agbiz
agricultural business chamber
the way to prosperity

AGRIBUSINESS
RESEARCH

Rising protectionism across the world presents threats to South Africa's agriculture

06 July 2022

Wandile Sihlobo
Chief Economist
+27 12 807 6686
wandile@agbiz.co.za

www.agbiz.co.za

South Africa's agricultural exports lack sufficient diversification. Outside of the African continent, they are heavily concentrated in a few Asian countries and the European Union (EU). Export diversification contributes to a country's economic resilience, especially in the face of disruptions in global supply chains or if one of the major markets imposes non-tariff barriers to protect its producers against the competition. More recently, we have seen how the covid-19 pandemic and the Russia-Ukraine war destabilized the global supply chains, with many countries relocating these domestically. The pandemic and geopolitical frictions have also raised a sense of protectionism, especially in the EU.

The EU recently imposed protectionist measures on agriculture by changing its regulations on plant safety for citrus without notifying its trading partners within a reasonable time. The new regulation purports to protect the EU from a quarantine organism, "False Codling Moth", by introducing stringent new cold treatment requirements, particularly on citrus imports from Africa, mainly impacting South Africa Zimbabwe and the Kingdom of Eswatini. These are the largest suppliers of citrus to the EU region. For example, over the past five years, South Africa has constantly been the leading supplier of citrus to the EU region, accounting for an average of 12% in value terms.

According to the Citrus Growers Association, South Africa has put in place rigorous measures to control the False Codling Moth, which the EU uses as a pretext to restrict citrus imports from Africa. Every country has a right to apply safety measures to agricultural products to protect the well-being of its consumers. However, in the case of the EU measures, there is no reasonable basis for this regulation.

The EU uses it as a cover to protect citrus-growing countries like Spain, which finds it hard to compete with products from Southern Africa. This measure will increase costs to the South African, Zimbabwe and the Kingdom of Eswatini citrus growers. It also strains the trust between the affected countries and the EU at a time when major power rivalries are forcing African countries to rethink their foreign economic relations.

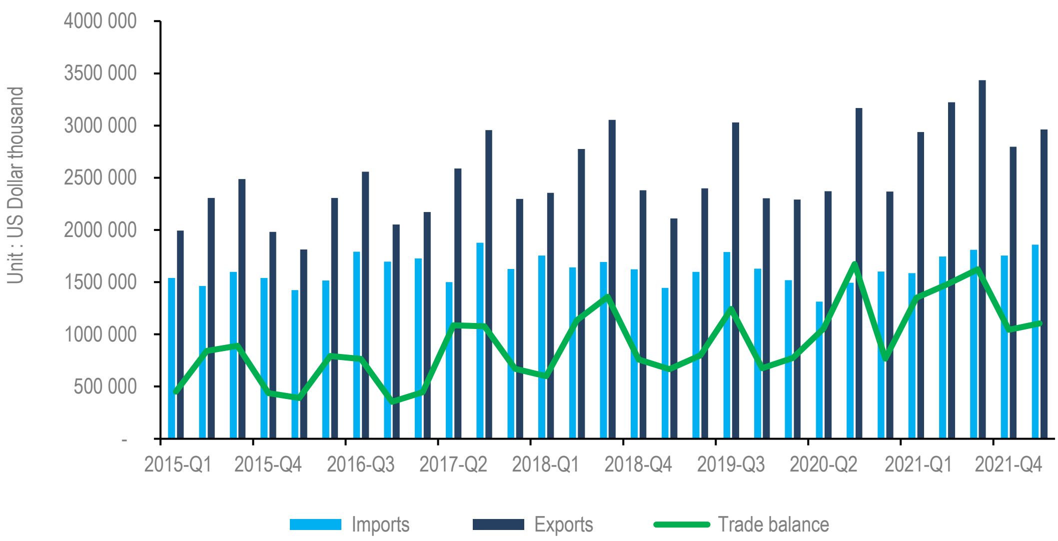
The immediate challenge for South Africa is that there are already shipments of citrus products on the way to the EU, which might be deemed non-compliant with arbitrary plant protection regulations on arrival in the coming weeks, hurting South Africa's economic interests and those of neighbouring countries.

In a scenario where the shipments are turned back or offloaded at discounted rates, Southern African growers will sustain immense financial pressure. These countries are already struggling with rising inputs such as fertilizer, agrochemicals and fuel. The citrus industry is vital in South Africa and broader Southern Africa's rural economy. The industry provides employment and economic vibrancy and brings export earnings. In 2021, citrus was the top exportable agricultural product in South Africa, valued at US$1,8 billion or 15% of the overall exports of US$12,4 billion. The EU was one of the leading markets, alongside the UK. Hence, we should be concerned as a country that the recent changes in regulations will likely have a detrimental impact on the industry.

While science should be at the centre of such developments, we believe a diplomatic solution between the South African authorities and the EU is urgent. Such an engagement should focus on ensuring that the citrus on the way to the EU is exempted. This engagement should be appreciative of the strategic partnership the EU and South Africa enjoy and consider the vital importance of preserving the goodwill built through the Economic Partnership Agreement between the EU and SADC countries. The EU, in particular, should consider the adverse impact of its protectionist measures on regional economies when many of these are still convalescing from the pandemic and countenancing the effects of ongoing geopolitical tensions.

These unpredictable times also mean South Africa should have a renewed urgent focus on broadening its export markets more aggressively within China, India, Bangladesh, the Gulf Cooperation Council (GCC) states, and Japan. These are important markets that we already have some marginal access to. The government and the industry should work on broadening access to all the major export-oriented products of South Africa: horticulture, beef and wine. We cannot afford to be concentrated in a few regions, however important and stable they are. The EU's example provides a glimpse of the risks of overexposure in one region for exports. This is urgent because South Africa exports roughly half its agricultural products yearly in value terms. Therefore, any improvement in production in the coming years will have to have an export market. For the citrus industry specifically, new trees are already expanding, which will help increase the export volume by roughly 50% of the current exports by 2030. These volumes will need new markets, even if we resolve the trade glitches with the EU. The Department of Trade, Industry and Competition, along with the Department of Agriculture, Land Reform, and Rural Development, should make export diversification one of the top priorities.

Exhibit 1: South Africa's agricultural trade



Source: Research Trade Map and Agbiz Research