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## Media release

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## AGBIZ OUTLOOK 2016

In the Agbiz Outlook 2015, Agbiz stated that 2015 will provide for a challenging environment for agribusinesses and farmers due to subdued local economic growth prospects and constrained consumers, as well as weather, policy and labour uncertainty. This has proved to be true, but in as much as 2015 was challenging, 2016 will be far more so.

“In a deteriorating economic, social and political environment, as reflected by recent downgradings by investment rating agencies, South Africa has reached a dangerous and critical crossroad. Exacerbating this imperfect situation is a major and prolonged country-wide and regional drought, impacting negatively on both the agricultural and agribusiness environment. This is putting South Africa’s open, competitive agro-food system and its food security at considerable risk,” says CEO of Agbiz, Dr John Purchase.

### **Legislation**

“The agribusiness environment will in 2016 be faced by various challenges in terms of engagement with key land reform legislation,” says Purchase.

“These challenges include:

- The finalisation of the Expropriation Bill in Parliament;
  - The introduction of the Regulation of Land Holdings Bill, which proposes land ceilings and the prohibition of agricultural land ownership by foreigners, into the legislative process;
- and

- Engagement on the Preservation and Development of Agricultural Land Framework Bill, both directly with the Department of Agriculture, Forestry and Fisheries (DAFF), but also within the NEDLAC environment.

“Other critical pieces of legislation that will feature in the legislative process and affect the agribusiness environment will be:

- The Carbon Tax Bill;
- The National Skills Development and Sector Education and Training Authorities (SETA) landscape;
- The Border Management Agency Bill;
- The Liquor Amendment Bill;
- New legislation governing the water environment and giving effect to the cabinet-adopted National Water Resource Strategy Version 2 (Water Amendment Bill & Revision of the Pricing Strategy for Water Use Charges in terms of the National Water Act, 1998); and
- The implementation of the AgriBEE Sector Code, once finalised.

“Additional and critical policy and legislation impacting on the agro-food industry will no doubt surface in 2016 and will be addressed by Agbiz,” says Purchase.

### ***Agribusiness confidence and industry growth***

Lindie Stroebel, Agribusiness Intelligence Manager at Agbiz, says confidence levels in the agribusiness sector as measured through the Agbiz/IDC Agribusiness Confidence Index, have been dropping consistently for more than a year now. “Since the second quarter of 2015, more agribusinesses indicated negative confidence about the state of their situation, than those being positive. Future prospects indicate the possibility that confidence may be more positive early in 2016, but since the agricultural conditions are not improving, this is highly unlikely to realise,” says Stroebel.

“Serving as a leading indicator for the contribution of the agricultural sector to the Gross Domestic Product (GDP), the drop in agribusiness confidence also anticipated the retraction of 12,6% of the sector in the third quarter of 2015, which was also 16,2% lower than the previous year. As the prolonged drought continues to diminish output and uncertainty of the

political and policy environment creates reluctance to invest locally, the contribution of the sector to the GDP is expected to further retract well into 2016.

“Local agribusinesses will be exposed to the expected slow-down within the primary agriculture sector, through lower net farm income and constrained access to credit. However, the observed trend of increasingly diversified participation in global value chains, where agribusinesses (and recently also primary producers) are deriving more business from outside the country and outside the sector, is expected to escalate over the next few years,” says Stroebel.

### ***Trade negotiations and relations***

Tinashe Kapuya, Head International Trade and Investment Intelligence at Agbiz, says the past two years have seen the global and regional trading system becoming increasingly complex. “At global level, the impasse in the World Trade Organisation’s (WTO) Doha Development Agenda (DDA) continued unabated, with the Trade Facilitation Agreement (TFA) being widely viewed as a package that “saved” the protracted negotiations from collapsing”.

“At regional level, much focus has been on deepening integration through a Tripartite Free Trade Agreement that consolidates half of Africa into a single market. The aforementioned global and regional phenomena are going to be significant in shaping South Africa’s future trade growth.

“While there is much reason for optimism, emerging concerns have arisen from South Africa’s future trade relations with the USA under the Africa Growth Opportunity Act (AGOA). The tenuous nature of the new AGOA iteration points towards a renewed sense of trade and business insecurity that will likely compel South Africa to seriously consider negotiations for a reciprocal trade arrangement with the USA.

“Meanwhile, the Southern African Customs Union (SACU) is currently concluding the Economic Partnership Agreement (EPA) negotiations with the European Union (EU). The EPA represents a new era in South Africa’s trade relations with the EU, and provides a more flexible arrangement that also offers increased agricultural market access compared to the

Trade and Development Cooperation Agreement (TDCA). The Economic Partnership Agreement should be concluded in 2016.

“Elsewhere, the SACU-MERCOSUR agreement will expectedly be implemented in the near future after years of negotiation, while the SACU-India Preferential Trade Agreement (PTA) is still under negotiation, with little indication of it being concluded in the near term,” says Kapuya.

### ***Political economy***

On the political front Lindie Stroebel, Agbiz Agribusiness Intelligence Manager, in collaboration with political analyst and specialist from the North West University, Dr Jan Venter, foresees that 2016 will be marked by hotly contested local elections.

“Results in especially the metropolitan municipalities of Cape Town, Pretoria, Johannesburg, Nelson Mandela Bay, Potchefstroom/Tlokwe and Buffalo City/East London will indicate to what extent the ANC has managed to maintain its support, as well as to what extent the Democratic Alliance (DA) and the Economic Freedom Fighters (EFF) will impact on traditional ANC support, given that local elections tend to be more concerned with service delivery issues. Of more significance could be how the elections are fought, and how the respective political parties will act under the pressure situation that will undoubtedly unfold,” says Venter.

“Furthermore, the institutions of state that are supposed to be divorced from politics, such as the police, Independent Electoral Commission (IEC), courts, Public Protector and SABC, will increasingly be tested in terms of maintaining their independence,” he says.

Stroebel says that in 2016 the political rhetoric, impacting on agribusiness, will increase. “Transformation, through government’s radical economic transformation programme, will gain urgency. This is already seen in the accentuated drive to implement radical land reform policies, such as land ceilings and extensive market interventions, such as Agri-parks. It is also emphasised through the pressure to finalise B-BBEE Sector Codes and its enforcement measures, and to establish black industrialists. In addition, populist endeavours, such as the

announcement of a national minimum wages and sectoral strikes, can be expected,” says Stroebel.

Venter says within the ANC the positioning of contenders, and their supporters, to succeed President Jacob Zuma in 2017, will increase. “Already the ANC Women’s League, the ANC Youth League and COSATU have indicated their preferred candidates, with early contestants and favourites being Deputy President Cyril Ramaphosa and the chairperson of the African Union Commission, Nkosazana Dlamini-Zuma.”

“On the political front the big question will however be if the moderate ANC centre will hold against the various internal pressures, or will the ANC succumb to radicalism. The strength of the centre will largely come from a strong(er) economy, and a commitment to democracy. The last two factors will be tested in 2016/17,” says Venter.

### ***Conclusion***

South Africa, and especially government, will need to take a hard and critical look at the specific structural problems besetting our own economy, and implement corrective measures. While the additional austerity measures announced by Finance Minister Nene in the recent Mid Term Budget Policy Statement (MTBPS) are a step in the right direction in curbing excessive government expenditure, considerably more needs to be done by government to instill investment confidence in especially the primary productive capacity of the private sector.

“To say the least, 2016 will be extremely challenging and interesting, but the expected crises of 2016 will also provide the opportunity to the country, and government especially, to redirect its economic policy and steer the country in the right direction,” says Purchase.

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