# What COVID-19 means for South Africa's agriculture and food supplies

Wandile Sihlobo*

Agricultural Business Chamber of South Africa (Agbiz)

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## Overview

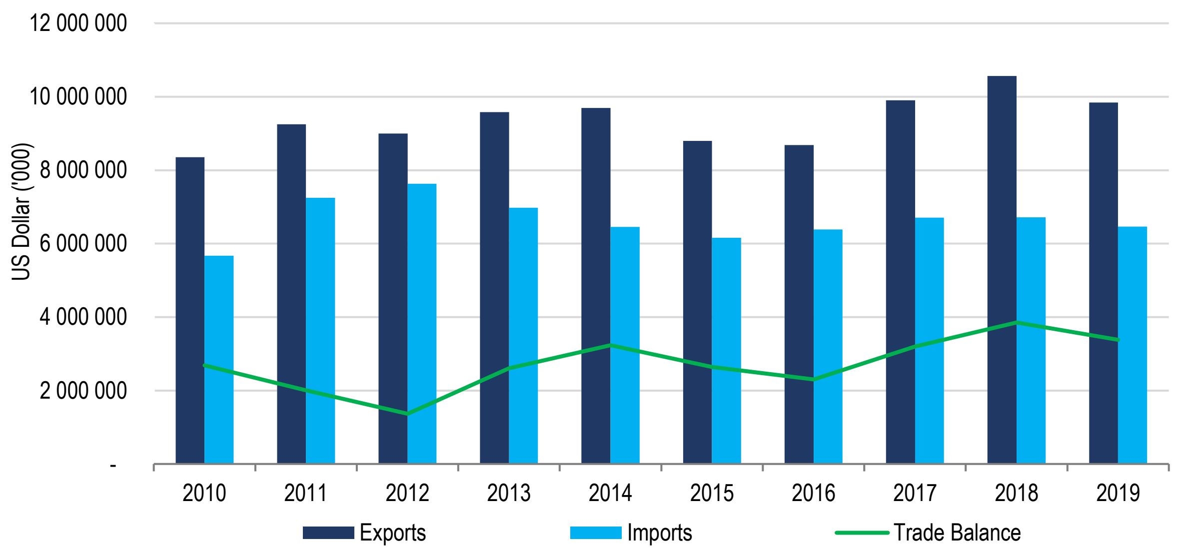
The COVID-19 pandemic is fast changing the way we live our lives, without exception. The virus has affected every facet of life – health and safety, travel, school and work, and access to basic provisions, such as food. Many supermarkets are in a frenzy as people scramble to secure basic needs amidst impending uncertainty. In this note, we attempt to understand the impact of the COVID-19 on South Africa's agricultural sector and also food supplies. We offer perspectives on perceived food shortage, agricultural commodities price dynamics, farmers indebtedness and policies that can be implemented.

## What does the virus mean for South Africa's food supplies?

Farmers and health workers are amongst those at the forefront of the fight against COVID-19. Regardless of the measures to enforce quarantine and social distancing, people will continue to demand food just like they will demand medical supplies. Those fearing for the worse -- that there could be food shortages -- had started stockpiling by mid-March 2020.[2] But is a food shortage a legitimate fear in South Africa?

From a national perspective, we doubt that South Africa would experience food shortages, at least for most food products over the next 12-months. South Africa is an agriculturally endowed country, generally a net exporter of agricultural and food products, as illustrated in Exhibit 1. There are high prospects for an abundant harvest of staple grains[3] and fruit[4] this year, which will increase the local supplies.

**Exhibit 1: South Africa's agricultural trade**




Source: Trade Map, Agbiz Research

[2] James Lappeman, "SA's panic-buying highlights inequalities", March 22, 2020: Available: https://www.moneyweb.co.za/news/economy/sas-panic-buying-highlights-inequalities/
[3] Maize production could increase by 35% y/y to 16.0 million tonnes, according to the latest forecasts from the United States Department of Agriculture (USDA). This could be the second-largest maize harvest on record after the 2016/17 season (which was 16.8 million tonnes for total maize).
[4] Southern Africa could have a record 143.3 million cartons of citrus fruit for the export market this year, according to data from the Citrus Growers' Association of Southern Africa.

Nonetheless, there are essential imported food products that South Africa is dependent on such as; rice (100% depended on imports), wheat (50% dependent on imports), and palm oil (100% dependent on imports). Key palm oil suppliers are Indonesia and Malaysia. The typical suppliers of rice are Asia and the Far East, namely Thailand, India, Pakistan, China and Vietnam, some of which are hard hit by the pandemic. In the case of wheat, the suppliers are usually Germany, Russia, Lithuania, USA and the Czech Republic, some of which are also hard hit by the pandemic. Some of the countries which have reported cases of COVID-19 have not taken drastic measures of limiting business activity (apart from Italy and China) to reduce the spread of the virus. This means the importation of some agriculture products mentioned above into South Africa could continue unabated, barring any unforeseen eventuality.

Aside from the major products, South Africa also imports poultry products and sunflower oil; but these are products that can be replaced by local supplies, should there be disruptions in global supply chains.

In the unlikely event of potential shortages, it will be due to glitches in the logistics of shipping imports rather than a decline in global essential grains supplies. For example, the 2019/20 global wheat production could amount to 764 million tonnes, up by 5% y/y, according to data from the United States Department of Agriculture.[5] Moreover, the estimated 2019/20 global rice production is 499 million tonnes, which is roughly unchanged from the previous season. The global palm oil market is also well supplied, with about 8.0 million tonnes, according to data from SUNSEEDMAN.[6]

Therefore, the readiness of the domestic food supply chains will perhaps be the ones to be tested in the coming weeks and months if panic-buying arising from fears of the spread of COVID-19 were to peak to levels seen in mid-March 2020 in the UK[7] and USA[8], amongst other countries.

The implications of COVID-19 on food price inflation remains unclear in the near term. Suffice to say, South Africa has ample food supplies for 2020, and therefore, there is no need for panic buying. The Agricultural Business Chamber of South Africa (Agbiz) has placed its forecast for food price inflation this year at about 4% y/y compared to 3.1% y/y in 2019.[9] The uptick in food price inflation compared to the previous year is associated with a potential increase in meat prices, rather than the COVID-19 pandemic.

Where negative pressures of the virus are likely to hit are on farmers and agribusinesses through the potential slowdown of export demand, and a likely subsequent decline in agricultural commodity prices. As we will explain in the next section of this paper, South Africa's agricultural sector is export-orientated and heavily reliant on global markets. Nearly half of the value of what the country produces is exported. Asia and Europe, which accounted for half of the US$10 billion of South

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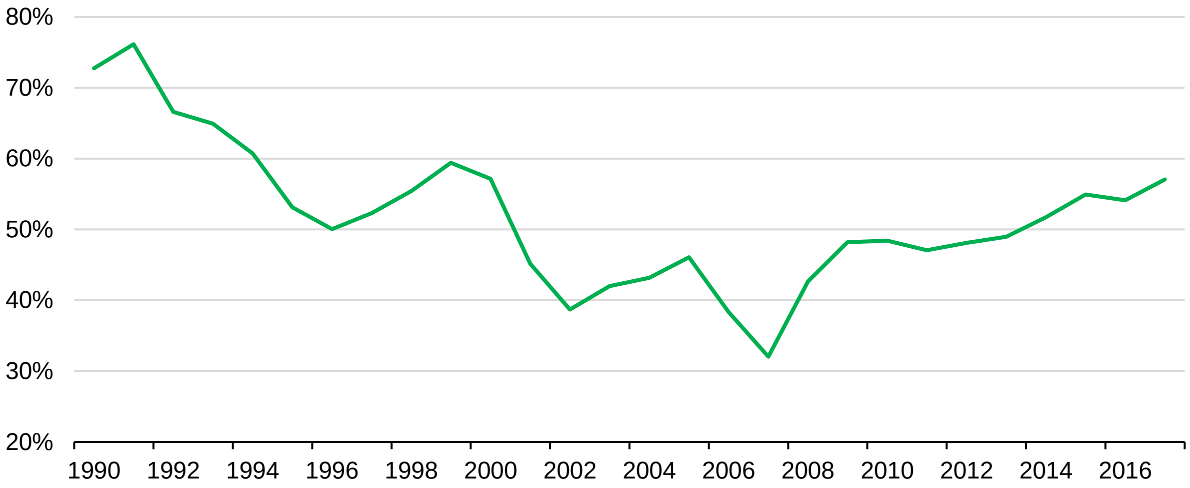
[5] World Agricultural Supply and Demand Estimates: https://www.usda.gov/oce/commodity/wasde/
[6] For more information on SUNSEEDMAN: http://www.sunseedman.com/
[7] Independent, "Food banks in crisis as £1bn panic-buying spree leaves families facing 'real hunger'", March 22, 2020. Available: https://www.independent.co.uk/news/uk/home-news/coronavirus-foodbanks-stockpiling-uk-panic-buying-supermarkets-food-toilet-paper-a9416326.html
[8] Reuters, "No milk, no bleach: Americans awake to coronavirus panic buying" March 15, 2020. Available: https://www.reuters.com/article/us-health-coronavirus-usa-shoppers/no-milk-no-bleach-americans-awake-to-coronavirus-panic-buying-idUSKBN211171
[9] Agbiz, "Slight uptick in SA food price inflation in February 2020", March 18, 2020. Available: https://agbiz.co.za/uploads/reports/agribusinessresearch2020/200318_Slight%20uptick%20in%20SA%20food%20price%20inflation%20in%20February%2020 20.pdf

Africa's agricultural exports in 2019, are the hardest hit areas by COVID-19 thus far. There is likely to be disruptions in supply chains in these regions as governments strive to limit the spread of the virus.

**What does the virus mean for farmers?**

The disruptions of COVID-19 are financially costly. For South Africa, this is in a sector that is already heavily in debt, as illustrated in Exhibit 2 below. As of 2018, the total farm debt was at record R168 billion. About 60% of the debt is with the commercial banks, with 29% is the Land Bank, with rest spread between agricultural cooperatives, private persons and other institutions. The escalation of debt, particularly in more recent years, was because of both the expansion in area farmed, specifically in horticulture and to some extent, the financial pressure brought by frequent droughts, which have limited agricultural output in various farms over the recent past.

**Exhibit 2: South Africa's farm debt as a percentage of the agricultural gross value added**




Source: DAFF, Agbiz Research

The 2019/20 production season follows two seasons which were hampered by drought in some areas, negatively affecting farmers' finances. In ordinary times, the expected large output in both field crops and horticulture this season would be part of the recovery phase. But we doubt if that will be the case in the face of COVID-19, which has disrupted supply chains and thereby leading to lower global demand. South Africa's agricultural sector is export-oriented. In value terms, roughly half of the products the country produces are destined for export markets.

Locally, some agricultural industries' performance is interlinked to some sectors, which are hard hit by COVID-19. A case in point is the wine industry, whose performance is somewhat influenced by tourism. The decline in tourism will hurt this sector. COVID-19 pandemic comes at a time when wine grapes production had started to recover following seasons of drought.[10] This essentially means the South African wine industry

[10] Vinpro "SA wine grape crop set to be good, but below 5-year average", December 9, 2020. Available here: https://vinpro.co.za/sa-wine-grape-harvest-set-to-be-good-but-below-average/

could be hampered by both the potential decline in demand locally and the global market, specifically in Europe, which is now the epicentre of the COVID-19 pandemic.

Through export earnings and domestic sales, farmers can generate the revenue necessary for servicing their debt, amongst other things. Hence, as policymakers and private financial institutions try to find ways to ease the possible financial pressures from COVID-19, it might be helpful to also consider the farm debt issue.

Global agricultural commodity prices have already taken a knock because of fears of slowing demand due to COVID-19. If we consider maize, soybean, and wheat prices, there has been a 10%, 8%, and 6% decline over the past month, respectively. However, global price shifts have thus far not spilt over to the South African market, which is currently supported by growing demand for the commodities mentioned above from the Southern Africa region countries and the relatively weaker domestic currency. But over time, the South African agricultural market could experience a similar trend, particularly given that there are already expected large supplies.

The financial impact of COVID-19 will vary across agricultural sub-sectors, depending on the debt overhang from the previous seasons and also the stage of production. For example, the deciduous fruit and table grapes exports might not be badly hit as most exports have already been processed by this time of the year. Meanwhile, in the case of citrus, the harvest and exports have recently started. While so far there haven't been glitches, a lot depends on the measures the European countries place in terms of commerce amid COVID-19 intensification in that region. From a local market perspective, as long as food retailers are operating, there should be a flow of products to market.

The wool industry has just returned to the market following a ban placed by China, where 70% of wool is exported in a normal season, because of the foot-and-mouth disease. This year was set to be a recovery phase from this event, and also the drought that hit parts of the Northern Cape, Western Cape and Eastern Cape. Any major disruptions on trade could negatively affect this industry and thereby farmers' financial positions. Already, wool prices have declined notably over the past week, in part, due to fears of potential slowing global demand.

The red meat industry is somewhat in a similar situation, the foot-and-mouth disease outbreak towards the end of 2019 led to a ban in exports which negatively affected the financial conditions of farmers. With limitations in restaurants, we could see a decline in demand for beef which some often consume away from home and which is more expensive than other protein foods. This too will negatively affect the beef farmers' finances.

Overall, while lower agricultural commodity prices, which we anticipate, are favourable for consumers, the opposite is true for farmers. Under such a scenario, the question is whether farmers will be able to have sufficient revenue to service their debts. Admittedly, there are still a lot of unknowns about how the COVID-19 pandemic will play out and the various levels of indebtedness amongst farmers, but a proactive policy response could help prevent financial ruin for farmers, particularly those of a small to medium-sized scale and those whose markets are in the affected Asian countries.

### Policy considerations

*Food supplies*: In times of uncertainty, there tends to be temptation amongst policymakers to place price caps of certain products prices. While such an approach would be plausible where good prices are artificially lifted to exploit consumers, in the South Africa agricultural sector, this is unlikely to be the case. We caution against price controls, but we prefer a close and consistent monitoring of basic food products prices and identifying any unfair behaviour from retailers. In the case of primary agriculture, commodity price discovery is transparent through the Johannesburg Stock Exchange.

*Farmers*: So far, the recent 100bp cut in interest rate by the South African Reserve Bank helps to reduce the cost of debt. What we have observed in countries such as the United Kingdom, the financial institutions have set mortgage payment holidays of up to three months. However, the unpaid interest will still be recovered later.[11] It is unclear if such a policy response would be plausible for South Africa, but in these extraordinary times, it might be something worth considering and drawing lessons from. Perhaps, the measures taken to support SMEs should be extended to the farming sector given its significance to food security.

*Farmworkers*: In an unfortunate event of a large-scale domestic spread of COVID-19, it could have devastating effects on the agricultural workforce and hence the state should be ready to support this vulnerable population group. Conversely, the agricultural sector should consider plans for mechanisation use where possible to ensure the continuous flow of agricultural products to market.

## ADDITIONAL NOTES:

### Food price inflation dynamics

In Exhibit 3, we show how the domestic food prices and world food prices have diverged since 2012 but these should converge back over time as the world and domestic economy come back to its steady-state. We also estimate the correlation tests at a disaggregated food price inflation basket.

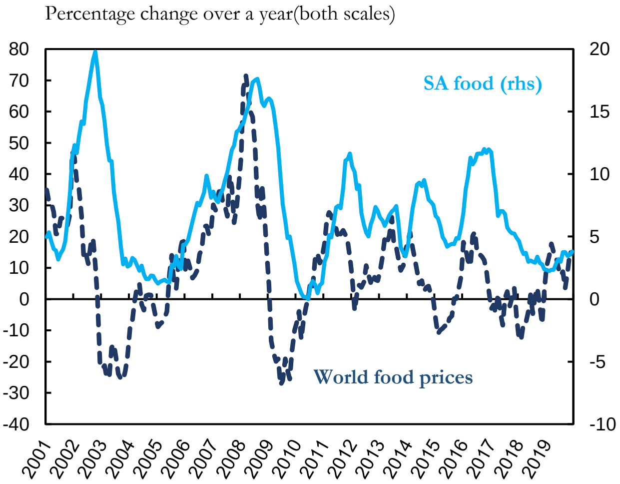
Our findings as shown in Exhibit 4, suggest that post-crisis, meat prices doesn't have any correlation with world price developments, in part because of growing domestic red meat supply. Meanwhile, while vegetable oil has a strong correlation because of South Africa's dependence on imports, but this component is not as big in terms of its weight to overall food.

Bread and cereals have a 40% correlation with world price developments, but this correlation is as good as non-existent because econometrically any correlation below

[11] The Guardian, "UK banks set out details of Covid-19 mortgage holidays", March 17, 2020. Available here: https://www.theguardian.com/money/2020/mar/17/uk-banks-set-out-details-of-covid-19-mortgage-holidays

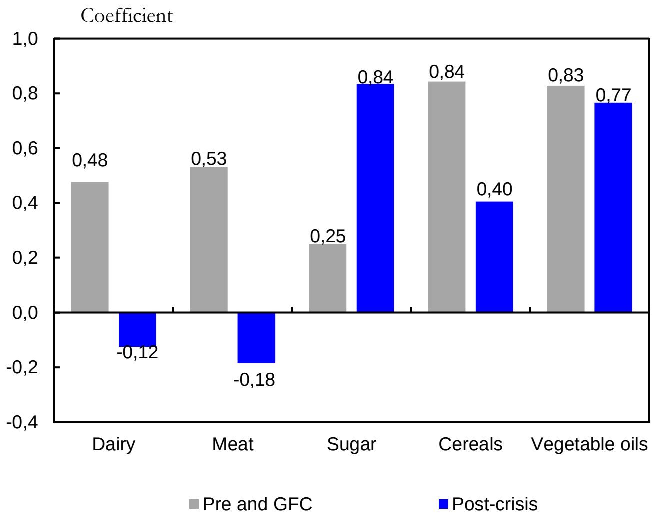
75% is probably not important. This further confirms that South Africa's food price inflation should continue being driven by domestic developments rather than global dynamics.

Exhibit 3: Link has weakened between international and domestic food prices




Sources: UN FAO Stats SA

Exhibit 4: Correlation (2012-2019)




Sources: UN FAO, Stats SA, SARB