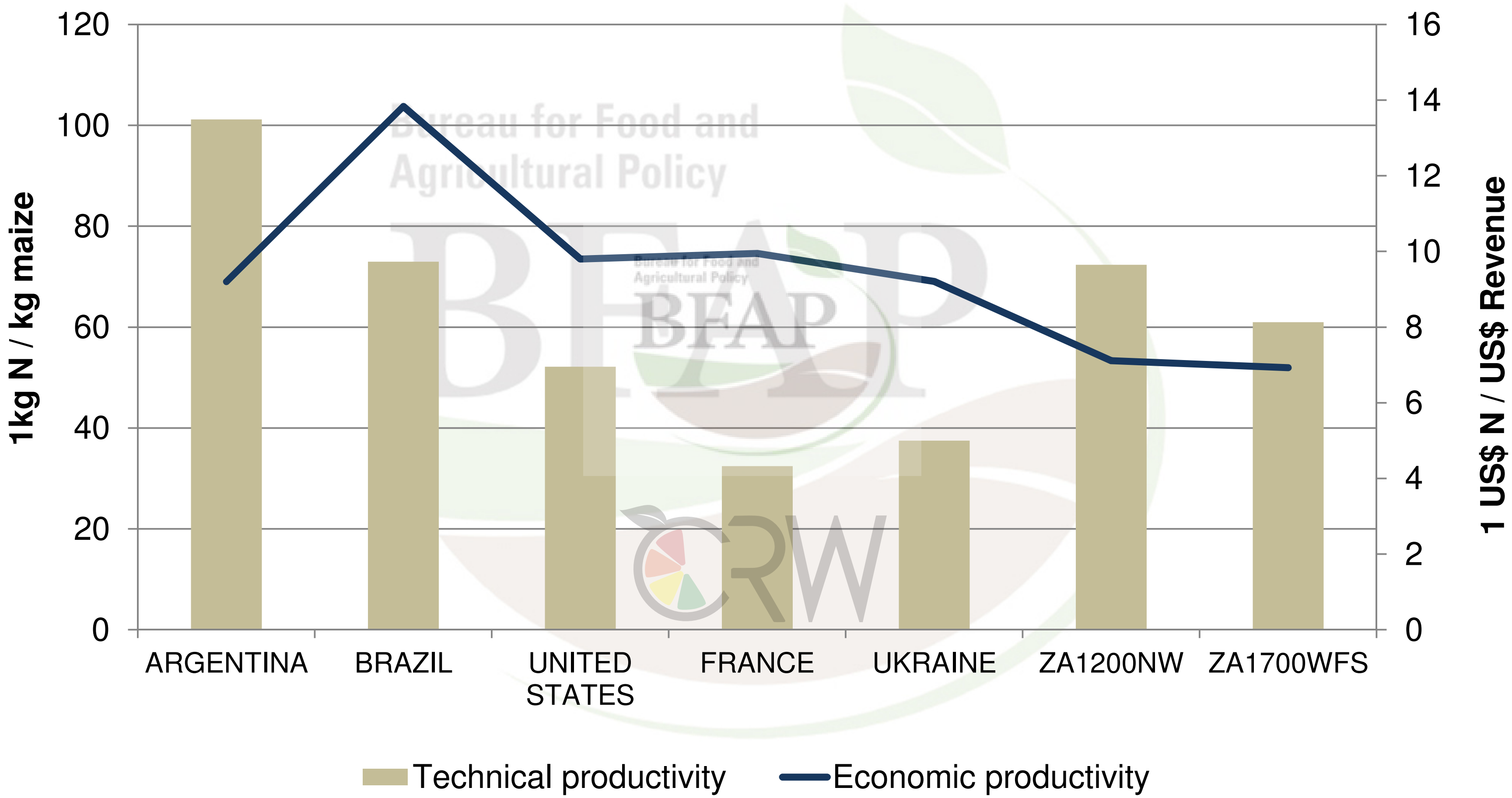
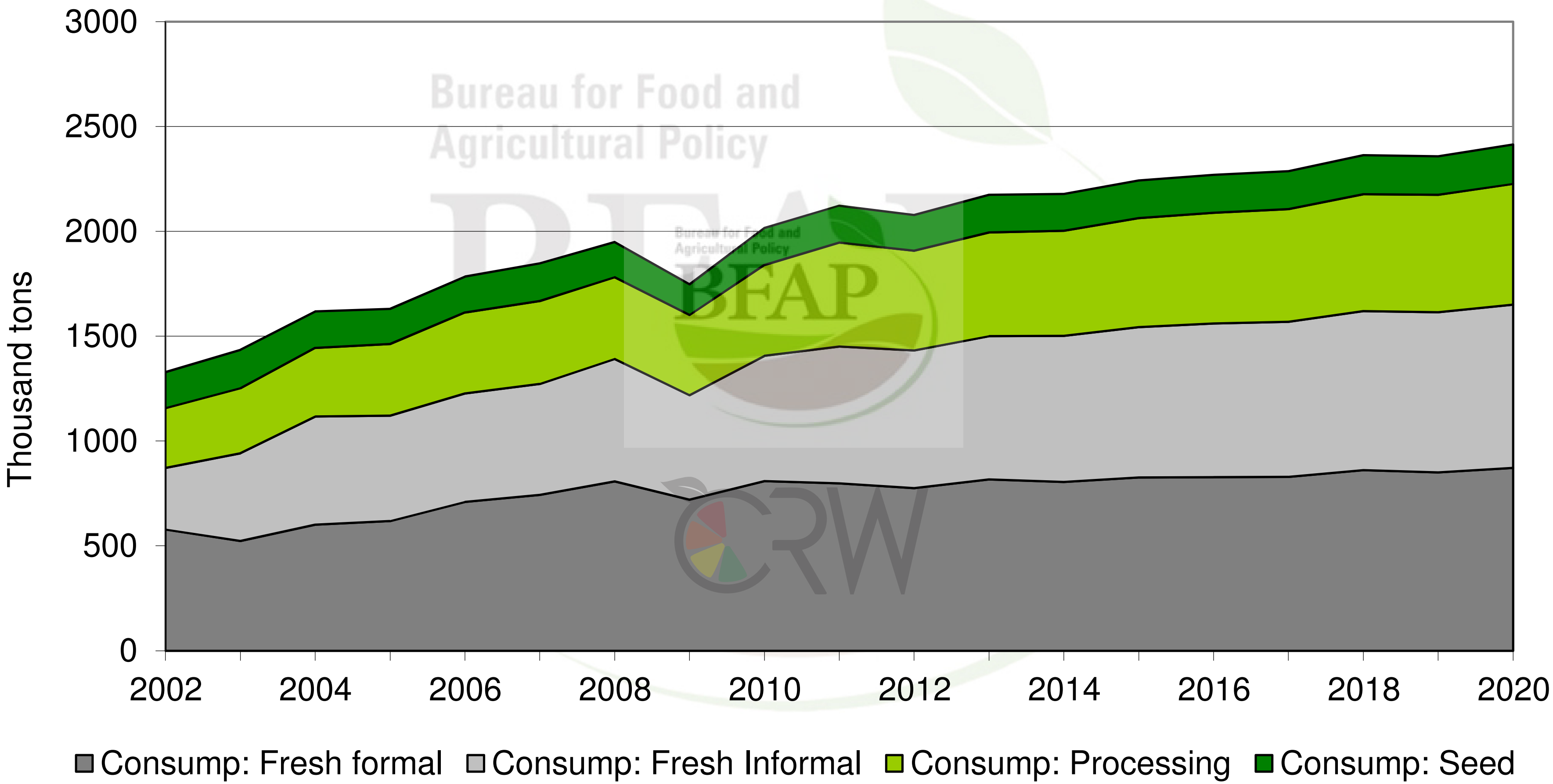
Farm-level efficiency



Source: agribenchmark network

Potatoes



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Processed potato consumption within the post-recession mindset?

- "Recessionary Mindset Continues"
  - Save on gas/electricity
  - Spend less on new clothes
  - **Spend less on take-away meals**
  - **Less out-of-home entertainment (incl restaurants)**
  - Switch to cheaper grocery brands
  - Cut down on telephone costs

Source: The Nielsen Global Online Survey was conducted between May 20 and June 7, 2011

Potatoes –
The cost of convenience

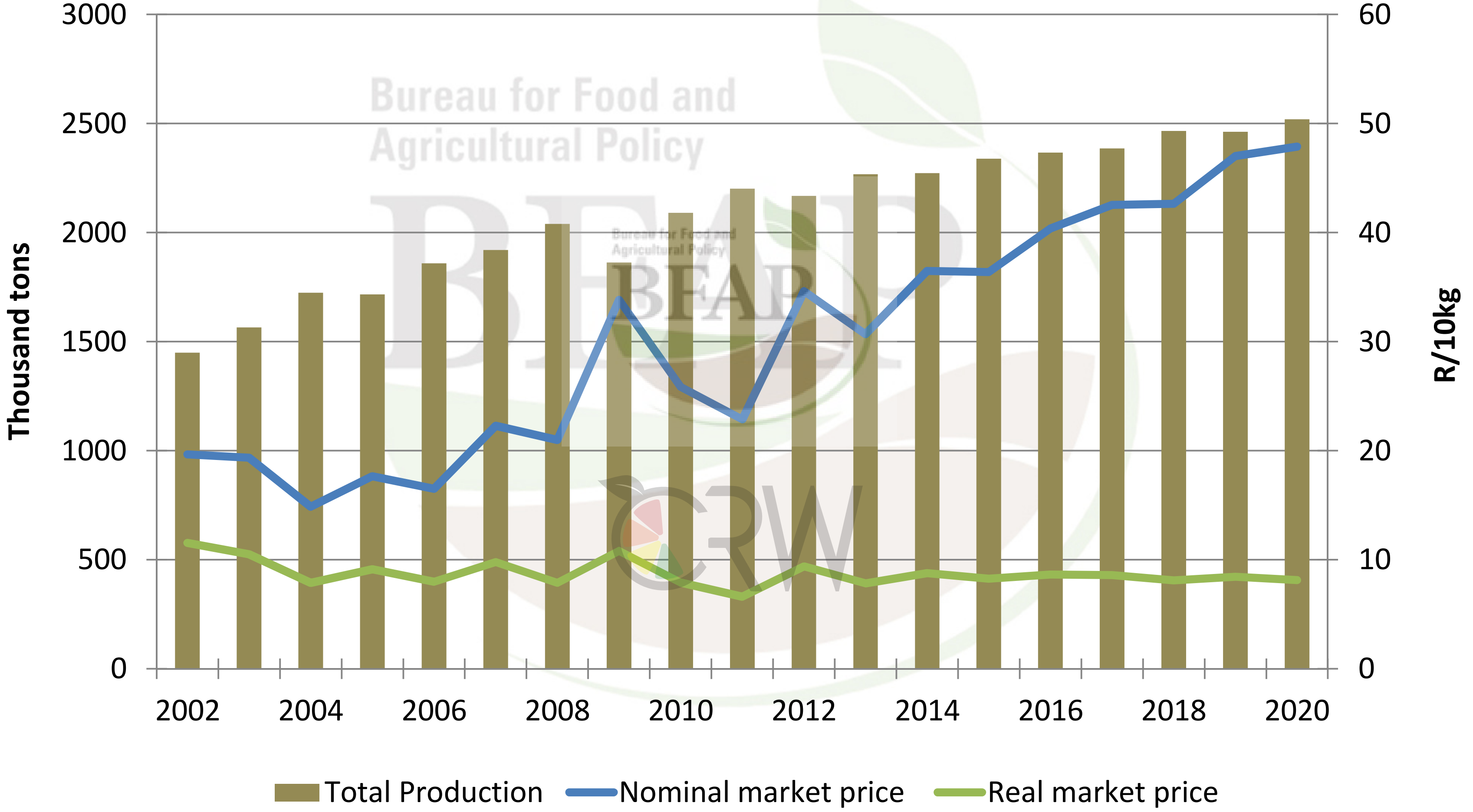
Fresh potatoes

Frozen chips

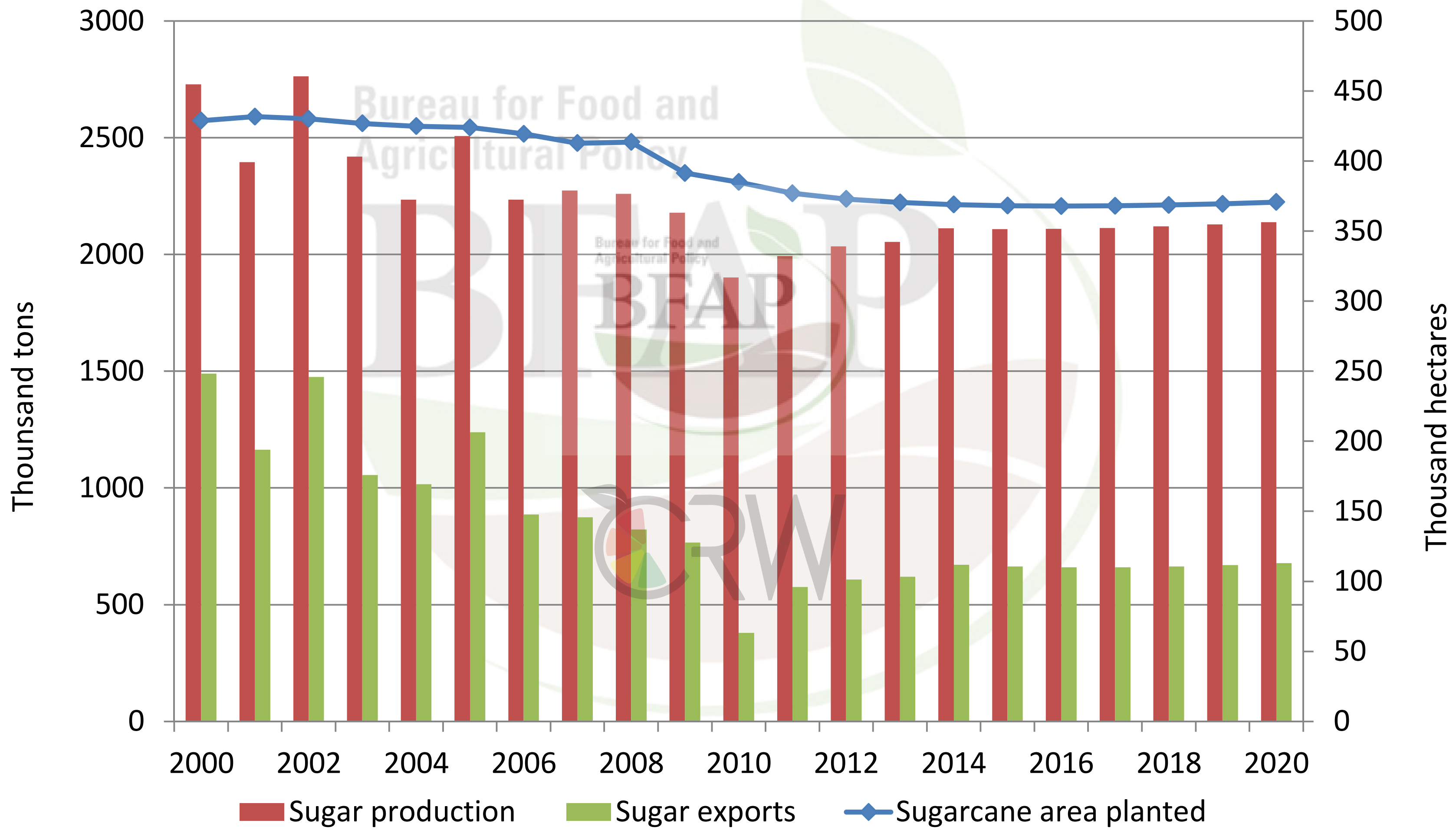
Example:

Frozen chips 90% to 380% more expensive than fresh potatoes

Potatoes – Supply Response



Sugar



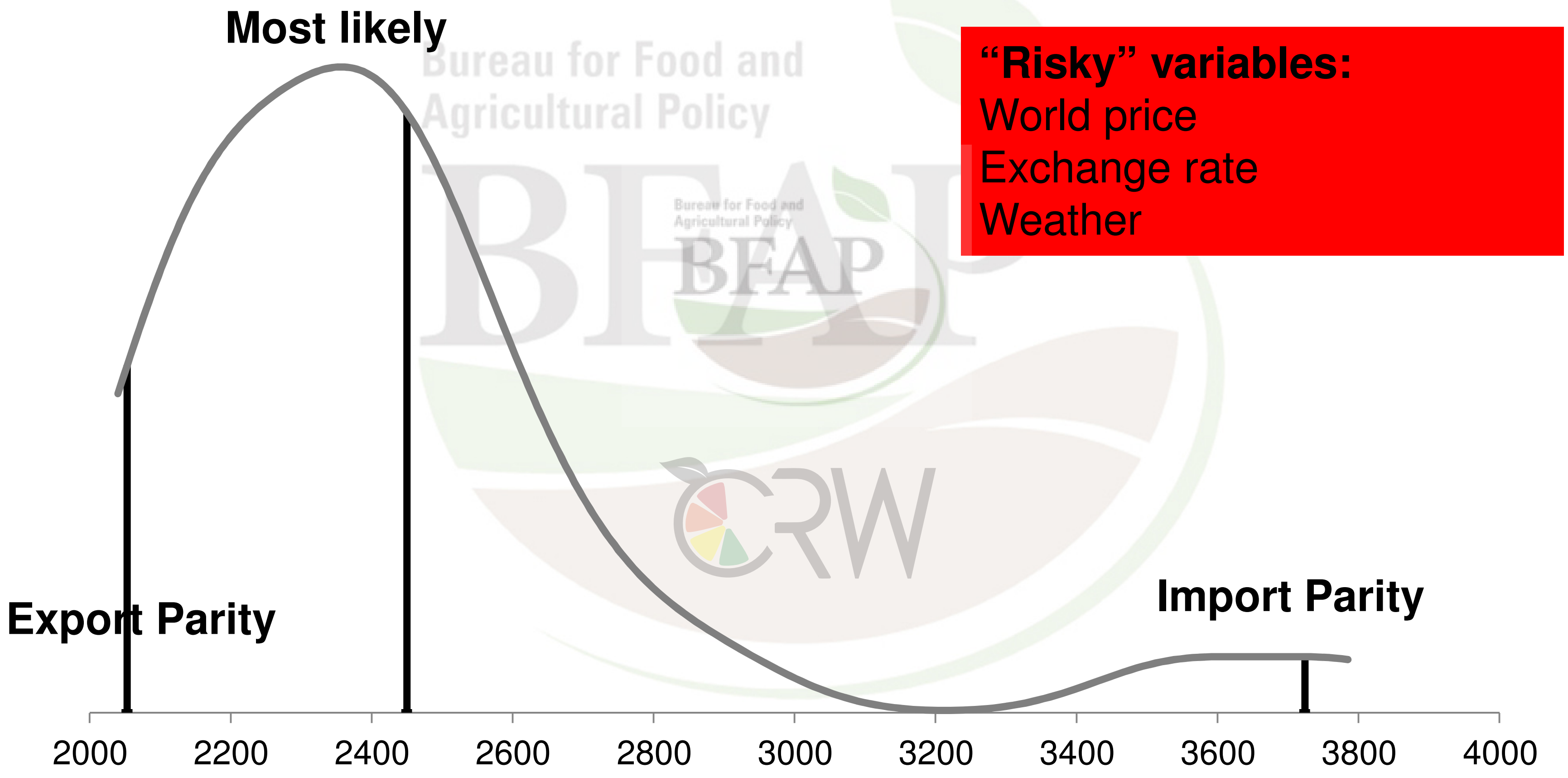
3000
2500
2000
1500
1000
500
0
Thousand tons
500
450
400
350
300
250
200
150
100
50
0
Thousand hectares
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
Sugar production
Sugar exports
Sugarcane area planted

How will the future differ from the Baseline??....it is only a single-point estimate!

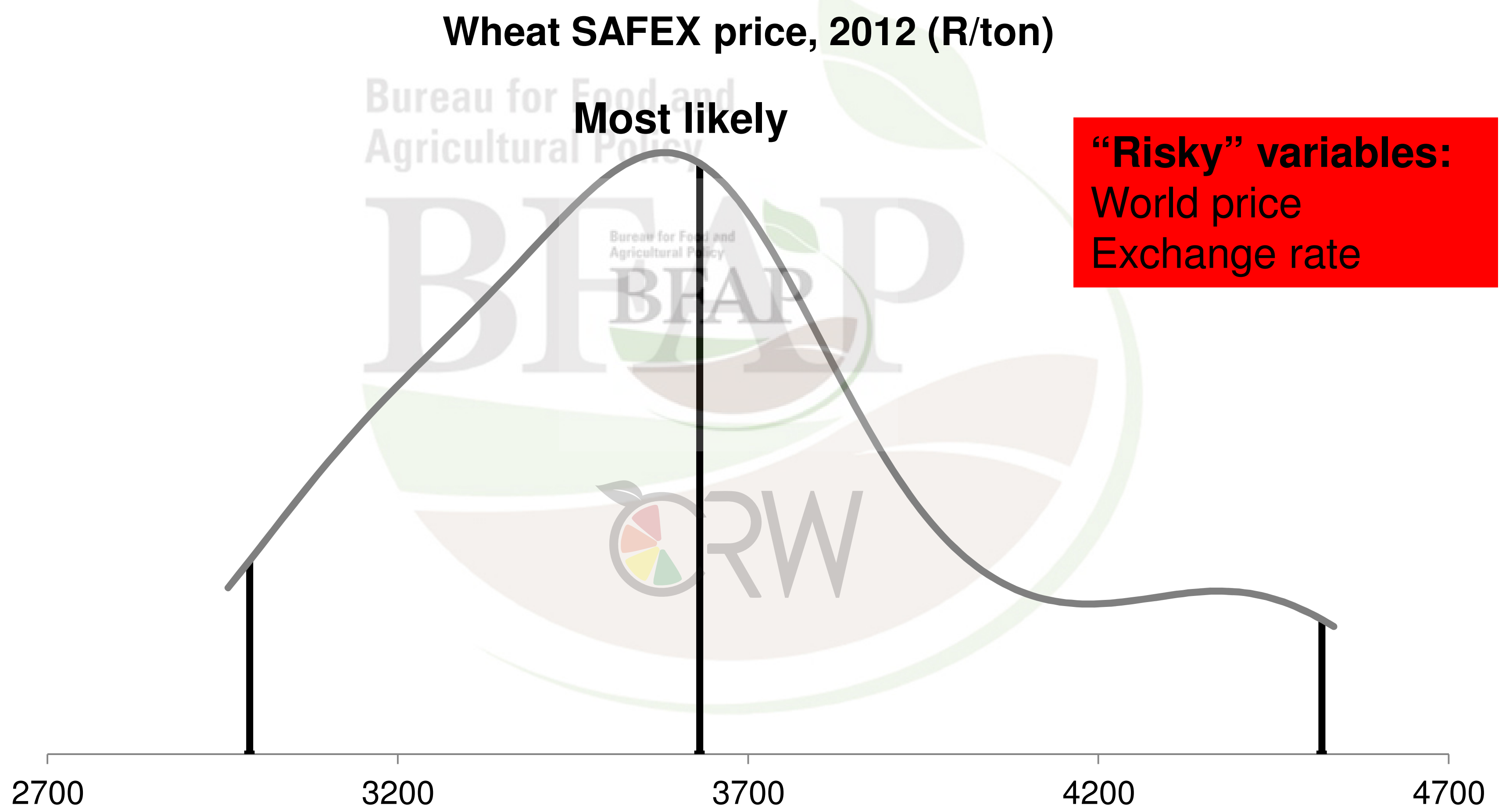
Risk and Uncertainty!!

Short-run Maize Scenario

White Maize SAFEX price, 2012 (R/ton)



Short-run Wheat Scenario



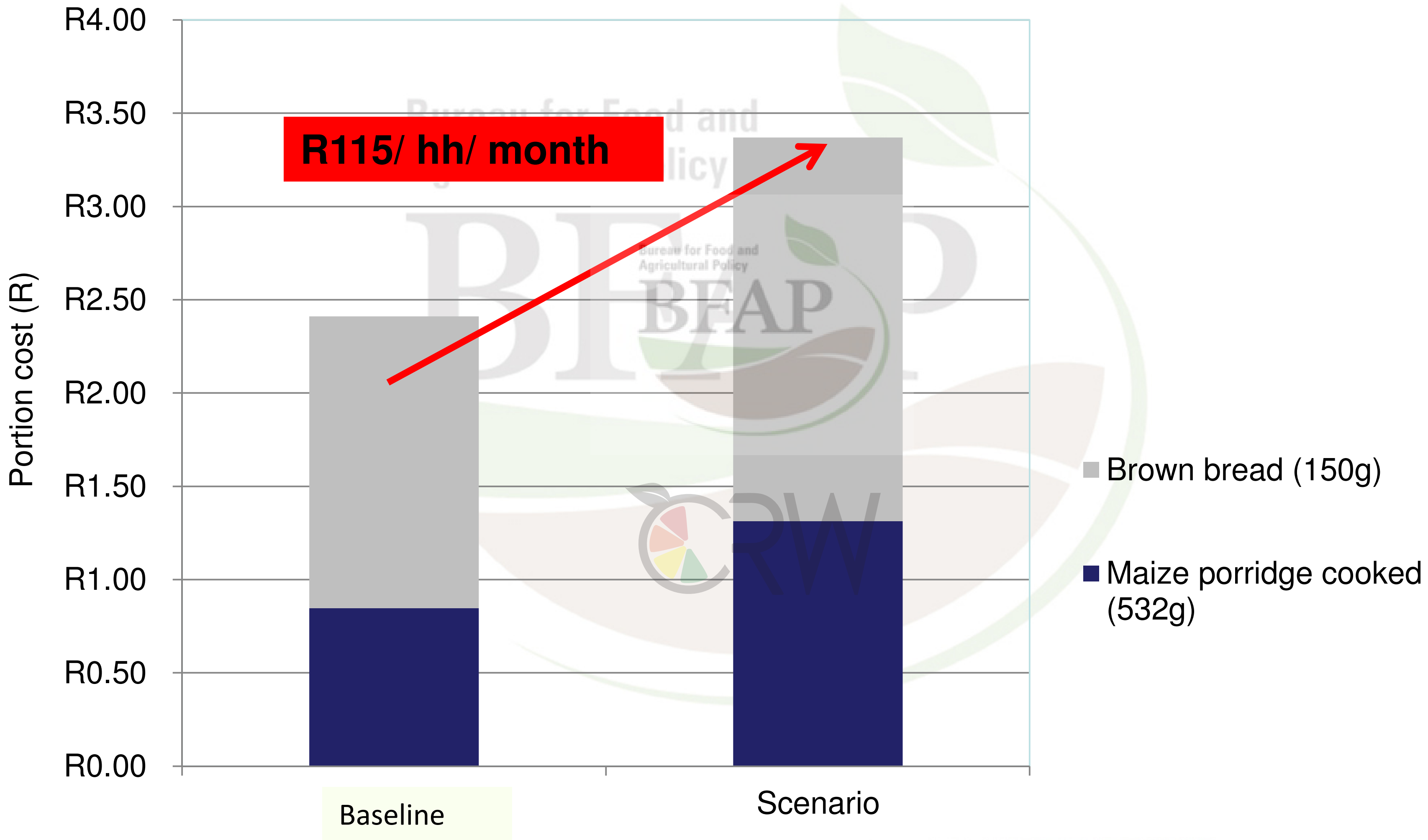
"Risky" variables:
World price
Exchange rate

Impact on food prices

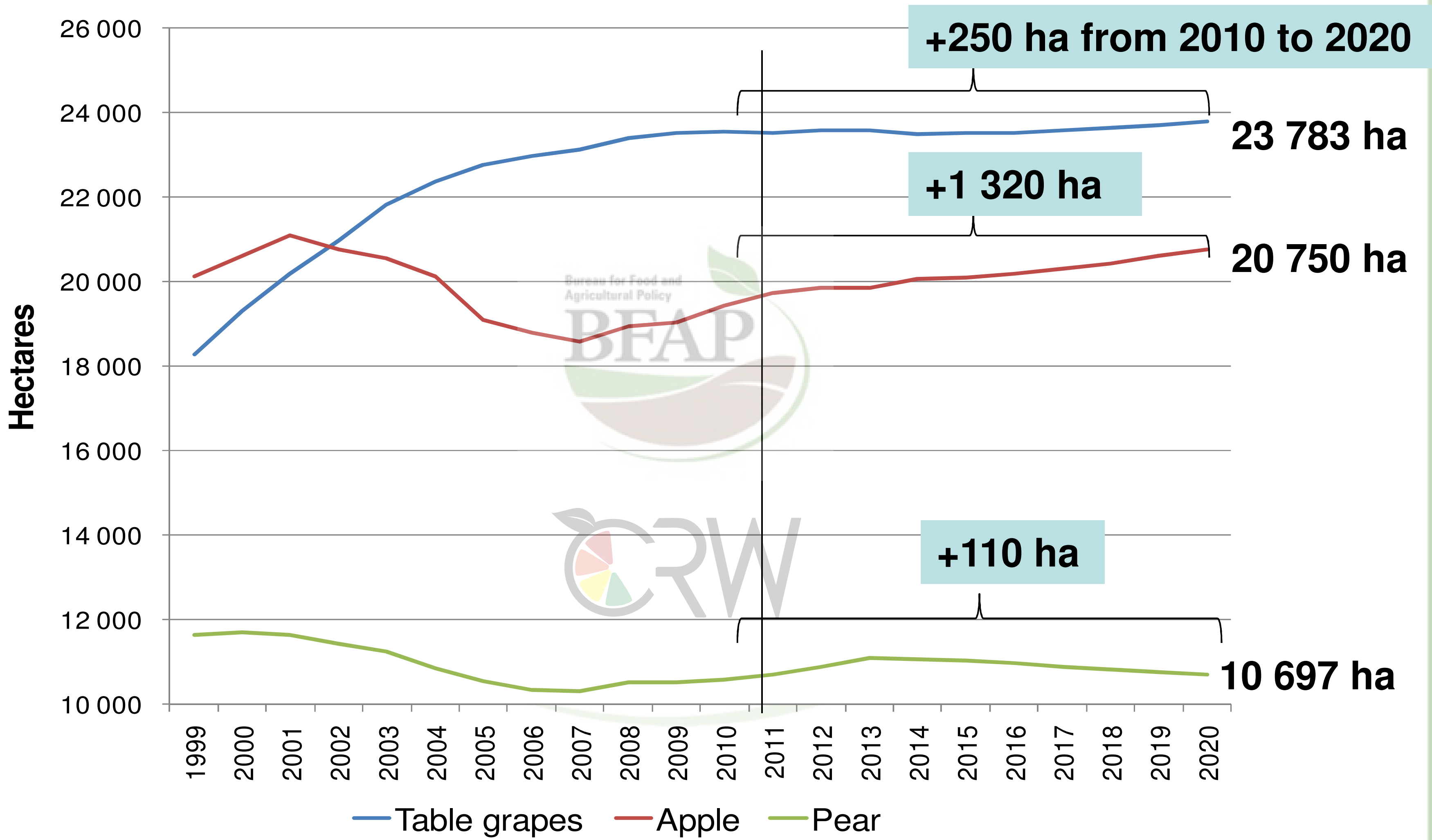
Super maize meal retail price (R/kg): Baseline vs Scenario - 2012					
	Average 2011	Baseline - 2012		Scenario - 2012	
	R/kg	R/kg		R/kg	
Most likely	5.25	5.51	5.0%	6.17	17.5%

White bread (700g) (R/loaf): Baseline vs Scenario - 2012					
	Average 2011	Baseline - 2012		Scenario - 2012	
	R/loaf	R/loaf		R/loaf	
Most likely	8.43	8.77	4.0%	9.60	13.9%

Impact on households

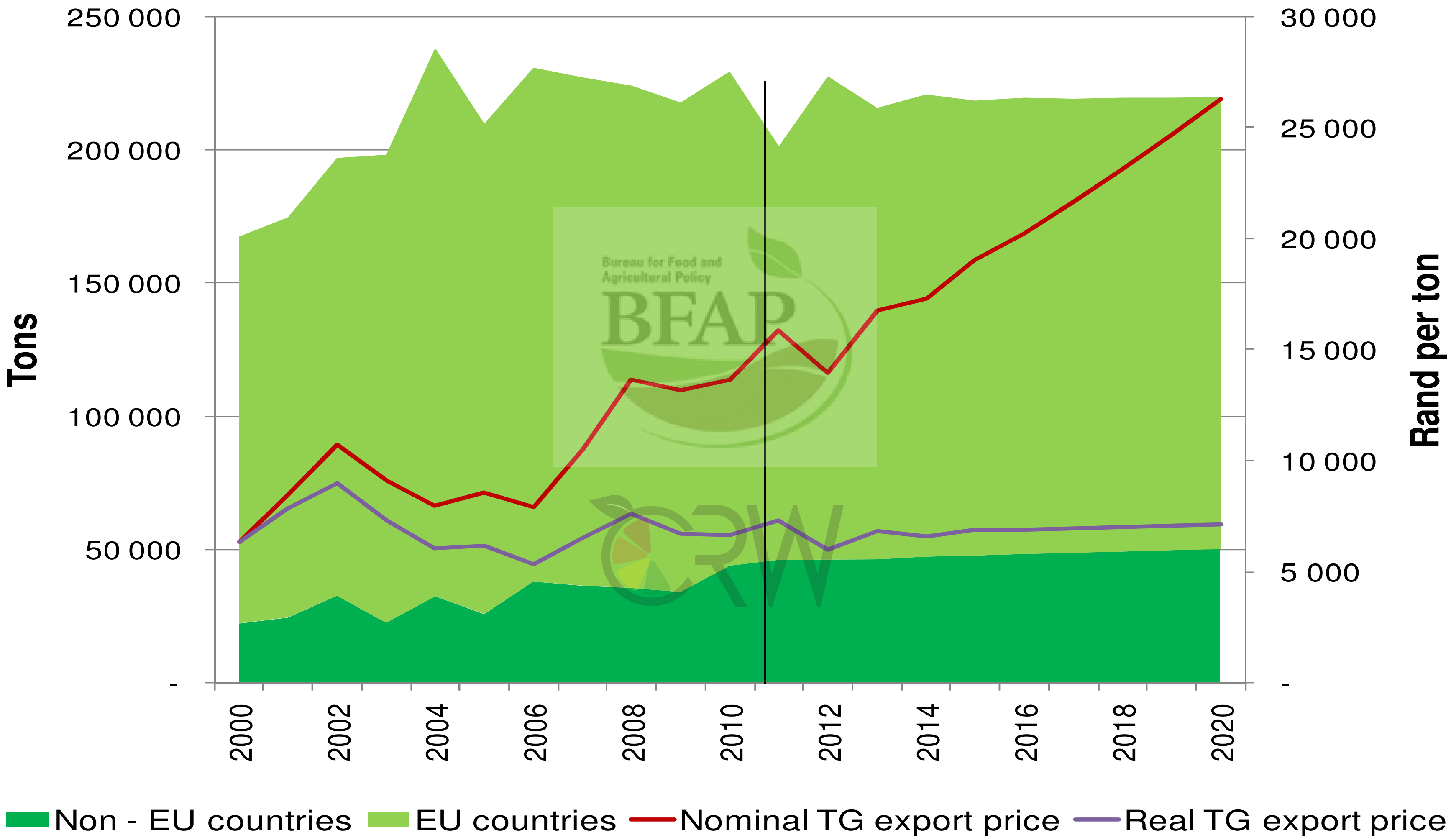


Fruit: Area



+250 ha from 2010 to 2020
23 783 ha
+1 320 ha
20 750 ha
+110 ha
10 697 ha
Hectares
26 000
24 000
22 000
20 000
18 000
16 000
14 000
12 000
10 000
1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
Table grapes
Apple
Pear

Table Grapes: Export Market



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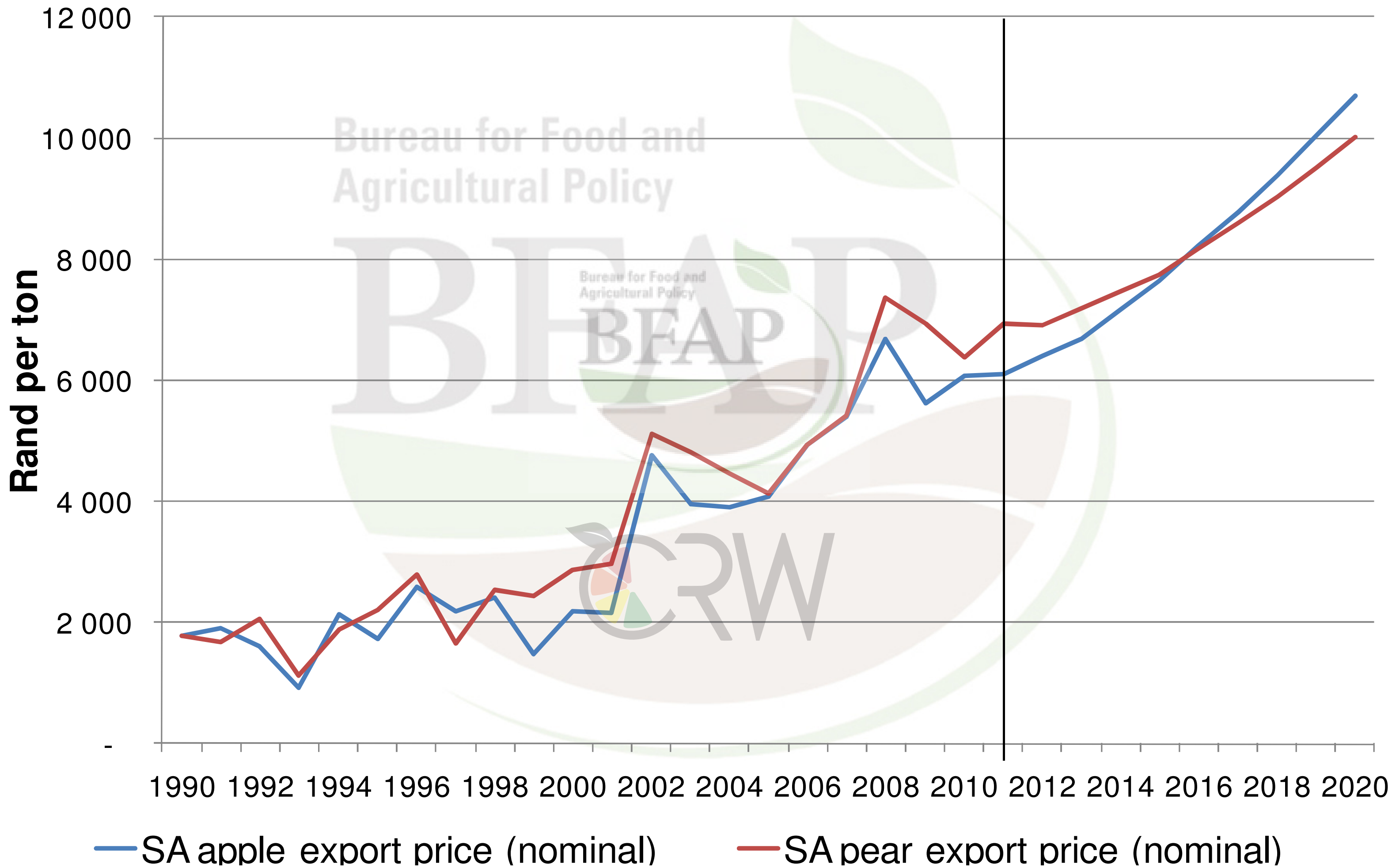
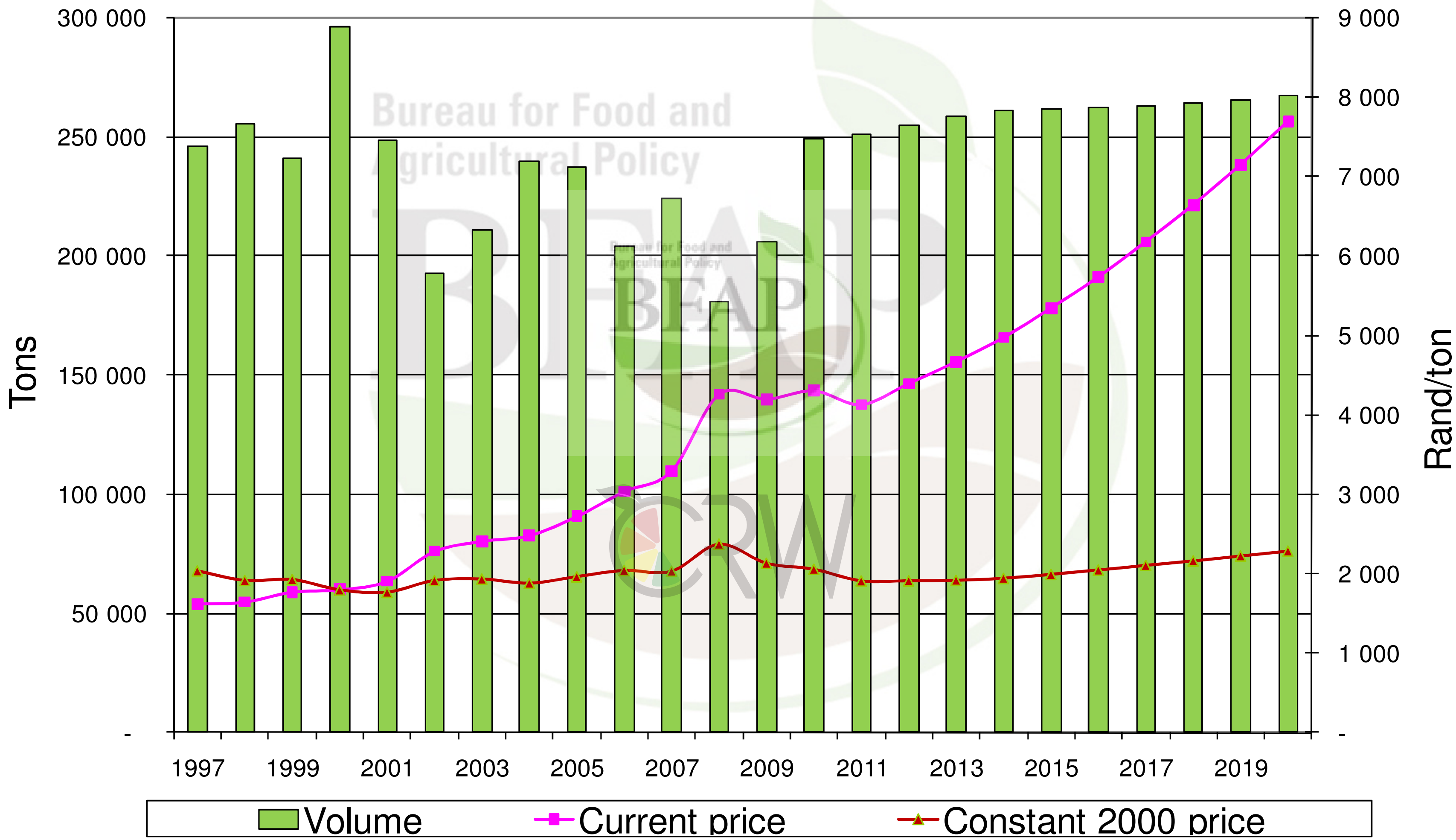
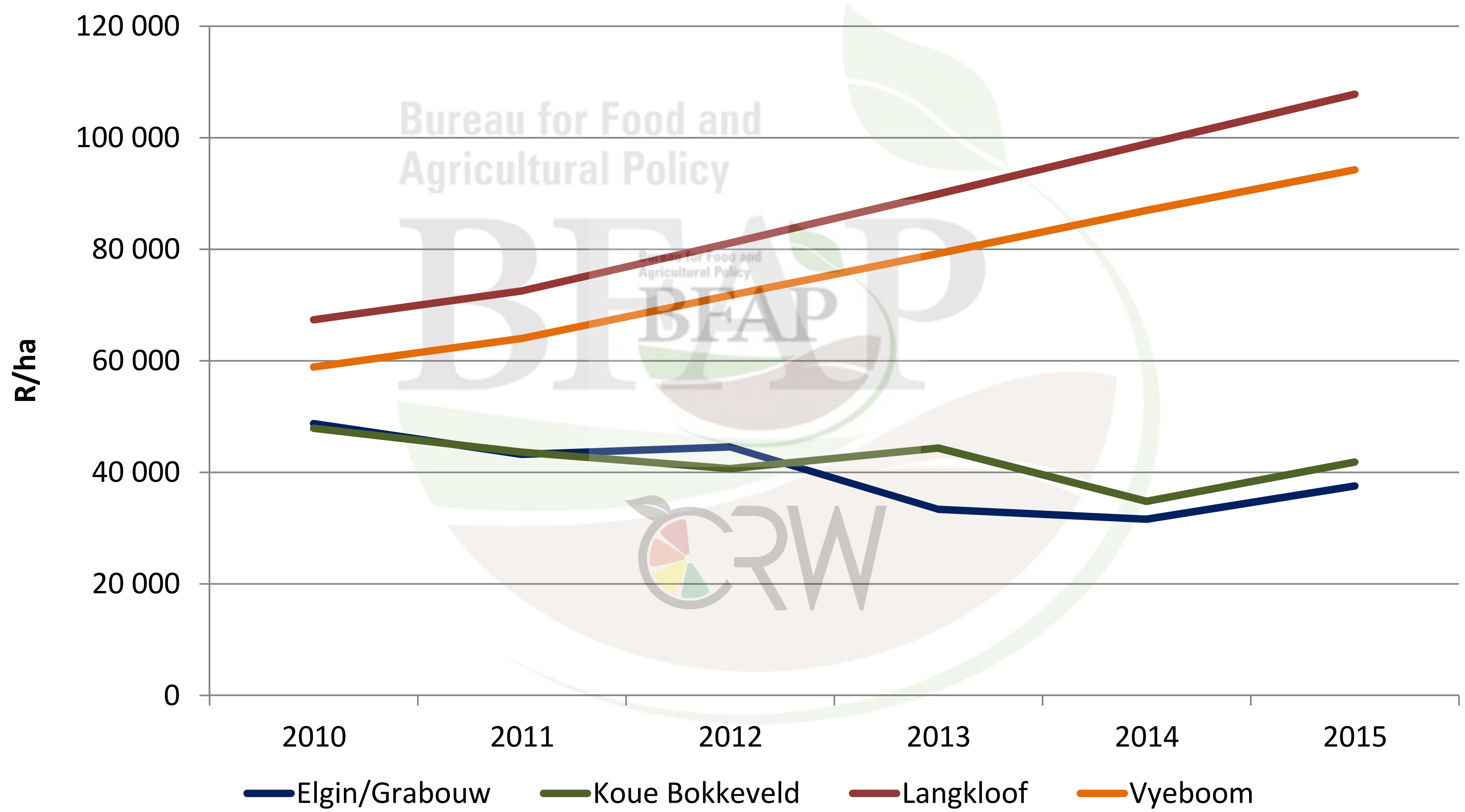
Apples and Pears: Export Market



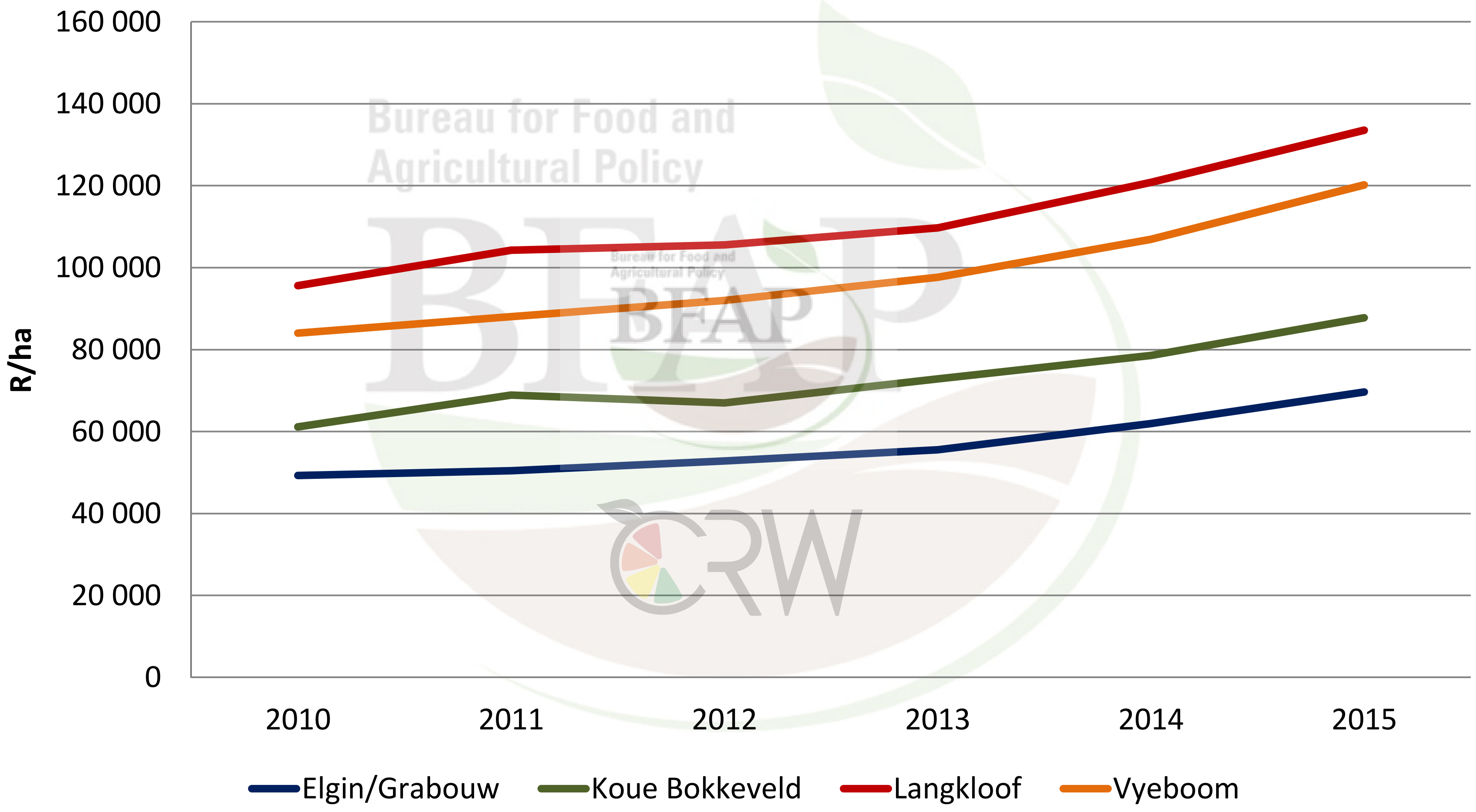
Apples: Fresh Local Market



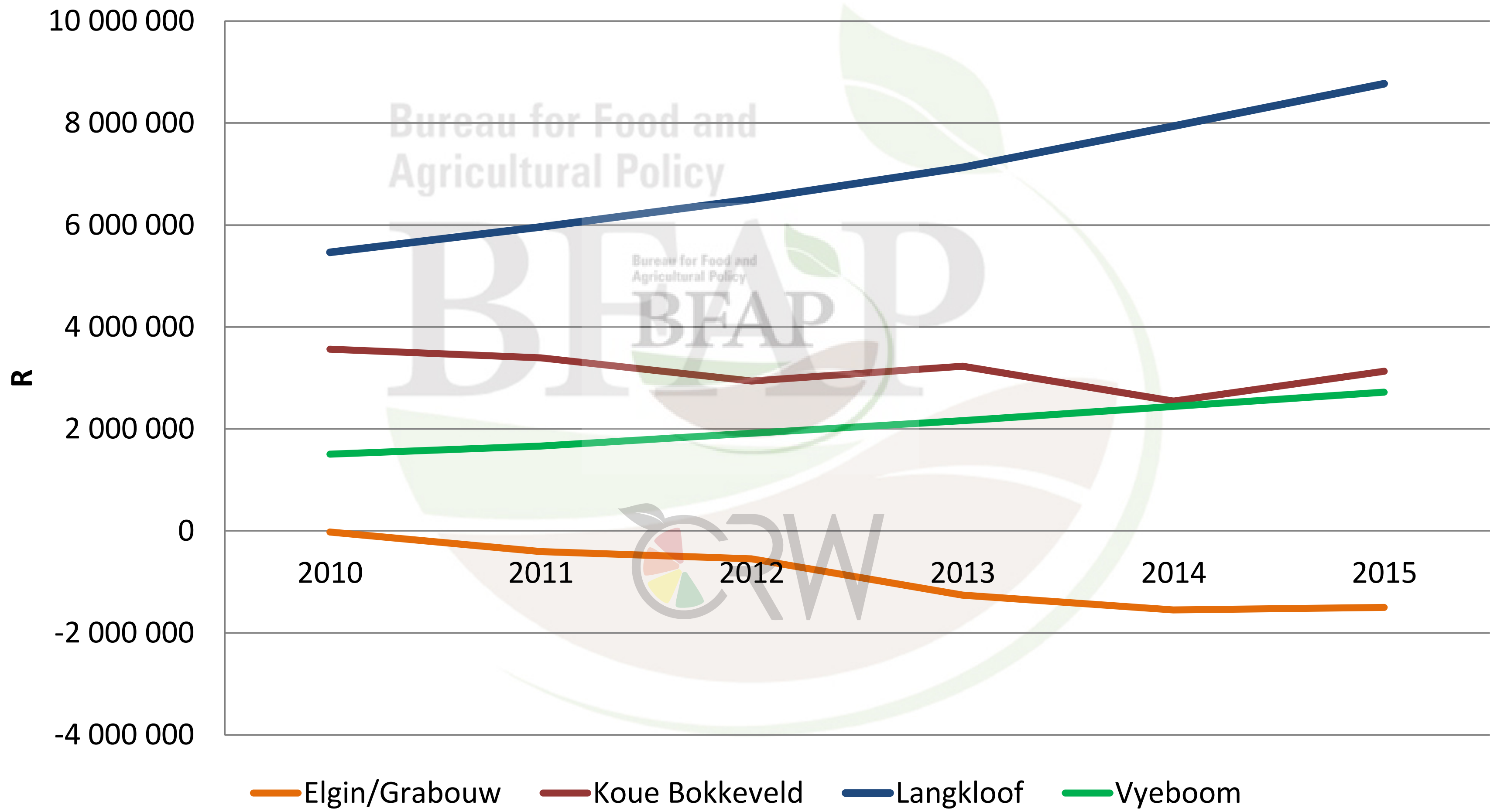
Apples – Gross Margins on farm



Pears – Gross Margins on farm



Net Farming Income – Apples & Pears



Thailand study - Main findings

- The Thailand market is growing
- SA edible fruit exports to Thailand increased by 318% over from 2001 to 2007
- Industry losses:

Industry	2008-2011 (incurred)	2012-2016 (preventable)	Total loss 2008-2016
Table grape	R335.1 m	R450.7 m	R785.8 m
Apple	R87.7 m	R91.2 m	R178.9 m
Pear	R19.2 m	R20.5 m	R39.7 m
Total	R442 m	R562.4 m	R1 004.4 m

Thailand study - Main findings

- Economy-wide impact of reopening:
  - 256 jobs created
  - R53.9 m increase in household incomes
  - GDP increases by R80.3 m
- Farm level losses (2008 – 2011):
  - Up to 2.08% of Net Farm Income in 2011 in the Koue Bokkeveld
- Farm level potential gains (2012 – 2016):
  - Up to 18.9% of Net Farm Income in 2016 in EGVV

PANEL DISCUSSION

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10-Year Agricultural Market Outlook
Meat and Dairy

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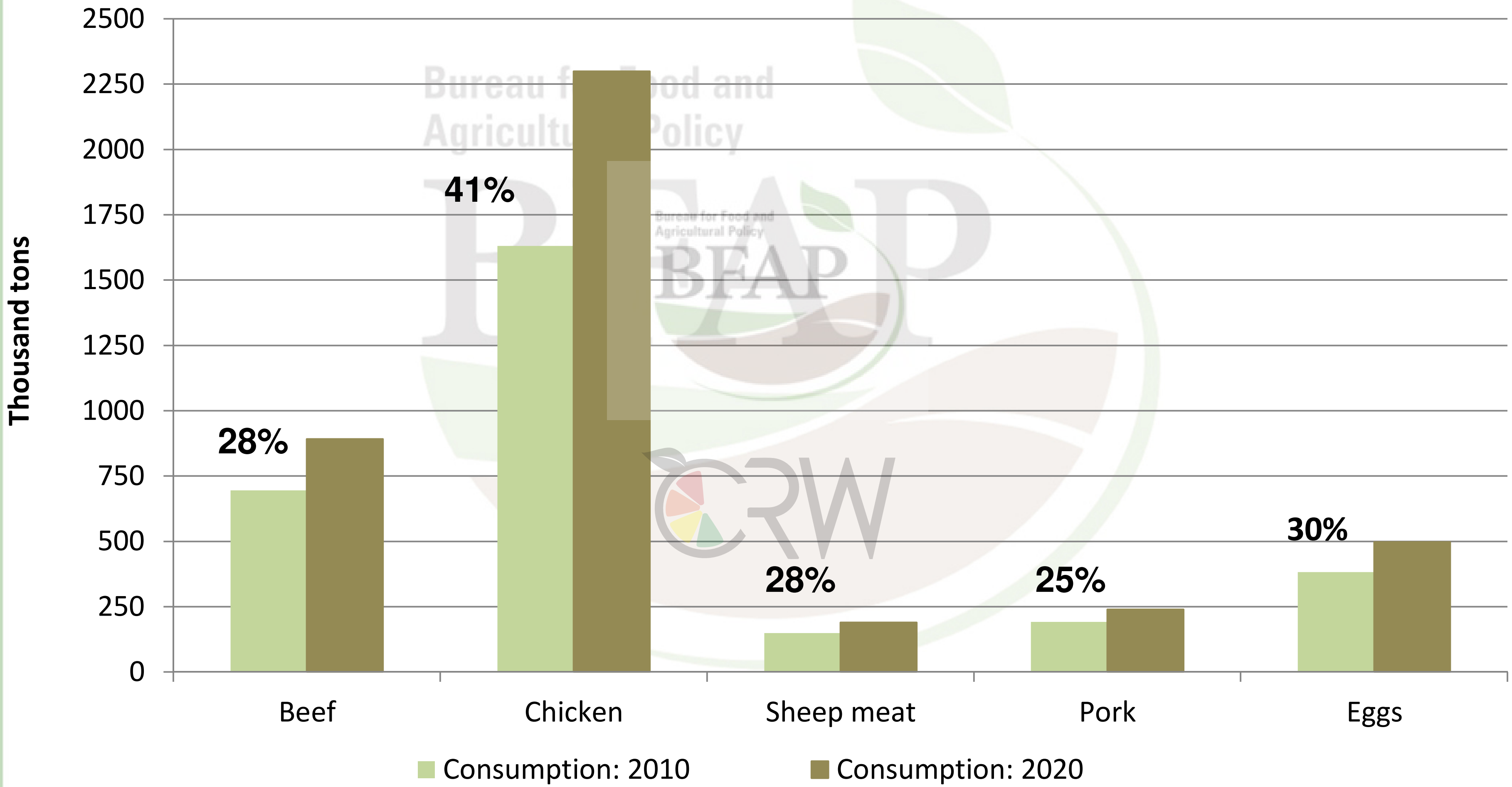
Key drivers and assumptions

- They same as the section on field crops

Chicken as a substitute

SA Meat Market



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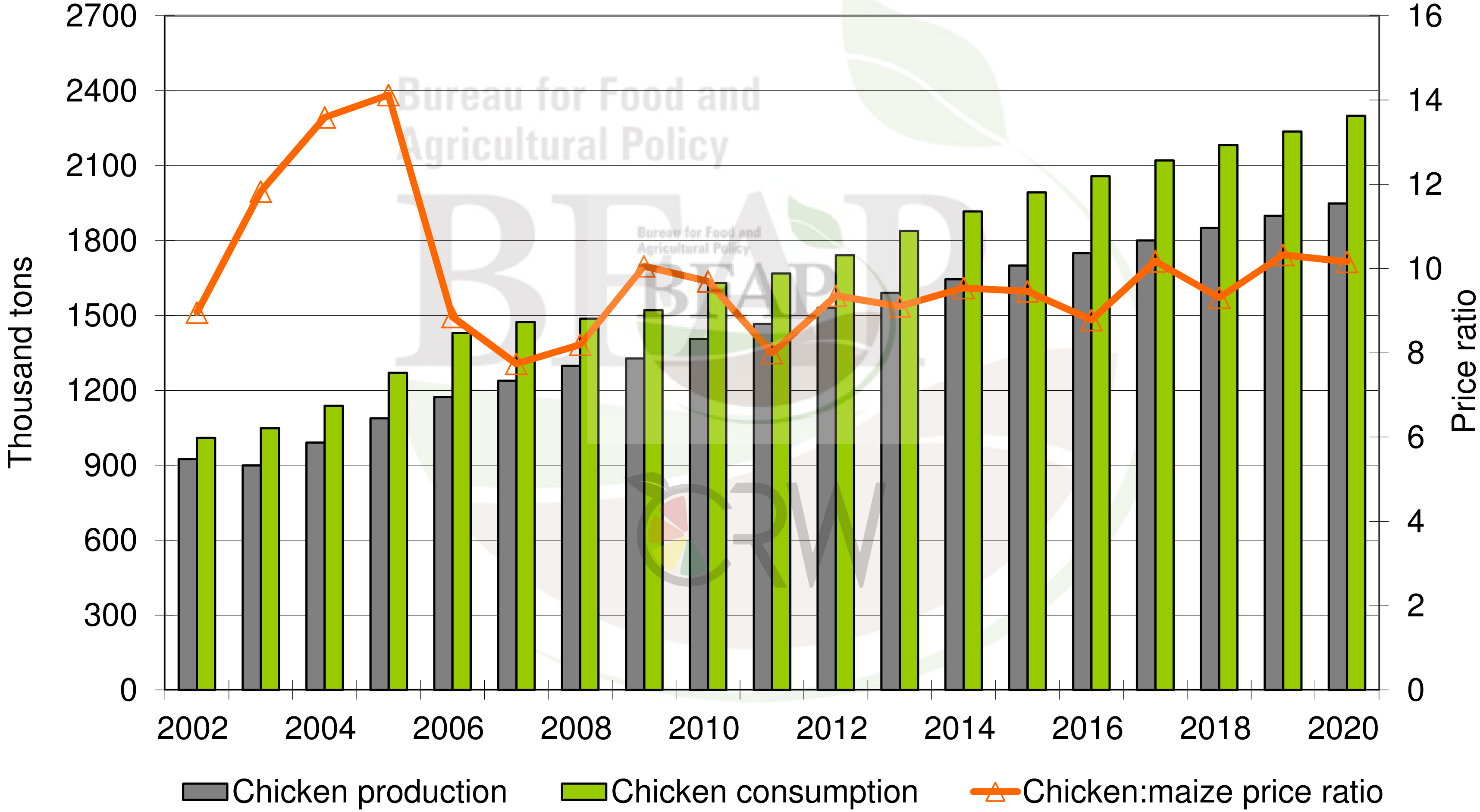
Chicken Meat



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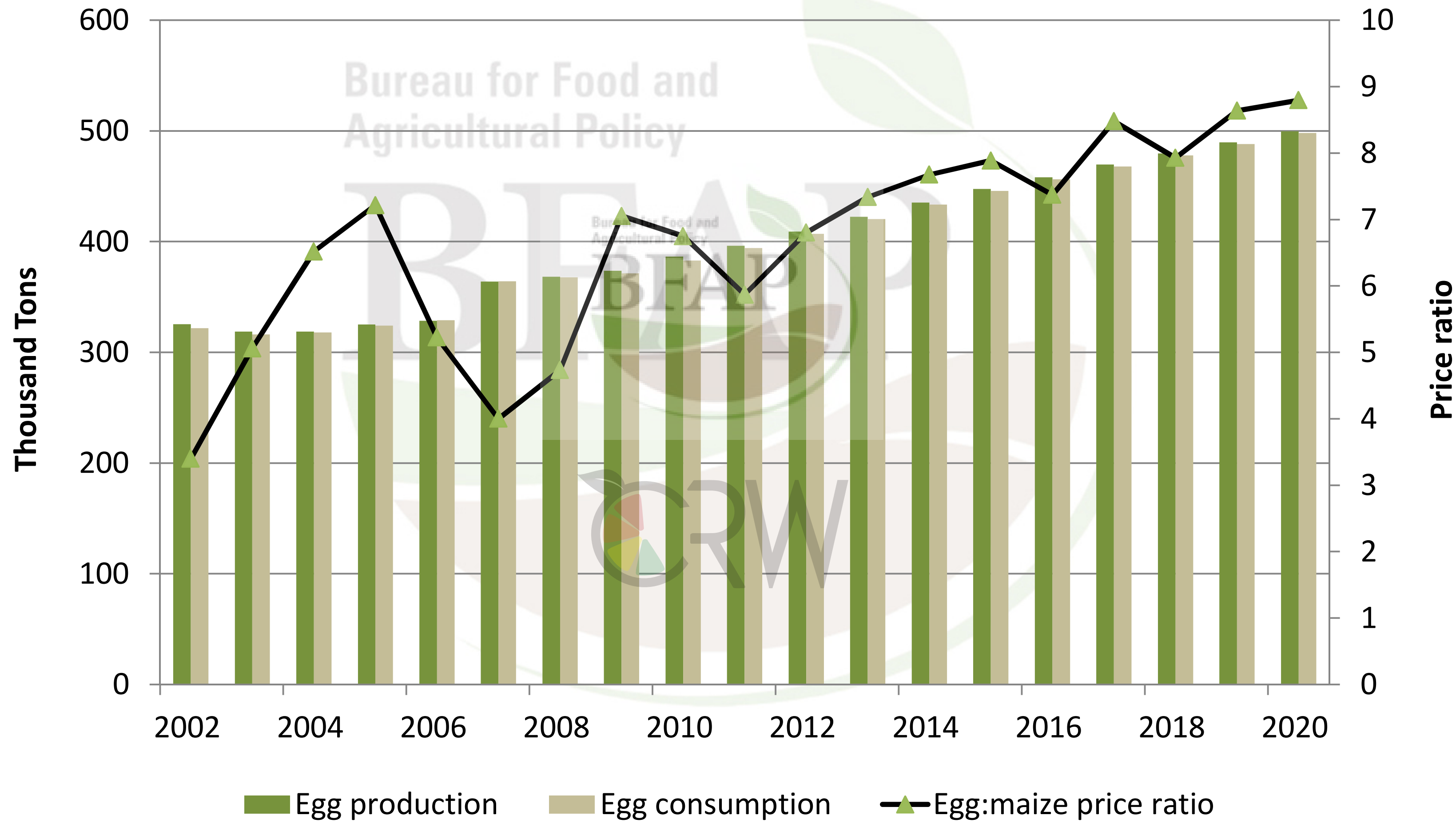
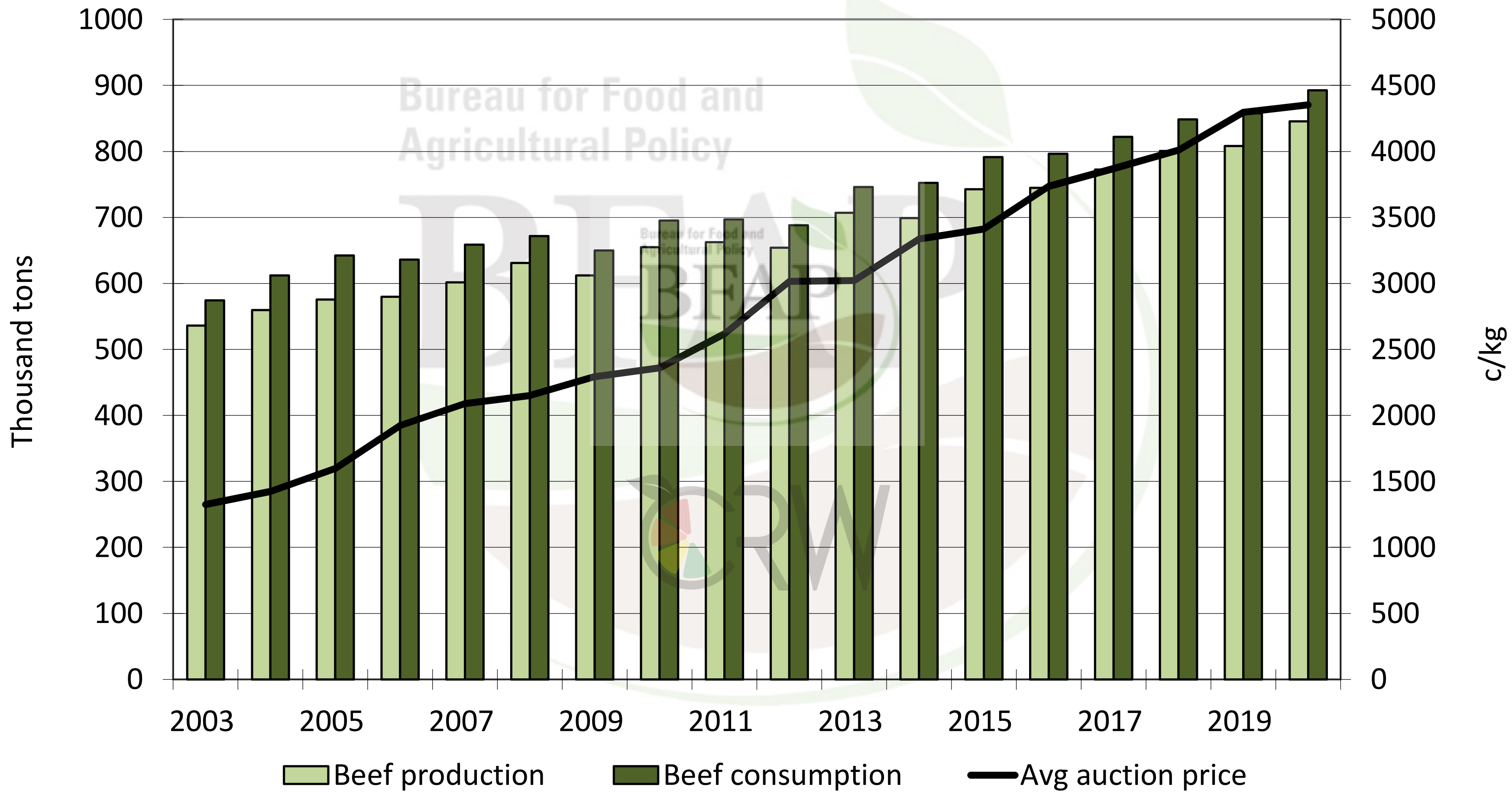
Eggs



Thousand Tons
Price ratio
600
500
400
300
200
100
0
10
9
8
7
6
5
4
3
2
1
0
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
Egg production
Egg consumption
Egg:maize price ratio

Beef


1000
900
800
700
600
500
400
300
200
100
0
Thousand tons
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
0
c/kg
2003
2005
2007
2009
2011
2013
2015
2017
2019
Beef production
Beef consumption
Avg auction price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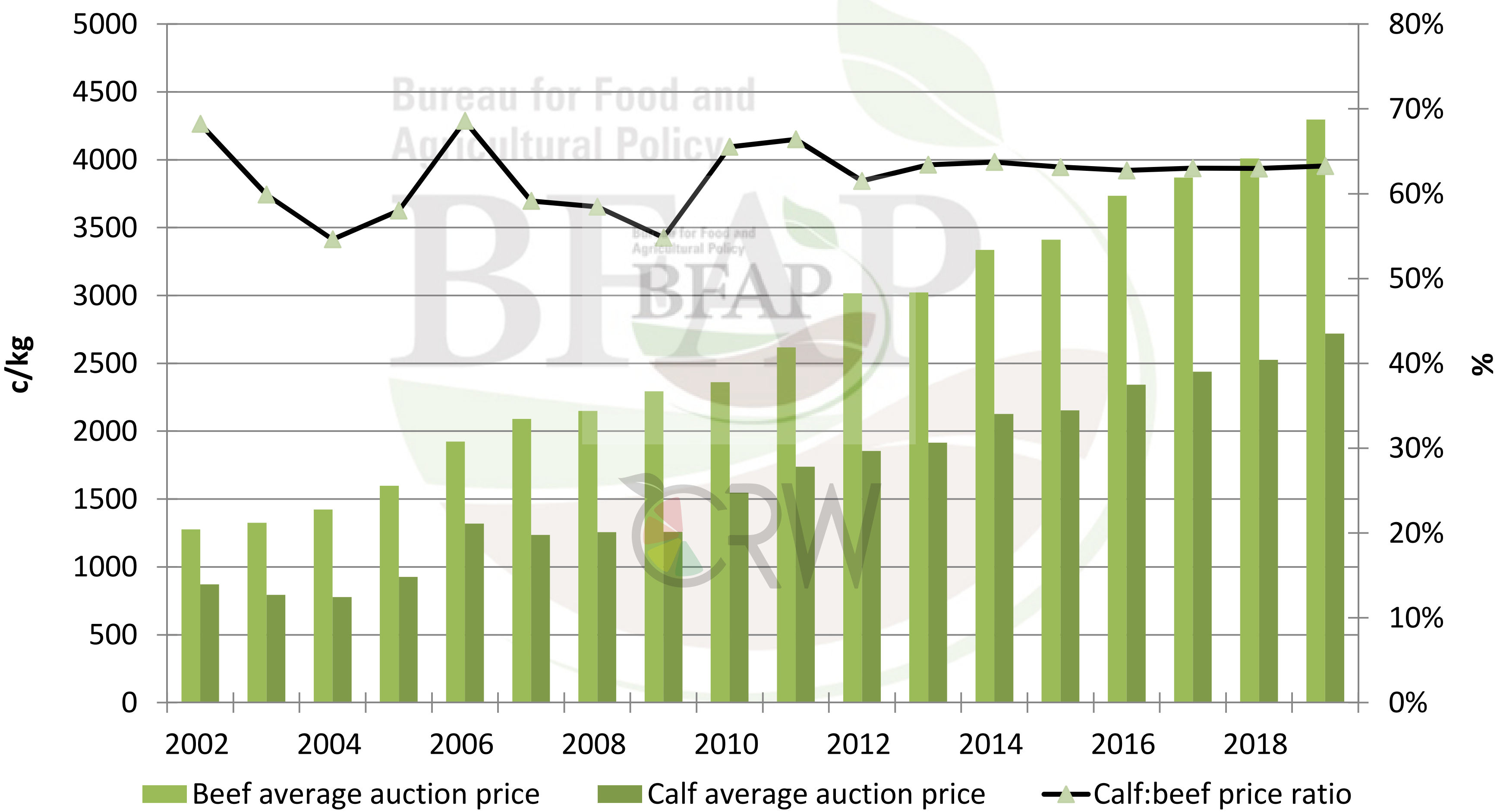
Feedlot Economics



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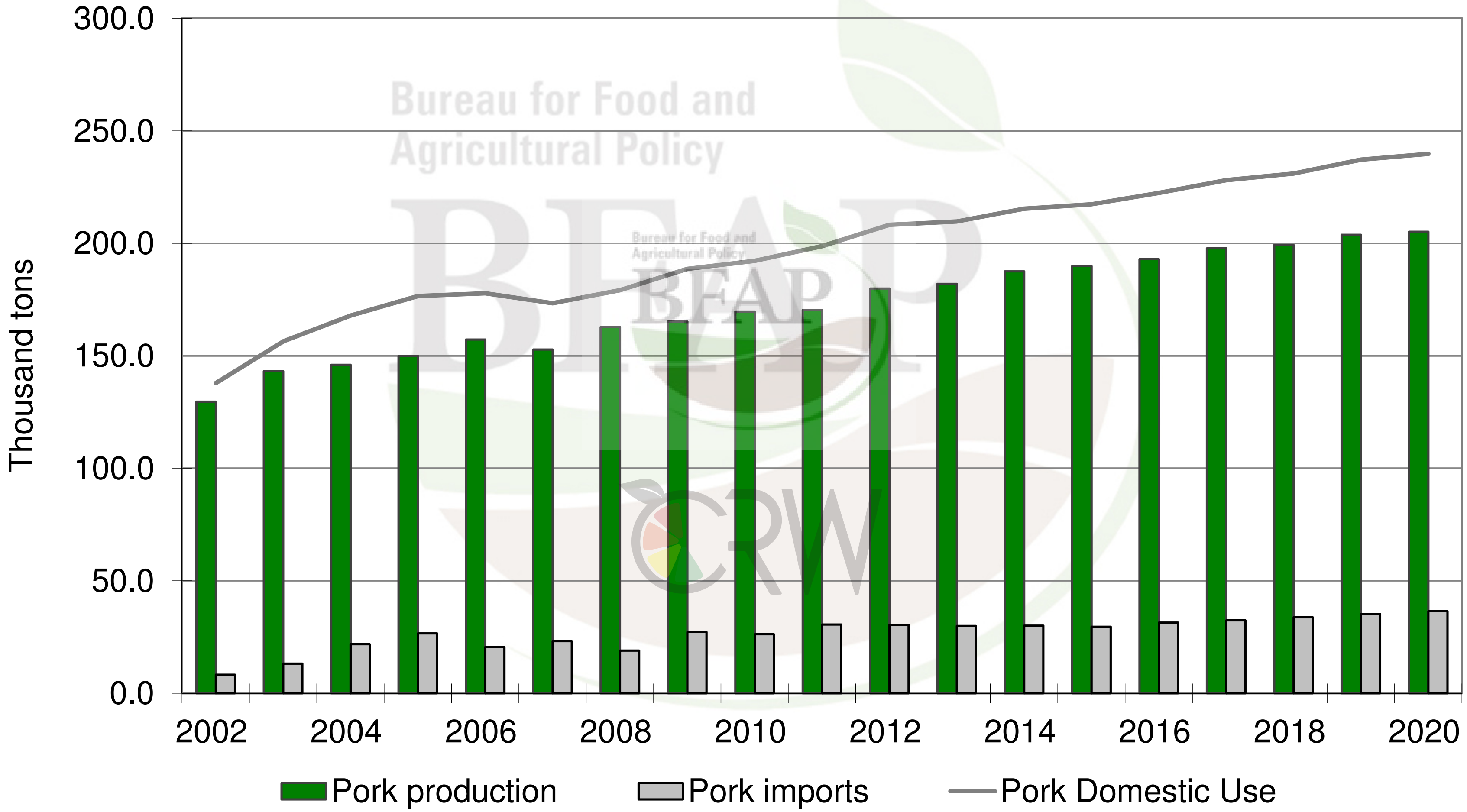
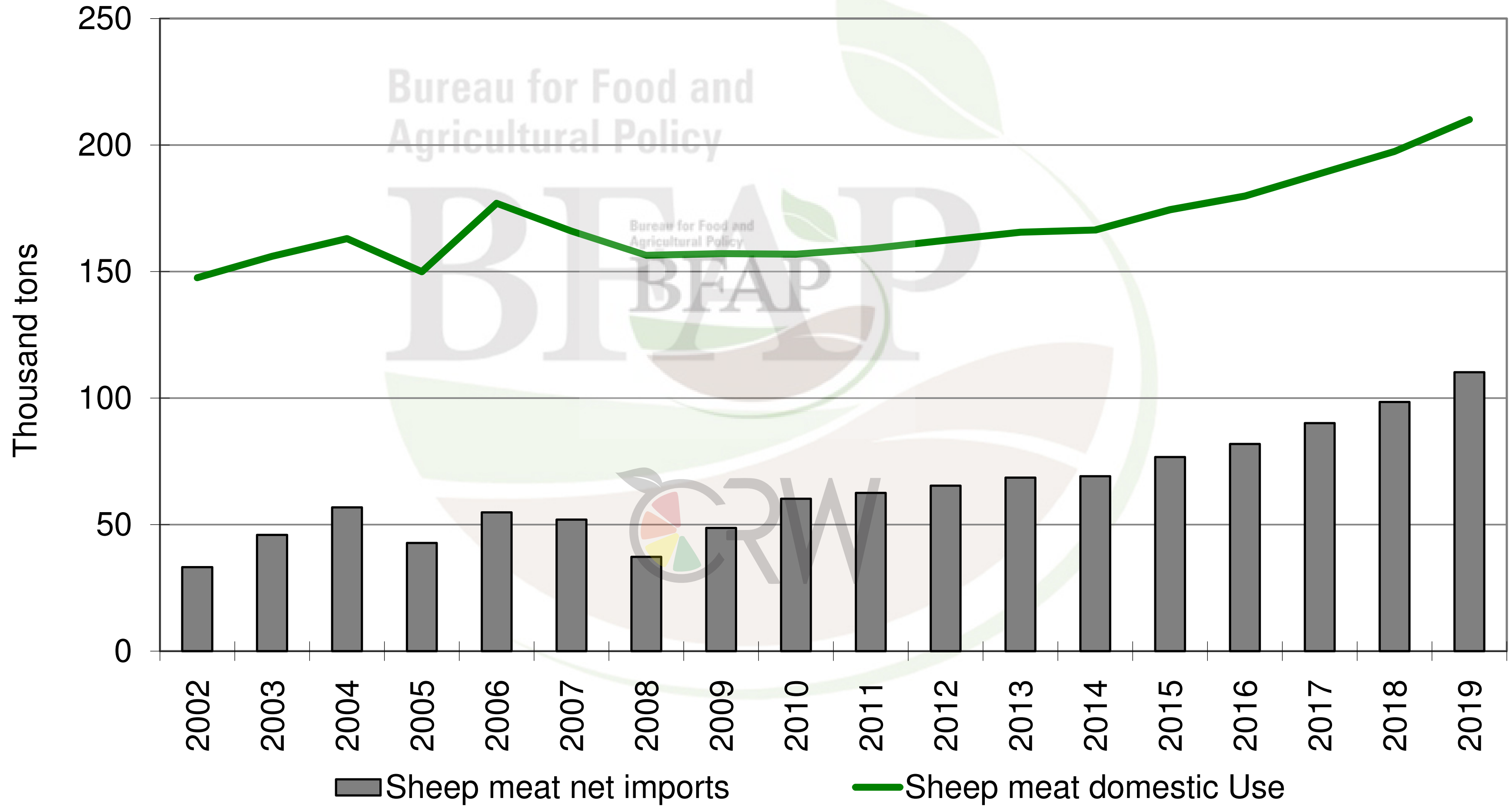
Pork



300.0
250.0
200.0
150.0
100.0
50.0
0.0
Thousand tons
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
Pork production
Pork imports
Pork Domestic Use

Sheep meat



250
200
150
100
50
0
Thousand tons
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Sheep meat net imports
Sheep meat domestic Use

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New consumer challenges in the post-recession SA economy

Recent electricity price hikes of around 25%

IMPACT EXAMPLE:

A household previously spending about R800/month on electricity will now spend about R1000/month –

The 'lost' R200 could have bought…

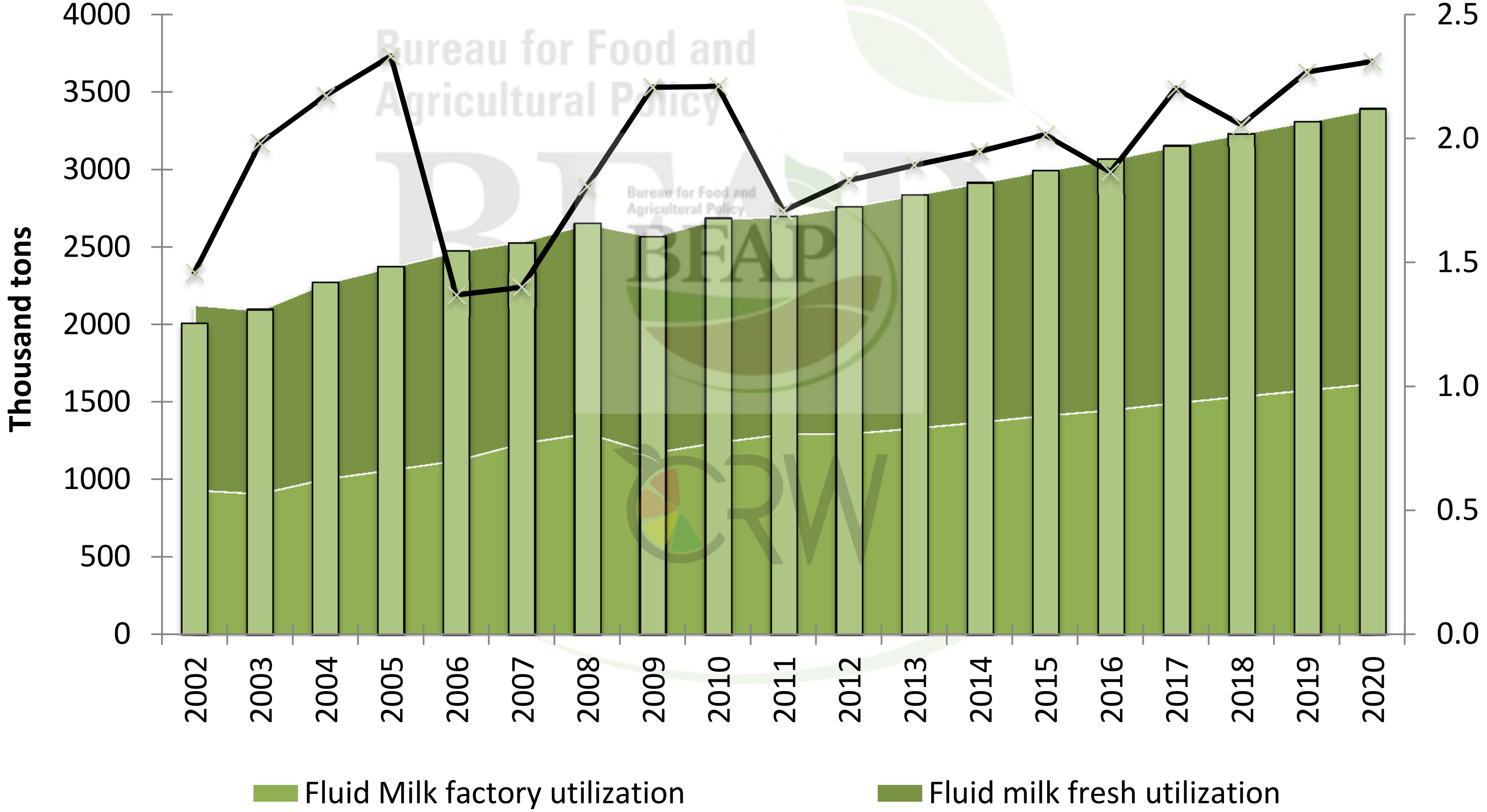
- **4 bottles of R50 wine/month → e.g. >8 mill ℓ less/annum**

OR

- **2kg lamb chops/month → e.g. >5000t less/annum**

(Assuming 10% of LSM 8-10 hh's affected)

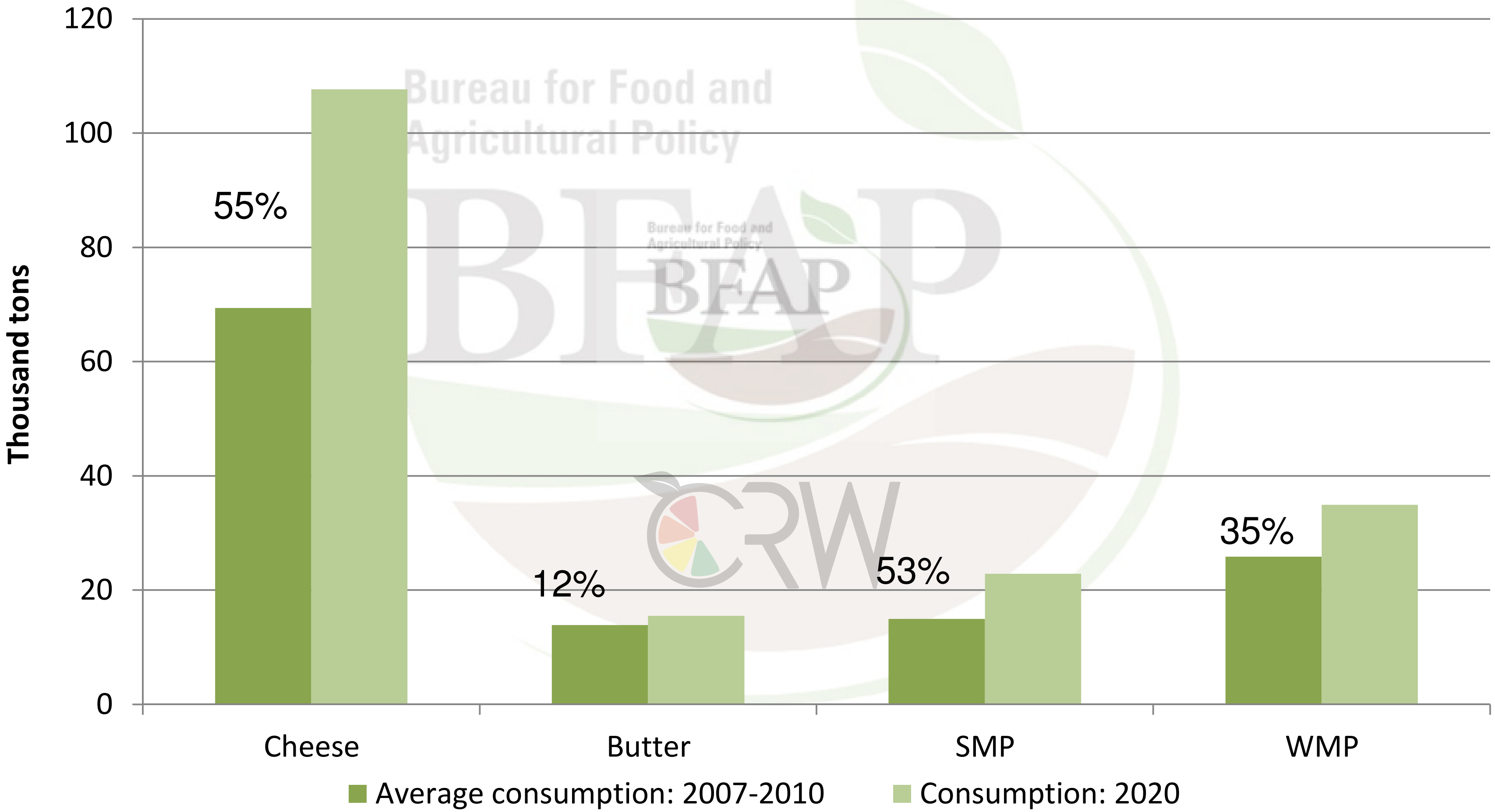
Fluid Milk



4000
3500
3000
2500
2000
1500
1000
500
0
2.5
2.0
1.5
1.0
0.5
0.0
Thousand tons
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Fluid Milk factory utilization
Fluid milk fresh utilization

BUREAU FOR FOOD AND AGRICULTURAL POLICY

Dairy Products



Dairy products - Annual demand growth

Product:	Year-on-year growth (%)	
	Dec ‘09 – ‘10	March ‘10 to ‘11
Fresh milk	4.6	5.1
Long life milk	5.1	10.1
Yoghurt	8.5	11.3
Cultured milk	3.2	7.1
Packaged cheese	8.6	13.5
Butter	6.0	14.7

Source: Nielsen retail data* released by SAMPRO

reported by Dairy Connect, Coetzee, August 2011

(*Representing about 75% of dairy sales in SA)

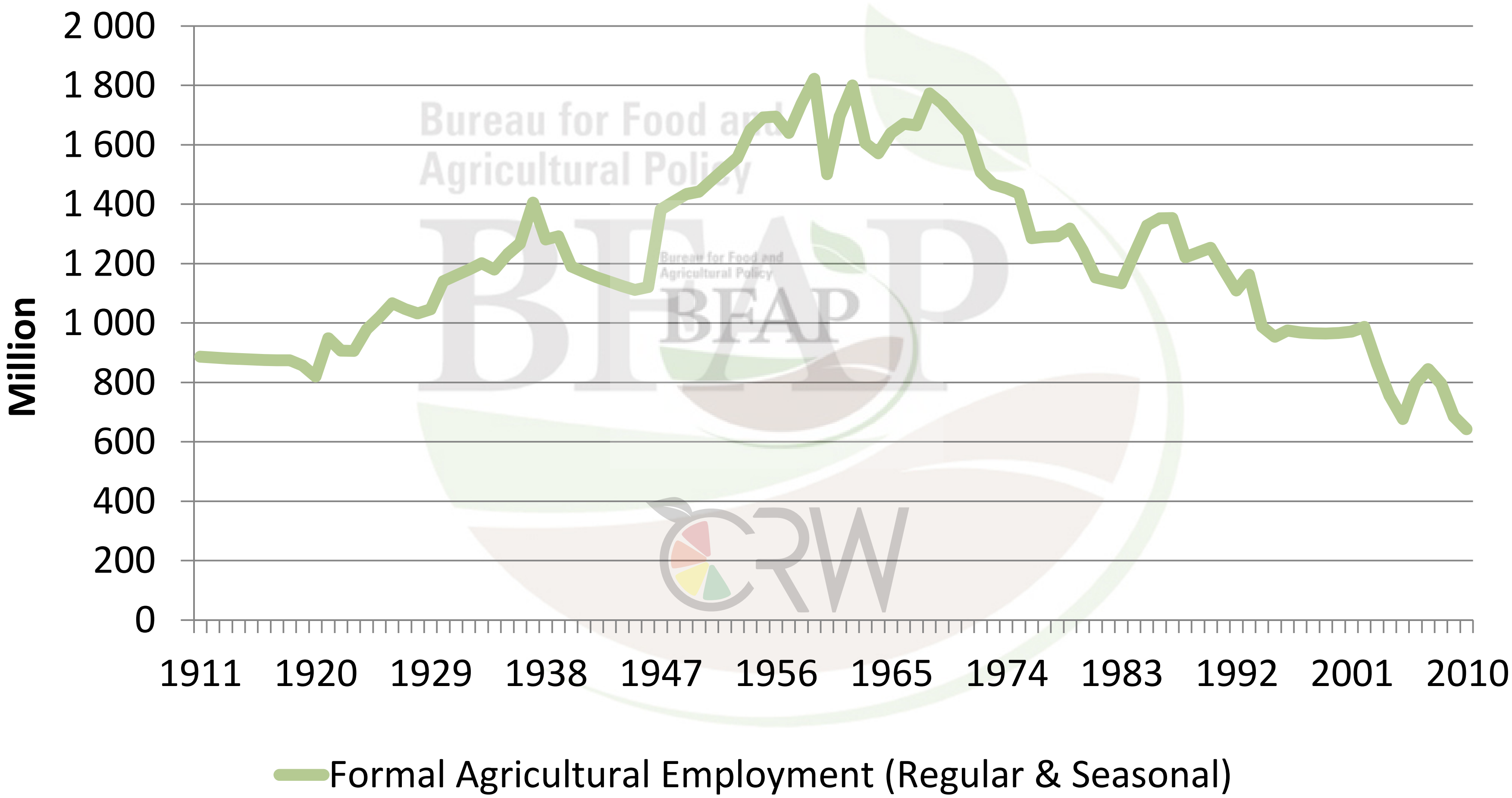
BFAP BASELINE 2011

Special Section: Agricultural Employment, land and water

Overview

- Employment trends – local and global
- Stocktake of SA natural resource potential
- Picking and supporting possible winners
- Merging resource & economic potential
- Exploring forward and backward linkages


Employment trends



Source: GF Liebenberg, 2011

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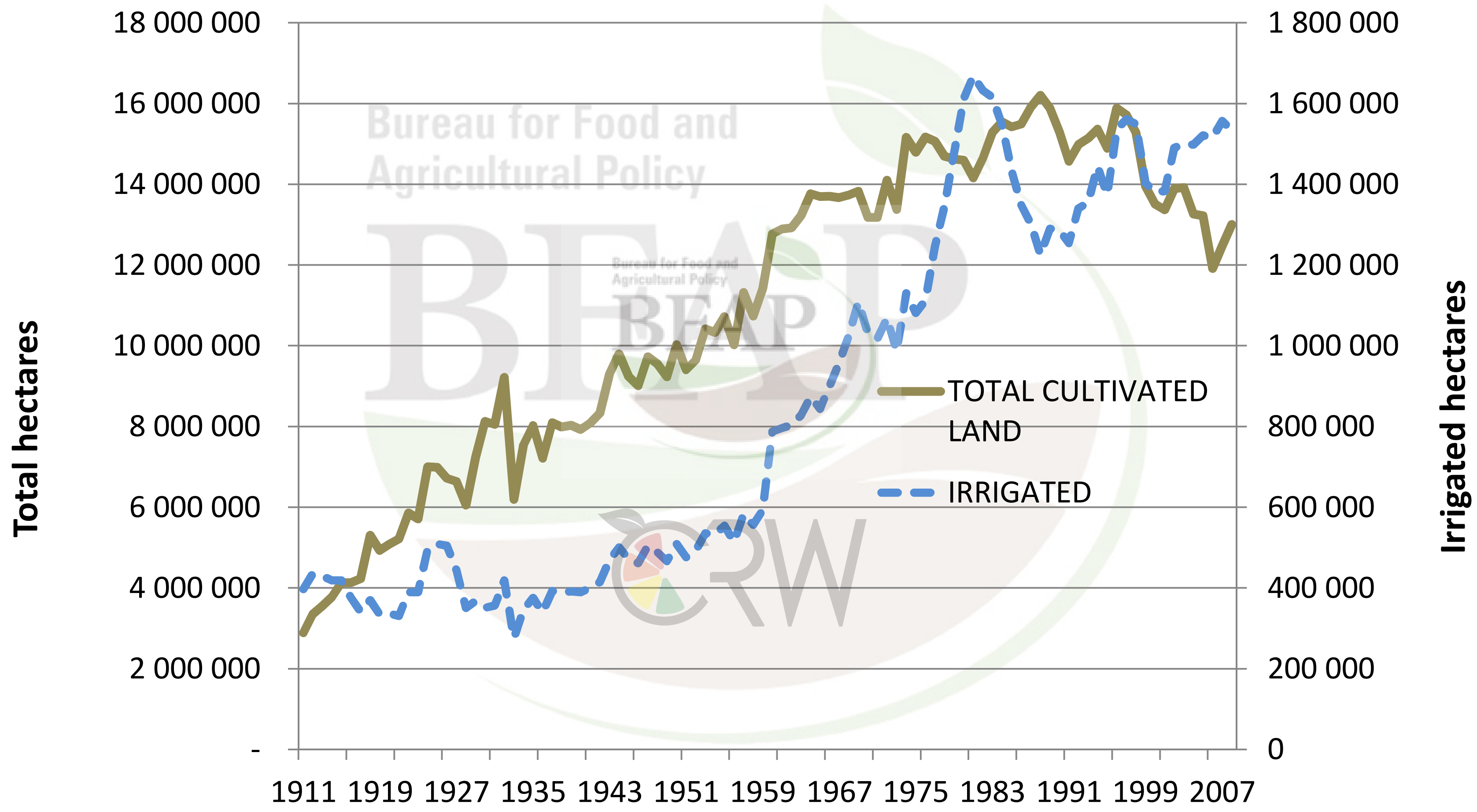
Total cultivated area



Source: GF Liebenberg, 2011

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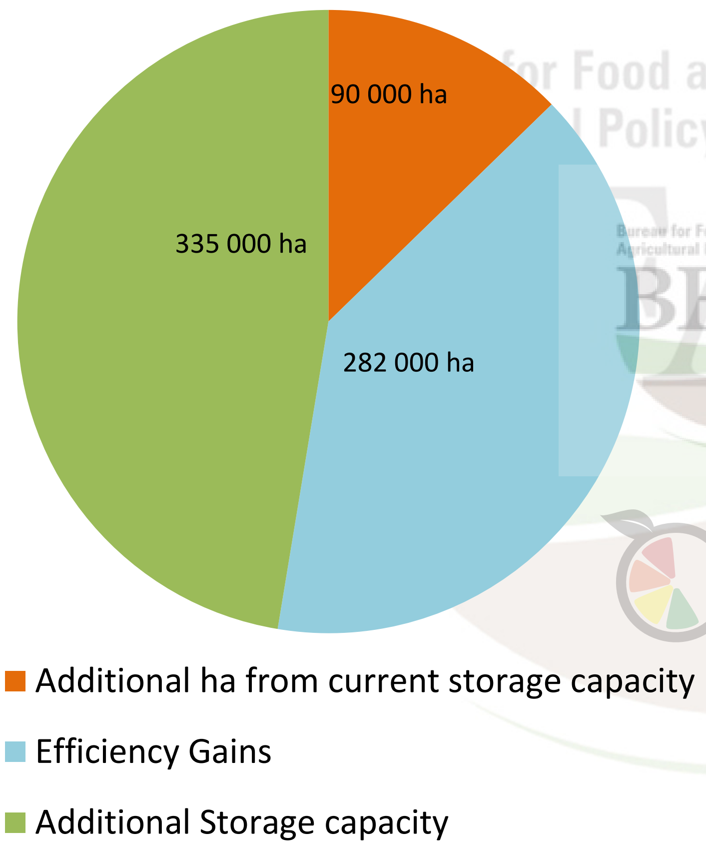
Irrigation Potential



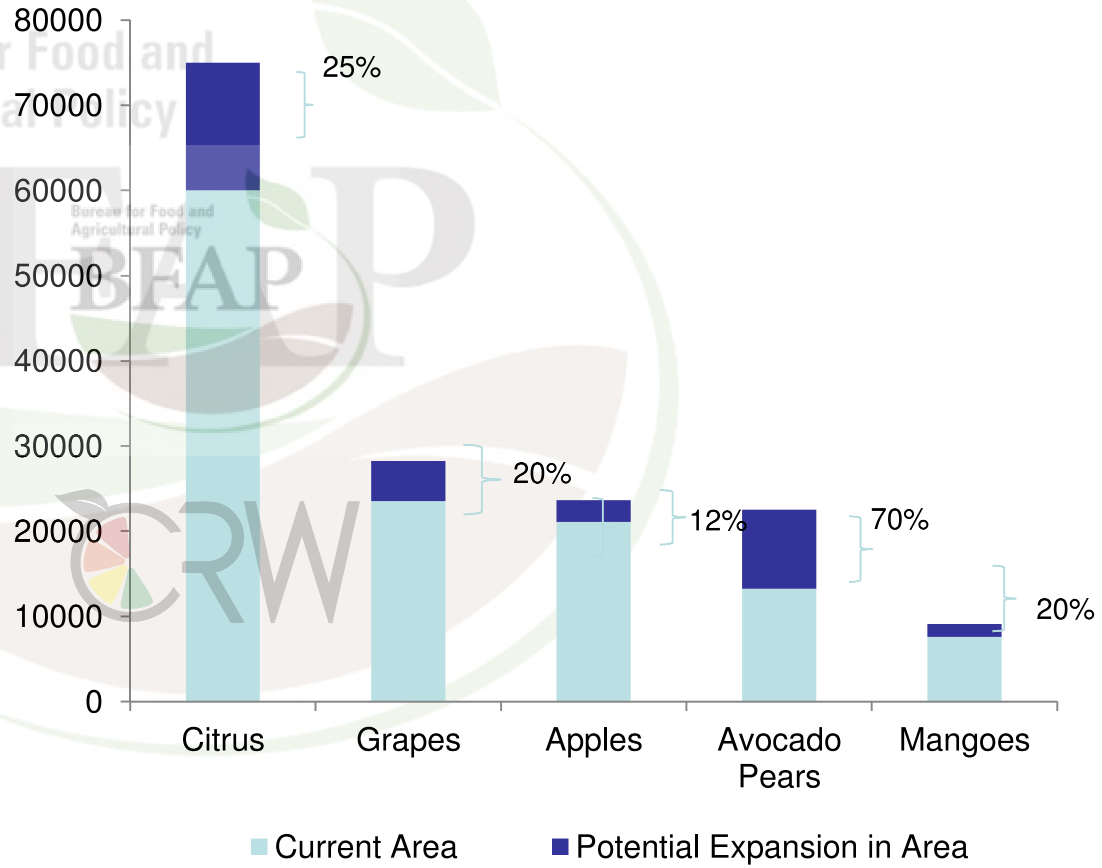
- Total upper limit of irrigation potential additional 707000 ha.
- More realistic estimate 500 000 ha.
- Over baseline period realistically not more than 145 000 ha.
- Ground water 270 000 ha.

Horticultural industries

Employment effects

- **+/-47 000** additional farm jobs can be created in established horticultural industries with high labour requirements.

- **+/-30 000** additional value chain jobs can be created in established horticultural industries with high labour requirements.

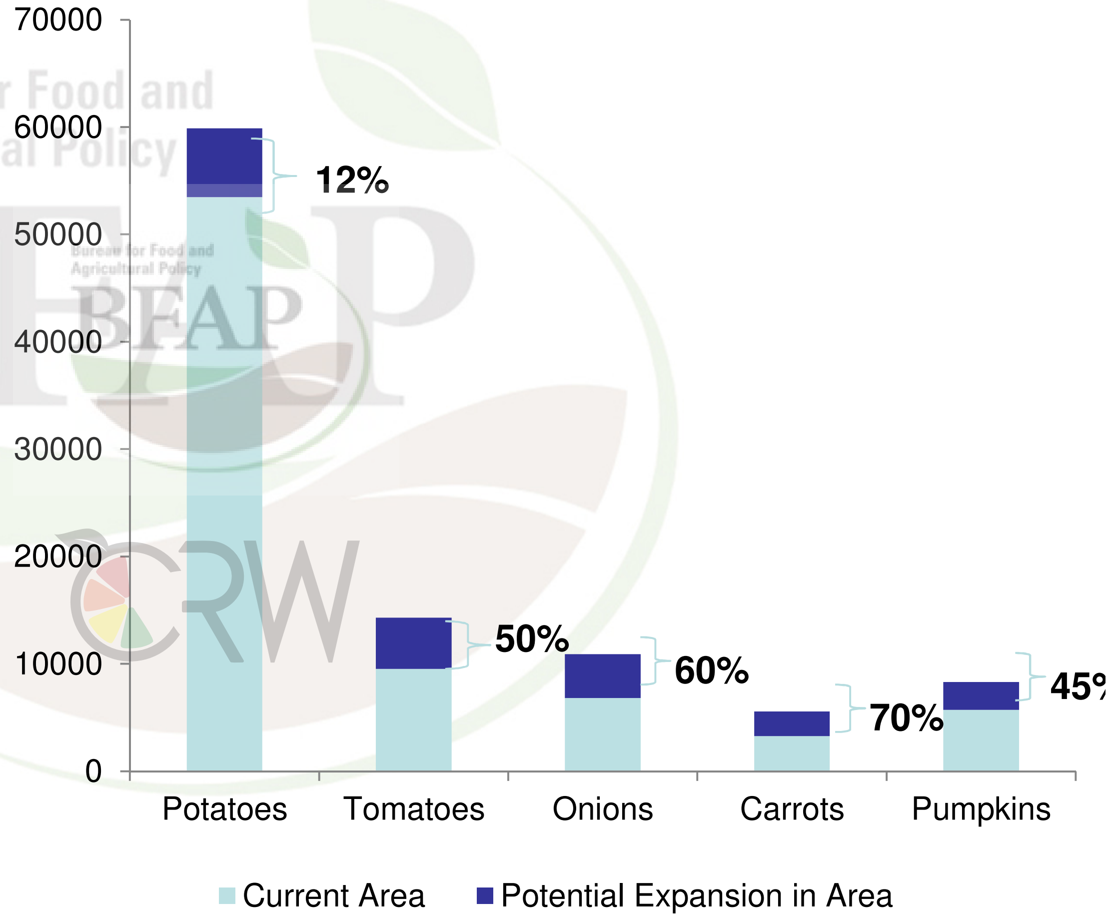


Vegetable industries

Employments Effects

+/-**40 000** additional farm jobs can be created in the vegetable industry given expansion of market demand.

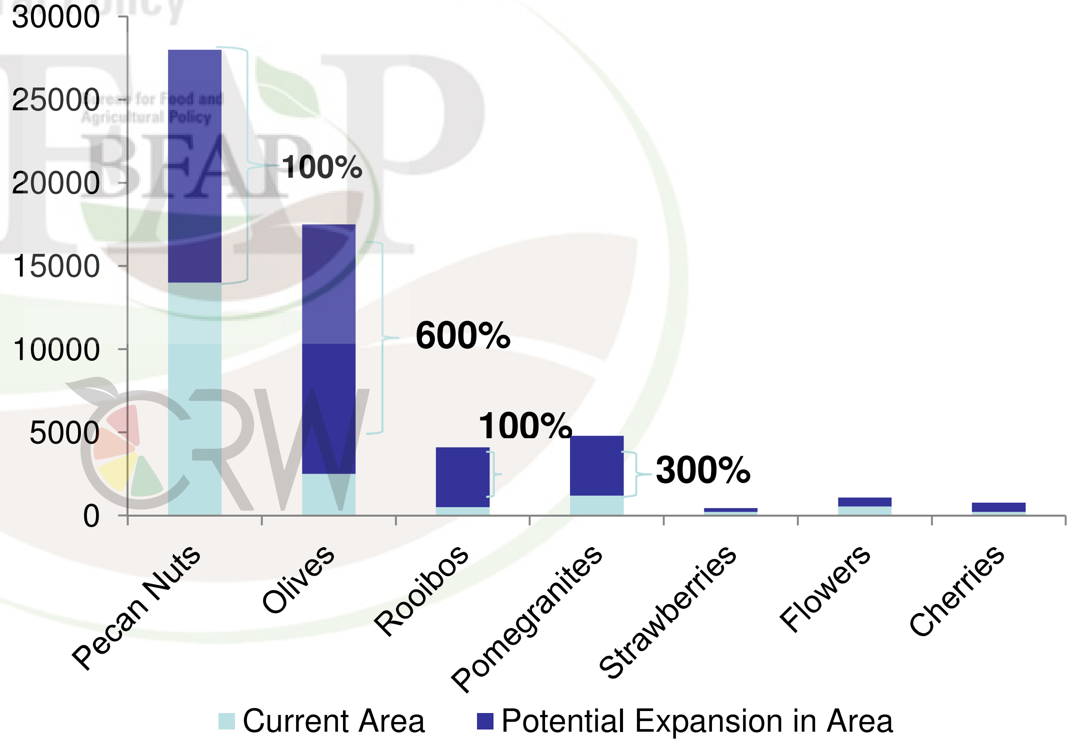
+/-**15 000** additional value chain jobs can be created in the vegetable industry given expansion of market demand.



Micro industries

Employment effects

- **+/-50000** additional farm jobs can be created in micro industries with high labour requirements.
- **+/-33 000** additional value chain jobs can be created in micro industries with high labour requirements.



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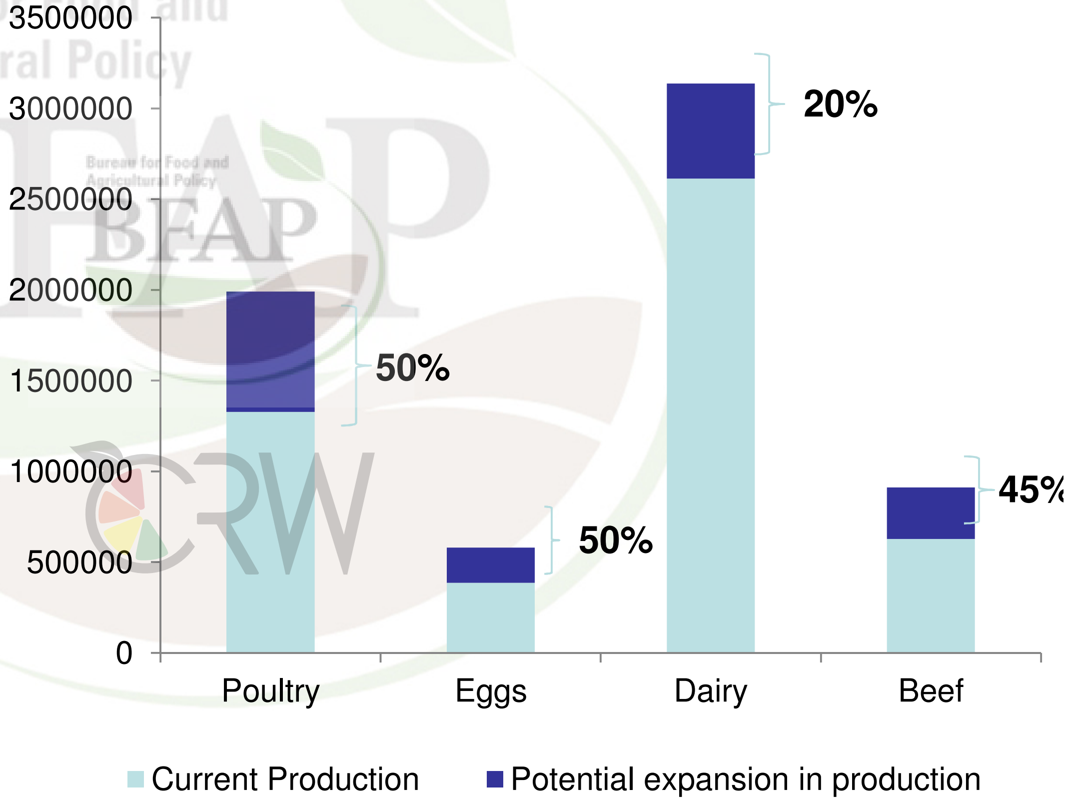
Non-labour intensive livestock

Employment Effects

+/-40 000 additional farm jobs can be created non-labour intensive industries with high expansion possibilities

+/-25 000 additional value chain jobs can be created in non-labour intensive industries with high expansion possibilities.

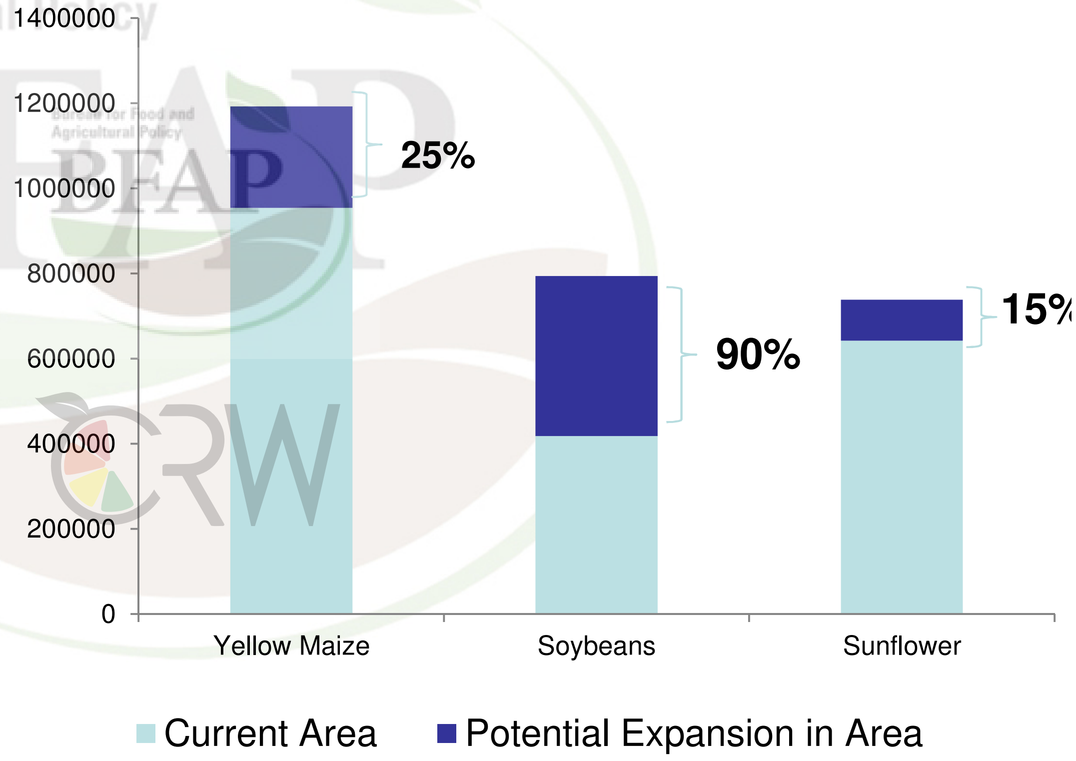


Non-labour intensive fieldcrops

Employment effects

+/-7 000 additional farm jobs can be created non-labour intensive field crop industries with high expansion possibilities

+/-5 000 additional value chain jobs can be created in non-labour intensive field crop industries with high expansion possibilities.



Summary of findings

- Labour-intensive industries
  - Approx. 300 000 Primary and Secondary jobs
- Non-labour intensive field crops
  - Approx. 15 000 Primary and Secondary jobs
- Non-labour intensive livestock and dairy
  - Approx. 65 000 Primary and Secondary jobs
- Additional jobs and livelihoods in communal areas
  - Better utilization of land in communal areas and land reform projects
  - 1.3 million households have access to land - relates up to 7 million people

THE END

Thank you for your attending the BFAP Baseline 2011