

Why labour-related risks at Transnet matter for SA agricultural and food trade

One major challenge that emerged this past week that directly impacts South Africa's agriculture is labour-related tensions at Transnet. The logistics utility declared a force majeure at its port operations last week, citing an illegal strike. There is a risk that disruptions could escalate this week. The weekend papers cited statements by the representatives of the South African Transport and Allied Workers Union (Satawu) and the United National Transport Union (Untu) that workers are demanding a wage increase of a minimum of 10%, slightly down from the initial demand of 13,5%. However, this is still far from the current offer by Transnet at 4%. Against this, Satawu said over the weekend that it has served Transnet with a 48-hour notice that its members will be striking from today. Disruptions to the flow of goods to and from other countries could negatively impact South Africa's food, fibre and beverages sector, depending on its duration.

While agricultural production tends to be seasonal, South Africa has diverse agriculture, and there is large trade activity each quarter of the year. For example, exports of food, fibre and beverages in Q4 2021 amounted to \$US2.8bn, 23% of the total value of exports in that year. Some of the products that dominated the export activity were citrus, maize, apples and pears, wine, grapes, nuts and berries, wool, soybean oil, apricots, cherries and peaches. Not all these exports were facilitated through Transnet. Still, the point is that the fourth quarter of each year is a high export activity quarter. Given that agricultural production has generally been resilient, we expect that there are substantial volumes of exports of various products scheduled for this month.

Similarly, South Africa imports a range of food products in the fourth quarter of the year. For example, in 2021, during this period, we saw imports of wheat, palm oil, rice, spirits, poultry meat, sunflower oil, and soybeans oilcake, amongst various products. The total imports of food, fibre and beverages in the last quarter of 2021 amounted to US\$1,9 billion. In the same way, as the exports, labour-related disruptions would disrupt this import activity.

Importantly, we are not outlining these trade values to signal that this will be the direct loss if there is a strike. Instead, we are outlining the importance of trade in South Africa's food, fibre and beverages sector. Any costs would ultimately depend on the scale and timeframe of disruptions. The focus should be on supporting both parties to find common ground. Indeed, the whole logistics industry is the bloodline of South Africa's export-oriented agriculture or food, fibre and beverages sector.

In the export business, especially of high-value products, the reliability of South African suppliers is key in a highly globalized competitive world. Therefore, any potential prolonged delays would negatively impact the business activities of the South African suppliers to various markets in the world. Different agricultural groupings and commodity associations have already been vocal in the weekend newspapers about the possible negative impact of the Transnet strike on their businesses and the agricultural economy.

Aside from the immediate strike concerns, the logistics industry requires improvements, from roads, rail and ports, to support a growing agricultural sector. Road networks have

10 October 2022

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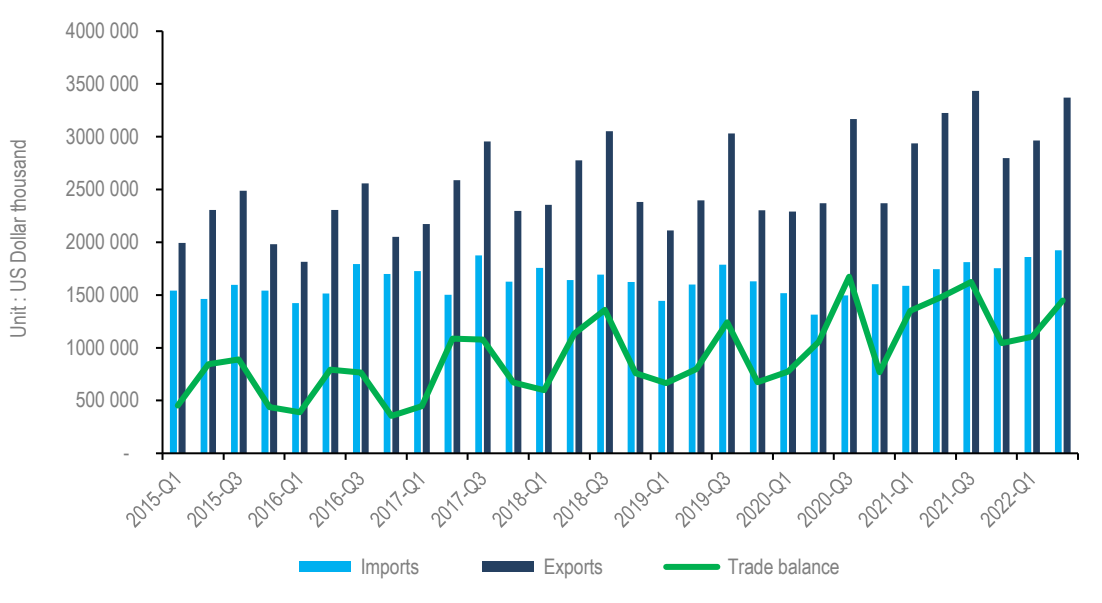
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deteriorated severely across South Africa over the recent past, weighing on agribusinesses and farming entities. Notably, some are using the capital resources which could have been allocated to business expansion, and thus long-term employment, to maintain and build roads. This is a public sector function and shouldn't be covered by private businesses. Similarly, there are long-standing challenges with rail and ports. Fortunately, on this part, Transnet has been working closely with agribusinesses, commodity associations and farmer groupings to refine their agricultural strategy that responds to the sector's needs and devise a long-term solution. This is crucial as South Africa already exports half of its agricultural produce. Any improvements in production going forward will have to be linked to potential export markets, and the logistics industry will be at the heart of this process.

In sum, the current labour disputes at Transnet are an important risk for South Africa's food, fibre and beverages sector. The fourth quarter of the year is as busy as any other quarter in terms of trade. Therefore, stoppages would negatively affect both imports and export activities. The actual costs of it, however, will depend on the duration of the strike. We hope a solution is found quickly between Transnet and the labour unions to minimize disruptions to trade.

Exhibit 1: South Africa's food, fibre and beverages trade



Source: Trade Map and Agbiz Research