The myths about commercial agriculture in South Africa pollute policy solutions

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Unlike several other countries in the African continent, South Africa has not faced a food shortage in the recent past.[1] Food production has increased over the years, and South Africa has remained a net exporter. Over the past two decades, South Africa's agricultural and food trade surplus averaged US$2,0 billion, according to data from Trade Map. These gains were supported by expanding area under production, primarily fruits and soybeans, and improved productivity across all commodities. The (output) productivity gains were boosted by adopting farming technologies – mechanical and biological -- and better farming techniques. This trend also has brought consolidation in farming units over the years, especially since the 1997/98 deregulation of the agricultural products markets. The consolidation has come as a way of farmers attempting to thrive on the economies of scale as they compete with global players in the agricultural and food markets. It is for this reason that there is often a misleading statement that says 'the number of South African farmers are declining'. However, the fact is that farmers are not necessarily "declining" but instead, farming units have consolidated to take advantage of the efficiencies provided by scale. Even then, there are still many small family farms that sustain the food system in rural South Africa.

Statistics South Africa has placed this number of farming units at 40 122 units in the 2017 agricultural census which is down from the reported 59 828 in the agricultural census of 1993. Unfortunately, the agricultural census of 2017 presents an incomplete picture as it only reported on farming units that are registered for VAT. The 1993 census was a more comprehensive survey and included all bona fide commercial farms but excluded farming enterprises in the former homelands. It is therefore no wonder that many commentators and official reports are often in the wrong about the declining number of farmers in South Africa.

In a forthcoming chapter of *The Oxford Handbook of the South African Economy*[2], along with Professor Johann Kirsten of Stellenbosch University, we have demonstrated that the 2017 Statistics South Africa survey excludes 92 634 households who practice commercial farming as their primary source of income and a further 122 200 households who practice commercial farming as a secondary source of income. These categories of farming units are operated or owned by both black and white South Africans.

It is also worth highlighting that most of these farming units are considered small enterprises, with most of them earning a gross farm income of below half a million rands. This creates the further source of confusion where it is argued that all commercial farms are large agribusiness firms. The reality, however, is that almost 90% of all VAT registered commercial farming businesses are classified as micro or small-scale enterprises and with the rest not eligible for VAT registration. This implies that most farms in South Africa are small-scale.

The notion of smallholders (in reality all survivalist firms) is also entering the debate on the reform of food systems and is supported by a call for the so-called 'shorter supply chains' Those in favour of this argument typically ignore the seasonal and locality specific nature of

[1] A list of some African countries that have recently experienced food shortages is available here.
[2] This will be released on the 28th of October 2021. See here.

agriculture together with the fact that roughly 70% of South Africa's population is urbanized. These urban consumers demand safe, nutritious, and affordable food that is readily available at stores close to their residences. This requires proper and functional logistics, packaging, and processing systems that are safe and hygienic which requires compliance with government health regulations, product standards which often translates into investment in facilities that can only operate at scale. The fact that rice, coffee, tea, cocoa, palm oils are not mainly produced in South Africa and that avocados are primarily produced in Limpopo imply that there will have to be long supply chains. This implies that profitable enterprises will have to operate at scale. The idea that farms close to urban areas could also provide food for urban communities is not always possible and it often ignores agriculture's endemic problems of theft, damages by rodents and climatic and soil quality (and access to water) to provide sufficient safe food for a large urban base throughout the year.

The relatively large number of small family farms are crucial for sustaining the informal food value chains in rural South Africa and supplementing incomes but will have to be connected to commercial supply chains where aggregation, packaging and other systems will be critical. Still, the main point here is that a fast urbanizing and modernizing country needs a vibrant commercial and large-scale farming sector that will produce competitively and deliver food that is affordable, safe, and reliable. The small farming units will remain crucial for informal value chains and supplementing incomes in the rural areas, but their practice should not be viewed as an aspiration for the country.

Importantly, the rising farming input costs also means that economies of scale will continue being a dominant feature in the South African farming sector. South Africa currently imports over 80% of its annual fertilizer usage and over 90% of its agrochemicals. These input costs are a challenge for all farmers but more so for smaller farming units. Still, to remain competitive, the farmers have to adjust their production and marketing strategies to cope in this environment. This is partly why we saw consolidation into larger farming units after the deregulation of agricultural products marketing in 1997/98[3]. It is however so that these farming units largely expanded 'vertically' through investments in the value chain and through productivity growth and intensification (production under cover, irrigation, etc.). The extent of horizontal consolidation of small farms into larger units are limited to a small number of farming units with the majority growing through internal growth and investments.

Weekly highlights

SA's agriculture economy is in good shape

The second-quarter GDP data released by Statistics South Africa this week confirmed the reality we have been observing on the ground, i.e. South Africa's agricultural economy is in good shape. After contracting by 1,0% quarter-on-quarter (seasonally adjusted) in the first quarter of this year, the agricultural gross value-added expanded by 6,2% in the second quarter. This improvement is supported by increased production of field crops, horticulture, and relatively better production conditions within the livestock subsector.

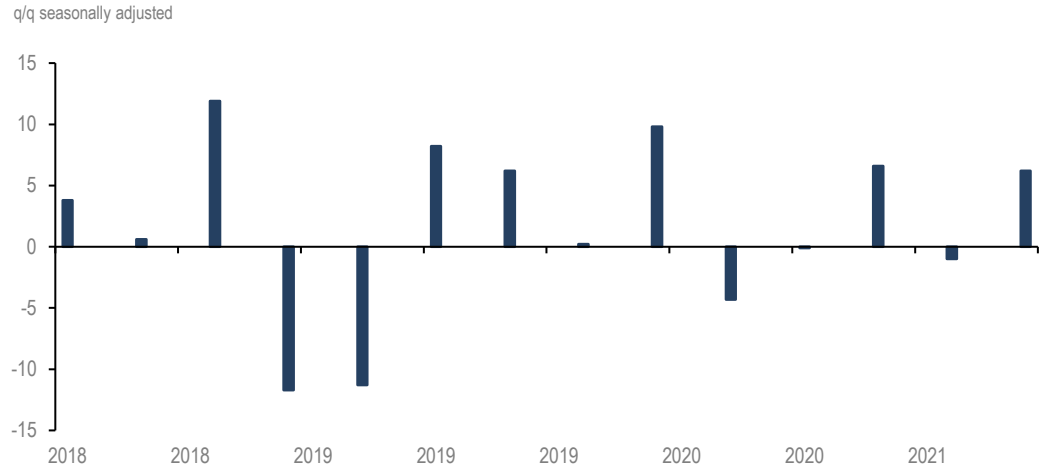
In the 2020/21 production season, the robust agricultural production was underpinned by favourable rainfall and expansion in area plantings of various field crops. Major grains such as maize and soybeans saw production reaching 16,3 and 1,9 million tonnes, respectively. This is the second-largest harvest yet in maize and a record harvest in soybeans. Bumper harvests of other field crops were also expected in 2020/21. Within the horticulture subsector, the South African Wine Industry Information and Systems forecast the 2021 wine grape crop at 1,5 million tonnes, which is 9,0% more than the 2020 harvest. Thanks to a good

[3] More information on the deregulation is available here.

harvest, the Citrus Growers' Association projects record exports of 163 million cartons in 2021, up from 146 million cartons in 2020.

In a nutshell, while we expect better harvests than in 2020, the sector's gross value-added could expand by 6,0% year on year (y/y) because last year's base, at 13,4%, is already quite strong. Our colleagues at BFAP are slightly more optimistic than us, projecting a 7,0% y/y expansion in South Africa's agricultural gross value added. Positively, the agricultural jobs have also rebounded in the second quarter of this year to 862 000 (up 8% year on year). This year and into 2022, we expect employment to remain at relatively firm levels of around the medium average of 852 000, as agricultural production conditions promise to remain favourable with prospects of a La Niña in the 2021/22 summer season.[4]

Exhibit 1: South Africa's agriculture GVA



Source: Stats SA and Agbiz Research

SA's strong tractor sales signal farmers' optimism about the upcoming 2021/22 summer crop season

We continue to observe optimism in South Africa's tractor sales as the 2021/22 summer crop production season approaches. The recent data from the South African Agricultural Machinery Association show that tractor sales were up by 56% y/y in August 2021, with 724 units sold. If we consider the total tractor sales for the first eight months of this year, we are already 30% ahead of the corresponding period in 2020, with 4 658 units. Importantly, 2020 was also a good year in South Africa's tractor sales, so surpassing it means that we are witnessing some good momentum this year. In 2020, the tractor sales amounted to 5 738 units, up by 9% from 2019, supported by the large summer grains and oilseeds harvest in 2019/20. Yet, 2020/21 was another excellent agricultural season and coincided with higher commodities prices boosting farmers' finances and, subsequently, the tractor sales.

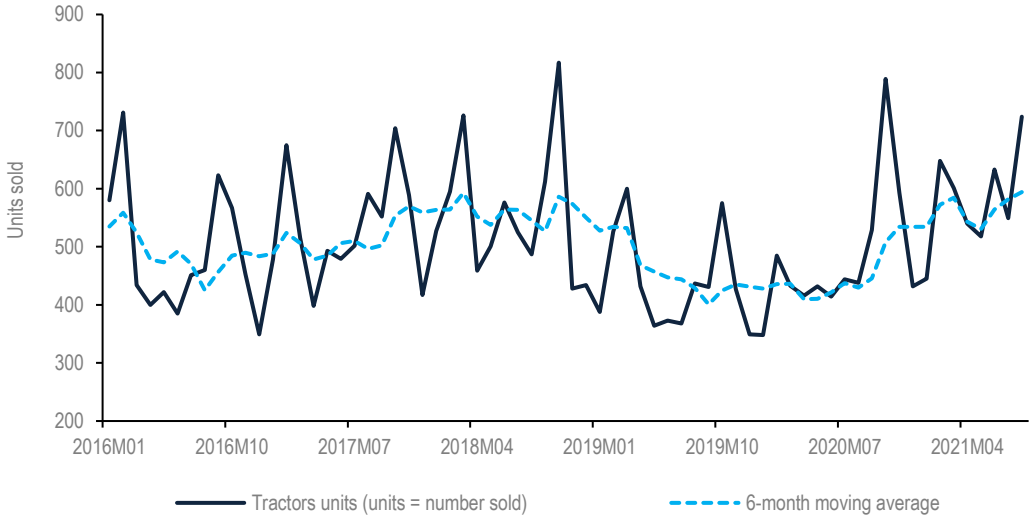
In addition to the favourable weather outlook for the upcoming season and attractive grain prices, we view the strong sales as a positive indicator that farmers could plough a sizable area for summer grains and oilseeds of roughly four million hectares as the previous seasons.

The planting period for the 2021/22 season for summer grains and oilseeds begins in October; as such, the sales for the current month will be worth watching. As highlighted in our previous notes, we are somewhat pessimistic about the sales in the last quarter of the

[4] The International Research Institute for Climate and Society echoes a similar sentiment as the South African Weather Service, expecting a weak La Niña for the coming season (see here). Importantly, from September 2021 to January 2022, the La Niña probabilities are over 50%.

year. We fear that the rising input costs, such as fertilizers, herbicides and fuel, could add pressure on farmers' finances and thus lead to a change in machinery-buying decisions. Also, the planting will be in full swing, and there would be little incentive to bring more new machinery. Still, the pace of sales in the first eight months of the year convinces us that, in aggregate, the annual sales for 2021 could still be larger than the previous year.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

The USDA has lifted most grains production estimates form August levels

After downward revisions in the past few months as a result of dryness in parts of Canada and US, the United States Department of Agriculture (USDA) has lifted its 2021/22 production estimates for global wheat, maize, rice and soybeans. This monthly upward revision is in line with prospects of better yields in parts of the US.

Starting with maize, the 2021/22 global harvest estimate is up by 1% from August 2021, currently estimated at 1,19 billion tonnes. This is now 7% higher than the 2020/21 production season. As such, the 2021/22 global maize stocks were also lifted from the previous month to 297 million tonnes, which is up 4% y/y. Still, this is well below the 300 million tonnes of the past few seasons' stocks. As a result, these thin stocks continue to be a source of volatility in maize prices. Notably, while the 2021/22 global maize production forecasts look promising, another essential region that we continue to observe is the Southern Hemisphere crop (particularly in South America), where 2021/22 maize plantings only commence in October. The outcome of the crop in this region will have a notable implication on the current global harvest estimates. We continue to see upside risks as a result of an expected La Niña which could cause dryness in this region, and negatively affect the crop.

The 2021/22 global wheat harvest is estimated at a record 780 million tonnes, marginally up from August, and 1% higher than the previous season. However, the increase in consumption means that the stocks could fall by 3% y/y in the 2021/22 season to 283 million tonnes. This will likely add upward pressure on prices, and increase costs for importing countries such as South Africa. The 2021/22 global rice production prospects remain favourable, at 507 million tonnes, roughly unchanged from the previous month, and up by 0,3% y/y because of expanding area plantings in Asia and expected improvement in yields. The global rice stocks also lifted marginally from August 2021 to 181 million tonnes. Still, this is 3% lower than the 2020/21 global rice stock levels. Therefore, we expect the global rice prices to increase marginally or move sideways in the coming months. This will follow a period of nearly six months of decline in global rice prices. This also means that rice-importing countries such as

South Africa can expect prices at relatively higher levels in the coming months. Still, prices are unlikely in the near term to be at higher levels as experienced at the start of the year where Thailand and Vietnam rice prices (5% broken) were over $US500 per tonne in February and March. Both these prices are currently at levels below US$400 per tonne.

Moreover, the 2021/22 global soybeans production estimate was lifted marginally from August and remains at 384 million tonnes. This is still 6% higher than the previous season. This is supported by a generally expected large harvest in the US, Brazil, Argentina, India, Paraguay, Russia, Ukraine, and Uruguay. Again, the 2021/22 production season in the Southern Hemisphere will only start in October, so the optimistic harvest estimate in South America, specifically, is still tentative. Unlike other grains that are characterized by tight stocks, the 2021/22 global soybeans stocks are at fairly comfortable levels at 99 million tonnes, up by 4% from the previous season. This is a result of both an improvement in production and also an expected softening in global consumption, especially in China.

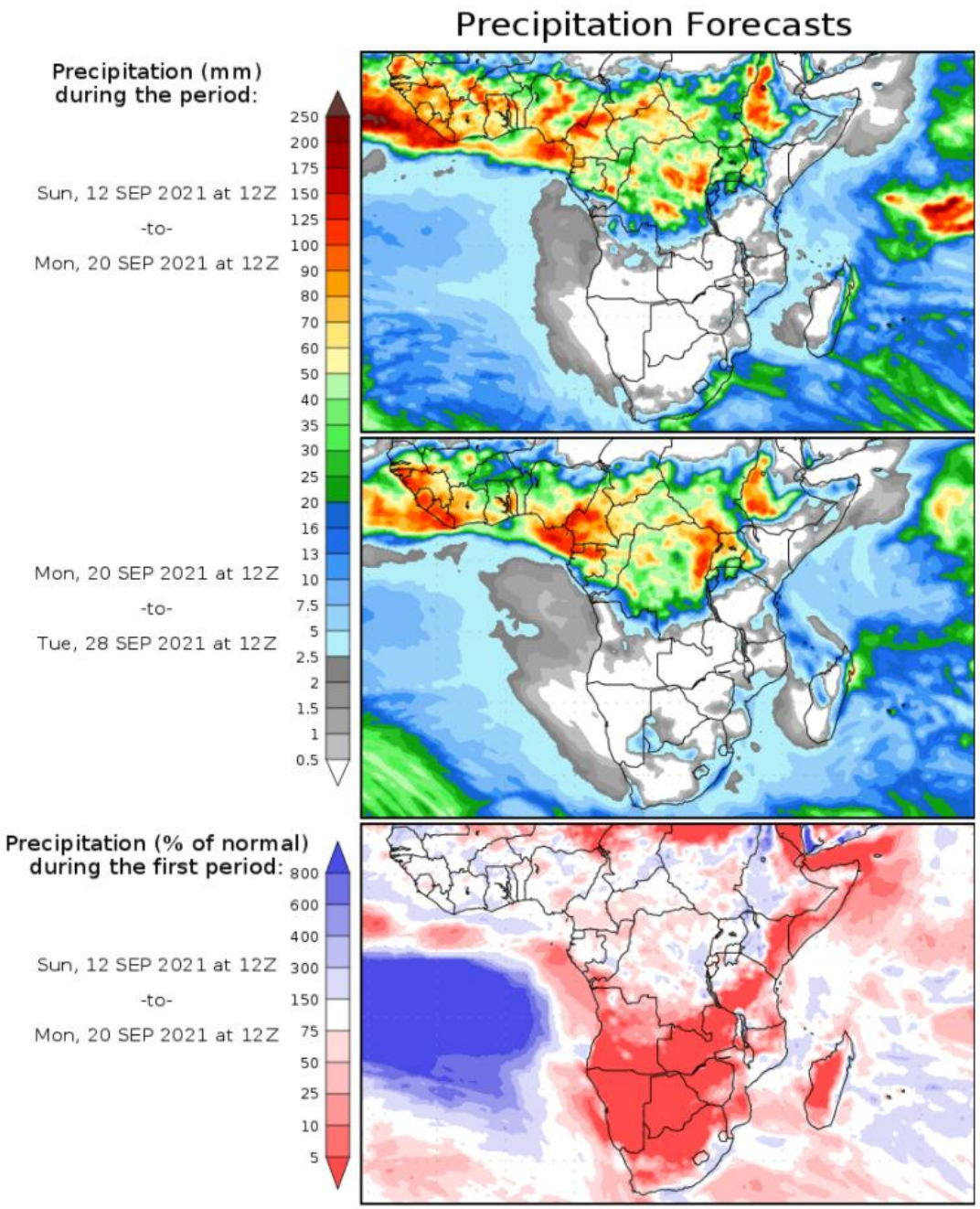
Data releases this week

We start the week with a global focus. Today, the USDA will release the **US Crop Progress report** for 12 September 2021. In the previous report of 05 September, the US maize crop was rated 59% good/excellent, which is slightly below the last year's rating in the same week of 61%. In the same week of 05 September 2021, the US soybean crop was rated 57% good or excellent, which means the crop is better than the same time last year when the rating was 56%. On Thursday, the USDA will also release the **US Weekly Export Sales** data.

On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** for 10 September 2021. This data cover summer and winter crops, although we only focus on summer crops for now, where harvesting has recently been completed, and farmers will soon be preparing for the next season. To recap, on 03 September, about 1 457 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 27 weeks of the 2021/22 marketing year at 1,82 million tonnes, which equals 96% of the expected harvest of 1,89 million tonnes. Moreover, 665 734 tonnes of sunflower seed for the 2021/22 season had already been delivered to commercial silos in the same week, out of the expected crop of 677 240 tonnes. In maize, the marketing year is different from oilseeds; we are still in the eighteenth week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 13,6 million tonnes, equating to 83% of the expected crop of 16,3 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 10 September 2021. In the week of 03 September, which was the eighteenth week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 1,4 million tonnes, which equates to 52% of the seasonal forecast of 2,7 million tonnes (down by 7% y/y). The annual decline in South Africa's maize export forecast is because of an anticipated soft demand in Southern Africa on the back of an improvement in the region's supplies. In terms of wheat, South Africa is a net importer. On 03 September, imports amounted to 1,4 million tonnes, equating to 88% of the seasonal import forecast of 1,6 million tonnes.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

As in the previous week's note, the weather forecast (Exhibit 3) for the next two weeks shows clear skies over most regions of South Africa (with the exception of the eastern parts).

Again, this is not a major issue at this point as the planting season requires rains only at the beginning of October, and the rainfall prospects are positive.