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Transformation in agriculture

The business environment of agriculture in a global economy is volatile. The world population is growing rapidly but we see consumer behaviour changing; consumers are consuming more but eating habits are changing as a result of economic growth in different parts of the world and people becoming more health conscious. Agricultural land and water are scarce commodities in many parts of the world, which is leading to alternative farming practices.

In terms of a current trend in the market farmers are growing their businesses vertically. This leads to precision farming based on the latest technological practices. Agriculture used to be a massive job creator but is transforming into a technologically driven industry making use of highly skilled labour.

To remain competitive in a global economy you need to manage your operational costs, while being alert to the demands of the market and global economic trends. Technology will soon enable farmers across the world to produce food that is less dependent on the availability of water and land. We need to ask ourselves whether we are aware of market disrupters and what threats they pose or opportunities they present to our present farming practices.

As a bank it is important for Absa to remain abreast of market trends and future developments, so enabling us to direct and offer holistic solutions to our customers. The bank will continue to invest in human capital, new technology and finance solutions, thereby adding value to the relationship with our customers and ensuring that our customers remain competitive on a global scale.

Absa has established banking services in many other African countries. This has made it possible for us to assist many South African farmers wishing to diversify into the rest of Africa. We have established agri-banking teams in various countries, which we support through our Centre of Excellence situated in South Africa. We certainly understand the complex nature of farming in the rest of Africa, and the opportunities that exist.

The bank has invested in agriculture for more than 100 years and we are looking forward to the journey with our customers over the next 100 years.
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1.1 Economic outlook 2017

Agriculture, an investment opportunity
by Ernst Janovsky
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International economic outlook
There are three major factors to consider when determining the potential demand for food in the future, namely the growth in population, the potential growth in demand in terms of people’s nutritional needs, as well as the impact of economic prosperity on the demand for food. All of the above are influenced by technological advances that are changing production and demand trends, as well as the economic well-being of the consumer who is changing his or her consumption behaviour. One therefore needs a more holistic, long-term approach in considering the impact of these factors on agriculture as an investment opportunity as they will have a direct effect on demand and supply trends.

World population growth to slow down
According to the latest predictions the world population is expected to increase from 7,3 billion people in 2015 to 9,7 billion in 2060. The economic well-being of the consumer is also relevant, since population growth tends to decline as the consumer’s economic well-being improves. On its own, and all things being equal, this implies a growth in the demand for food of 32,4%
over the next 45 years (Africa 2,3%; North America 0,9%; South America 1,0%; Asia 0,4%; Europe -0,1%; and Oceania 1,1% per annum).

From the graphs indicating growth trends in world population, it is clear that Europe’s population is expected to decline; the graphs also indicate a slow-down in the growth in Asia’s population. Some argue that Europe’s population will grow due to an influx of immigrants. In principle migration just means a movement of people. One can also argue that Asia’s population will increase as China relaxes its regulations on one child per family. Population growth normally tends to decline as consumers get richer and the trend of urbanisation increases. Maybe not so clear, is that Africa’s population growth is also showing signs of slowing down because of improvements in consumers’ economic well-being over the past decade.

**Per capita food consumption to slow down**

Consumer awareness about healthy living and excessive food consumption has led to realities about how much food is needed to sustain life. The FAO recommends a threshold of approximately 2 900 kilocalories per person per day. At present there are only two continents that do not consume at least this minimum amount of food, namely Asia and Africa, although they are very close to reaching the recommended threshold after opening up their borders for imports and exports. Improved production efficiencies resulting from new technologies such as precision farming and genetics are also having the required effect.

The slowdown in the consumption of calories can be observed in Northern America in particular as the realities of obesity
hit home and a more healthy lifestyle is promoted. This levelling off of the amount of calories needed to sustain life will therefore also have a major impact on the future need for food.

Combining population growth trends with the potential levelling off of the intake of calories implies that growth in the demand for food, based on the above two trends, is expected to slow towards the second half of this century. This, combined with new production technologies, can have a profound effect on agricultural commodity prices in the long run and therefore needs to be considered before a long-term investment is made in agriculture.

World economic growth to remain sluggish
Given the turmoil in almost all the major world economies, it is unlikely that the world economy will spark another major growth phase that will drive commodity prices higher.

Europe (GDP growth expectation 1,7%) is struggling with an influx of migrants and all the concomitant political ramifications. Furthermore, they still need to deal with Britain’s exit from the EU. This, combined with Europe’s slow population growth, implies that consumer demand will remain sluggish.

The US (GDP growth expectation 2,5%) is showing signs of economic recovery, although demand remains sluggish while inflation remains low. The US Federal Reserve’s preoccupation with hiking interest rates in order to protect the dollar might even worsen the situation, leaving the consumer with empty pockets.

The bulk of sub-Saharan countries in Africa (GDP growth expectation 3%) are currently burdened with high debt levels and are still trying to recover from low commodity prices and droughts. Growth expectations remain low with consumers experiencing difficulty meeting their obligations. Lower international commodity prices have led to lower export revenue earnings, impacting negatively on the balance of payments of especially commodity-exporting countries such as South Africa, Angola, Nigeria, Botswana, and Zambia. This has led to the erosion of exchange rates and higher inflation, which has had a negative impact on consumers.

Asia’s economy (GDP growth expectation 6,1%) is also suffering from the consequences of creating overcapacity during the commodity boom, which was evident from 2000 to 2011. Asian countries now need to realign their economies
and focus on their own consumers to become more consumer driven. Surplus production capacity implies that commodity prices will remain under pressure.

In view of all of the above, world economic growth will remain fairly sluggish. There is every expectation that commodity prices will remain under pressure and that they will tend to move sideways. This is important to note as it also has a direct correlation with agricultural commodity prices.

South African economic outlook

South Africa’s GDP growth is forecast to range from 0% to 1.5%, depending on a range of factors varying from a poor investment policy environment resulting from political power plays and corruption, to poor service delivery and poorly maintained infrastructure. However, during 2016 two major events – the Constitutional Court case against President Zuma instigated by the Public Protector and the local government elections – reshaped the political and economic landscape of South Africa. These developments should lead to a more sustainable future and a more investment-friendly economic environment.

• Constitutional Court case
Although South Africa is supposedly a constitutional state, government has been treating the country largely as a governmental state without necessarily considering its constitutional responsibilities to the citizens of South Africa. This has led to a great deal of uncertainty and doubtful investment policies, or laws, being drawn up. In a definitive court case in 2016 the Constitutional Court once again confirmed, in no uncertain terms, that South Africa is a constitutional state. Consequently it warned government to be more mindful of the Constitution and the rights South African citizens are entitled to.

This implies that government has to do everything in its power to improve service delivery to its citizens and to stimulate the economy by passing sound and sustainable investment policies. This, combined with the outcome of more equal representation in the local government elections, implies better checks and balances with better service delivery to its citizens. And the winner is South Africa.

• The potential further downgrading of South Africa’s investment status
The bulk of South Africa’s public corporations have already been downgraded to below-investment grade status, making it difficult for these corporations to draw investments to create the capacity needed to grow the economy. This, coupled with these corporations being poorly managed due to political managerial appointments and injudicious tender practices, have strained economic growth. (For example, Eskom has been unable to provide enough electricity for the country’s needs.) This difficult situation was highlighted by the rating agencies downgrading South Africa’s investment status to one grade above investment grade.

The effects of political intervention in terms of stimulating the economy became clear when South Africa’s president appointed a new Minister of Finance who was perceived to favour the state capture of the Department of Finance. South Africa’s exchange rate fell precipitously and the president had to reverse his decision under huge pressure from the international and domestic community. This implies that government is under huge pressure to improve its policies so that they will stimulate the economy and attract investments to South Africa, thereby avoiding a further downgrade by the rating agencies.

Unfortunately, there is still a drive from the ruling party to control the Minister of Finance, putting strain on the relations between the Department of Finance, other departments and state-owned corporations. This implies that the battle has not yet been won, but is at least for the interim moving in the right direction. It is therefore not anticipated that South Africa will be downgraded by the rating agencies at the end of 2016, which
gives us some leeway in drawing in the much-needed investments to stimulate South Africa’s economy.

Economic growth expectations will therefore remain under pressure, with little improvement in consumer well-being; demand will therefore remain subdued.

- **Exchange rate expectations**
  South Africa’s competitiveness is largely determined by its exchange rate. As South Africa’s exchange rate is determined by our balance of payments (net difference between our current account and our capital account) and given that we have a deficit on our current account (we import more than we export in rand terms), we need to draw investments into South Africa to balance our deficit on our current account. In view of the effect of current government policies on our ability to draw investments into South Africa, our exchange rate is expected to continue weakening over the longer term.

- **Cost of capital**
  Over the past year South Africa has experienced a slow but steady increase in interest rates due to inflationary pressure. This was, first, a result of higher commodity prices because of the drought, especially those of food commodities. Second, commodity prices were higher following the decline in the value of the rand in December 2015 when the President announced the new Minister of Finance. However, inflationary pressures are expected to dissipate given the prediction of a better production season for agriculture and a recovery of the exchange rate after the reappointment of a previous Minister of Finance. This implies that the pressure to further increase interest rates due to inflationary pressure is showing signs of dissipation.
With the consumer experiencing pain, the growth in money in circulation is also below the target set by the Reserve Bank, which is not expected to contribute to further increases in interest rates.

The only factor, in view of the deficit on our current account, which might lead to an increase in interest rates, is the need to reward investors with a real interest rate that will encourage them to invest in South Africa.

However, it should be noted that the cost of capital has actually increased by almost 3% over the past 15 years. This is mainly due to a decline in the availability of investment funds across the world as baby boomers withdraw their savings and go on pension. In 1950 there was one retiree for every 15 workers contributing to a pension fund. In 2050 there are expected to be only two contributors to every retiree.

The availability of investment funds in the world is expected to continue declining. The net effect of this is that in the early 2000s one could easily get a 100% bond at prime minus 3%. Today one would need a deposit of 20% to 30% and one would struggle to get a loan below prime. This implies an increase of approximately 3% in the cost of capital. Expectations are that the cost of capital will continue to increase as the world population continues to age, leaving industry and governments with more expensive money for capital expansion.

**South Africa’s agricultural well-being**

South Africa and the surrounding countries have over the past four years been caught in a progressing drought with below-average rainfall. In the first year of a drought one would normally use one’s own surplus resources, in the second year of drought one uses spare capacity in the surrounding area. In the third year
of drought one normally utilises one’s financial resources to support oneself. In the fourth year of drought water resources also start to give in and the country as a whole feels the pain with wide-spread crop and animal production failure.

The drought of 2016 is comparable to the droughts of 1967 and 1983, with one major difference. This was the first drought that South Africa experienced within a totally free agricultural market. The net result is a drop in volumes of approximately 30%, while prices compensated and increased by approximately 60%. This implies that in terms of revenue, the net effect of the drought was cancelled out by an increase in price. Of course, this would not be true for all farmers as some did suffer total crop failure, but given the net effect on agriculture as a whole, these individuals could largely be accommodated through the normal financial systems with no major drought relief programme needed in the commercial agricultural sector. However, in the communal agricultural sector of South Africa, it is a totally different picture and a drought relief programme and disaster fund is urgently needed to ensure recovery.

Rainfall predictions for the coming season have improved substantially and early indications are that the drought will soon be something of the past.

Agriculural production and marketing revolution

New technologies are changing the agricultural production and marketing environment.

• Marketing technologies
For the first time agriculture has the opportunity to recapture the consumer’s business and deal directly with him or her, and not through the supermarket. This will be done by using and delivering more efficient and personalised distribution channels to the consumer, such as online buying and delivery through something like Uber Fresh.

Supermarkets are expected to become smaller and direct personalised marketing will instead become the norm. This will create major opportunities for farmers to deal directly with consumers in future, especially the new generation of consumer who is technologically savvy, so marginalising the middleman. To succeed, farmers would have to invest in technology and also develop new ways of reaching the consumer by adding a story to their product so as to showcase its unique features.

• New production technologies
New production technologies are reshaping the future of production, which is due to move into buildings, either through the vertical production of vegetables, the microbiological production of energy products or the artificial production of meat. This implies that instead of production out in the rural areas, production will move towards urban areas. This will eliminate the need to transport bulky products over long distances.

These new production and marketing technologies pose a huge threat to the bulk of especially African economies which are mainly agriculturally driven, as there will no longer be the need for vast tracks of land to be used for agriculture.
1.2 Black economic empowerment policy

A potential enabler of transformation and inclusive growth in agriculture
by Dr Langelihle Simela
Langelihle.Simela@absa.co.za

Current agriculture development policy environment
The South African government views agriculture as one of the sectors with great potential to drive economic growth and job creation. Agriculture is integral to achieving the 2030 strategic goals of 5.7% average real GDP growth, eliminating poverty and reducing inequality from 0.70 to 0.60, as measured by the income Gini coefficient. Consequently, revitalising agriculture and agro-processing value chains (RAAVC) features at the top of the list of the President’s nine-point plan for accelerated economic growth.

Part of the challenge in realising the intended growth in agriculture has been the coexistence of multiple, well-intended, but uncoordinated programmes, that have had a minimal impact in advancing the sector. This was evident in the recent reviews of a number of producer support programmes by the Department of Planning, Monitoring and Evaluation (DPME). Recognising this, the government embarked on a plan, called Operation Phakisa, for agriculture, land reform and rural development. The primary objective is to formulate interventions for transforming South African agriculture to be more inclusive, particularly focusing on the grain, horticulture and livestock integrated value chains, as well as the cross-cutting issues of labour, farmer support, land reform and rural development. At the time of publication, the intensely consultative process of Operation Phakisa was under way. It is expected to yield a consensual plan for agriculture, through which government and the private sector can, in tandem, drive transformation1 and inclusive growth2.

B-BBEE at a glance
One of the policies that South Africa already has and that potentially can embed transformation and inclusive growth in business is broad-based Black economic empowerment (B-BBEE). The policy is intended to advance the economic transformation and participation of Black people3 in the South African economy. It is based on a scorecard against five elements of empowerment (Table 1), with much emphasis on the development of (enterprise and supplier development) and procurement from small and medium enterprises, skills development and ownership. Collectively, the three priority elements make up between 90 and 104 points of the scorecards that could be used by agricultural entities (i.e. agriculture, forestry and fisheries) and take fully compliant companies to at least B-BBEE Level Three contributors (Table 2). The three priority elements have subminimal levels to which companies should comply to avoid being downgraded one B-BBEE level down. The B-BBEE policy caters for three tiers of business entities; namely large enterprises with an annual turnover of more

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1 A process by which individual farms shift from highly diversified, subsistence-oriented production towards more specialised production that is oriented towards the market or other systems of exchange (e.g. long-term contracts).

2 Economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society (OECD, 2015).

3 Black people are defined as Africans, Indians and Coloureds who were South Africans or would have been entitled to South African citizenship before 27 April 1994.
Table 1: Summary of points on the generic codes of good practice, large AgriBEE enterprises, AgriBEE-qualifying small enterprises (QSEs) and forestry scorecards

<table>
<thead>
<tr>
<th>B-BBEE elements of empowerment</th>
<th>Weight on scorecard</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Generic codes of good practice</td>
</tr>
<tr>
<td>Equity ownership†</td>
<td>25</td>
</tr>
<tr>
<td>Management control</td>
<td>15</td>
</tr>
<tr>
<td>Skills development†</td>
<td>20 (+5)‡</td>
</tr>
<tr>
<td>Enterprise and supplier development†</td>
<td>40 (+4)§</td>
</tr>
<tr>
<td>Socio-economic development</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>105 (+9)</td>
</tr>
</tbody>
</table>

† The AgriBEE Sector Code had not been gazetted at the time of writing; scores are drawn from the draft code. Large enterprises have a turnover of >R50 million and qualifying small enterprises have a turnover of >R10 million and <R50 million.
‡ Priority elements.
§ Figures in brackets are available bonus points.

Table 2: Implications of scorecard on B-BBEE status and level of recognition

<table>
<thead>
<tr>
<th>Level of B-BBEE contribution</th>
<th>Points on scorecard</th>
<th>B-BBEE recognition level</th>
<th>Interpretation of recognition level</th>
<th>Impact of not complying with the priority element</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level One</td>
<td>&gt;100</td>
<td>135%</td>
<td>R1 spent = R1,35 claimable</td>
<td>Ownership and supplier development</td>
</tr>
<tr>
<td>Level Two</td>
<td>95-99</td>
<td>125%</td>
<td>R1 spent = R1,25 claimable</td>
<td></td>
</tr>
<tr>
<td>Level Three</td>
<td>90-94</td>
<td>110%</td>
<td>R1 spent = R1,10 claimable</td>
<td></td>
</tr>
<tr>
<td>Level Four</td>
<td>80-89</td>
<td>100%</td>
<td>R1 spent = R1,00 claimable</td>
<td></td>
</tr>
<tr>
<td>Level Five</td>
<td>75-79</td>
<td>80%</td>
<td>R1 spent = R0,80 claimable</td>
<td></td>
</tr>
<tr>
<td>Level Six</td>
<td>70-74</td>
<td>60%</td>
<td>R1 spent = R0,60 claimable</td>
<td></td>
</tr>
<tr>
<td>Level Seven</td>
<td>55-69</td>
<td>50%</td>
<td>R1 spent = R0,50 claimable</td>
<td></td>
</tr>
<tr>
<td>Level Eight</td>
<td>40-54</td>
<td>10%</td>
<td>R1 spent = R0,10 claimable</td>
<td></td>
</tr>
<tr>
<td>Non-compliant</td>
<td>&lt;40</td>
<td>0%</td>
<td>R1 spent = R0 claimable</td>
<td></td>
</tr>
</tbody>
</table>
than R50 million, qualifying small enterprises (QSEs) with an annual turnover of more than R10 million but less than R50 million, and exempt micro-enterprises (EMEs) with an annual turnover of less than R10 million. All EMEs automatically qualify as B-BBEE contributors at Level Four if they are less than 51% Black owned, Level Two if they are at least 51% Black owned and Level One if they are 100% Black owned. They are expected to provide only an affidavit stating their turnover and credentials as proof of their B-BBEE status. Large entities and QSEs need to provide a B-BBEE certificate and the requisite documents to prove their B-BBEE status. However, an affidavit suffices for QSEs that are at least 51% Black owned. Thus, proving B-BBEE status has been made less onerous for small and medium enterprises, particularly the Black-owned ones.

The points earned by a business entity on the scorecard determine its level of B-BBEE contribution; and hence the level of procurement recognition that an entity receives (Table 2). As illustrated, a company with a higher B-BBEE status enhances its customers’ scorecard for every rand spent on procurement; whereas it would cost customers more to obtain points by procuring from suppliers with a weak scorecard (below B-BBEE Level Four). The impact of not complying with any one of the priority elements is illustrated in Table 2. Not complying with enterprise and supplier development at all has the greatest impact; the highest possible B-BBEE contribution would be Level Six, including the discounting principle. Similarly, not complying to equity ownership and skills development would result in possible B-BBEE Levels Four and Three, respectively.

Besides the priority elements, the B-BBEE policy fosters a workforce that is aligned to economically active population demographics (i.e. ratios of African, Coloured, Indian and White in the age group 15 to 64-years-old), the empowerment of women and the use of accredited training programmes. It also enforces procurement from “empowering suppliers” which, broadly defined, are “good corporate citizens” that meet prescribed minimum standards for local procurement, job creation for Black people, local beneficiation of products, skills development and employment of South Africans.

The premise of the B-BBEE scorecard is therefore to incentivise business entities to procure from other entities that would enhance their scorecard and so create a network of B-BBEE-compliant entities. Government is the catalyst for the development of this network by setting mandatory B-BBEE qualification criteria for the issuance of licences (e.g. water, import and export); awarding concessions and grants; buyers of state or public assets; and implementing preferential procurement policy.

The local demand for milk will increase further as milk becomes more and more accessible through additional outlets in townships.

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Outlook
There is no recent information on the extent of compliance with the B-BBEE policy other than a benchmarking exercise that was conducted back in 2007, which indicated compliance levels of less than 13% to any of the seven empowerment elements in the 2007 codes. The B-BBEE Advisory Council is tasked with reviewing progress in achieving B-BBEE. It is anticipated that with the new regulations that were promulgated in June 2016, information will be compiled and shared with the public in due course.

The implications of B-BBEE policy for business entities are that they should work with their advisers to develop their plans for complying with B-BBEE policy. In their planning they would not only consider the minimum targets set out in their relevant sector codes but also their clients’ short to longer-term targets. They therefore need to decide on who they intend to supply in future, determine the B-BBEE compliance requirements of their clients and work towards achieving those targets. Invariably this influences who the company in turn chooses to have in its supply chain, as this impacts on its B-BBEE credentials. A critical consideration for any business would be government’s requirements for the issuance of licences, concessions and authorisations.

The success of achieving B-BBEE largely hinges on clear information and guidance to businesses on how to implement B-BBEE; businesses’ willingness to comply with the policy; the effectiveness of incentivising those who comply and penalising those who do not; and, enabling policy and support measures for the growth and development of agriculture, as is anticipated from Operation Phakisa.

As Absa AgriBusiness, we are wholly aware of the implications of the new B-BBEE policy for the bank and its clients and are committed to providing accessible financial and business support services that will assist our clients to comply with the policy, with a view to enabling transformation and inclusive growth in the sector. We value ours and our clients’ standing as credible role players in South Africa’s agricultural sector and continue to support the building of a progressive society.
2. Weather

by Johan van den Berg
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El Niño or La Niña?
The El Niño phenomenon had already dissipated by the middle of June 2016. This made way for neutral to poor La Niña conditions. Most predictions indicate that sea surface temperatures at the La Niña side will remain neutral for the rest of the season up to at least autumn 2017. At that point in the season rapid changes, such as the redevelopment of El Niño conditions, are very unlikely.

Indian Ocean
In July 2016 the Indian Ocean Dipole (IOD) index showed the strongest negative trend over the past 50 years. At the time of publication it was still strongly negative and ought to remain negative for the following couple of months. If the IOD is negative, it is a sign that there is cooler surface water in the western Indian Ocean (on the African side of the Indian Ocean) and warmer water more to the Australian side of the ocean. Cyclonic and low-pressure activities will therefore occur further to the east in the Indian Ocean, which will have very little negative effect on rainfall conditions over Southern Africa.

Expected implications on rainfall
The effect of neutral to poor La Niña conditions associated with the strong signal from the Indian Ocean is bound to be positive for rainfall. Although poorly developed, La Niña features will probably remain and even the neutral sea surface temperatures could at least result in normal rainfall.

The expectation in the summer rainfall area is still that the chances for rain in spring and early summer remain below average, but that average and even above-average rainfall could occur in the middle to late summer. The conditions for rainfall in the eastern parts of the country improved in the last part of September and the beginning of October. However, somewhat drier conditions can occur over the eastern parts around February. For the more central parts conditions will probably be better from the middle part of October and conditions could also improve in the following months. The second part of the summer also seems to be favourable for rainfall. The western parts of the country could also begin to show increased chances of rain as from November.

Longer-term trends
When considering South Africa’s annual total rainfall since 1959/60 (Figure 1), it is obvious that the rainfall which occurred in the past two years (2014/15 and 2015/16, 1 July to 30 June) was fairly far below average. However, this picture looks quite different if one looks at North West (Figure 2), for example, where four of the last five years got rainfall which was fairly far below normal. What made the 2015/16 season so extremely dry, was the cumulative effect of the drought that has been going on for a number of years already.

In view of the present forecast of a weak La Niña phenomenon and favourable Indian Ocean conditions, chances are good that
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the turning point of the poor rainfall years has now been reached and that rainfall in the next season should be much better. However, the effects of the drought over the past number of years will not disappear with one good rain shower; follow-up rain, good management and time will be required, particularly for the veld to recover.

On the other hand there are strong indications that drier conditions could prevail over the winter rainfall areas during the next seasons. There have already been signs of drier conditions building up over the past two winter seasons.

**Outlook**

Although the La Niña phenomenon developing at present is not very strong and tends to be between neutral and La Niña, there is a strong positive rainfall signal from the Indian Ocean. In general a normal to above-normal quantity of rain is expected over the summer rainfall area. The season will probably begin a bit later than normal but quite a bit of rain is expected in midsummer.

Dam levels ought to respond positively in November, but more probably only in December.

The cumulative effect of the drought of the past number of years will, however, still have a negative effect on the new season, even if good rains fall.
in the next season. In February 2016 Russia banned the importation of maize from the US following phytosanitary safety concerns and political decisions. This then put pressure on the surplus that the US was experiencing. In April 2016 Brazil removed their import tariff on maize. In October 2016 the maize ending stocks on the global market were at 219.5 million tonnes compared to 210 million tonnes the previous year. Global exports in 2016/17 are expected to increase by 2% to 52 million tonnes from 2015/16, with South East Asia and the EU remaining the main import destinations. South America is contributing to the increase in trade owing to their increased exports. China recently implemented new policy changes, which led to maize being excluded from the state procurement and stockholding programmes. This, in turn, led to lower domestic prices. The new policy changes are expected to improve the use of maize in feed at the expense of sorghum and barley.
In January to March 2016 maize prices reached the lowest level of $159.90/t since 2010 as a result of ample global supplies, low crude oil prices and Argentina’s removal of their taxes and licensing requirements. The ample supply of feed-quality wheat also put pressure on the price of maize. Towards the middle of 2016 the global demand for maize increased and weather concerns in Argentina and Brazil supported prices. The average price of $171/t in the second quarter of 2016 is higher than in 2015 when the average price reached $169.80/t. It is significantly lower than the average price of $259/t reached in 2013. Argentina’s currency declined against the US dollar in 2016, which improved the country’s competitiveness on the global maize market.

Moving into 2017, maize prices are expected to increase slightly from an average of $165/t to $170/t in 2017. Global maize production is expected to increase in 2016/17 from the previous year, owing to the anticipated larger crops from South Africa, Argentina and Brazil. Over the forecast period, the production of maize is expected to increase mainly because of improved yields and not necessarily because of additional hectares planted.

12 million tonnes. In general, the main factors resulting in improved maize yields over time are precision farming, mechanisation and improved seed varieties. However, the Crop Estimates Committee (CEC) put the total maize production for the 2014/15 marketing season at 9 955 000 tonnes. The total maize production estimate for the 2015/16 season is 7 160 925 tonnes. In 2016 the serious effects of El Niño started to abate and most regions are expected to return gradually to a more normal production climate.

Over the past two seasons (2014/5 and 2015/16) South Africa has been experiencing one of the worst droughts in more than two decades. The severely dry conditions resulted in the total production of maize being lower than the average annual maize yield of

Under normal circumstances, South Africa is a net exporting country of maize. South Africa is uniquely situated to be one of the main maize suppliers to Southern Africa, followed by Zambia and Uganda. In

Domestic trends

Production

Trade
Zambia the effects of El Niño were not as severe as in the other neighbouring countries. Their maize production growth is expected to increase in the coming years, with the cost of input being the main limiting factor to production. In Uganda, maize is harvested at various times of the year starting in June and ending in October. In 2015/16 Uganda is also expected to have a poor harvest as a result of dire weather conditions. In the near future, however, their maize production and consumption is expected to increase by around 3.3%.

Zimbabwe is expected to remain a net importing country as their maize production estimates have decreased by 54% to 700 000 tonnes for 2015/16. At present the main challenges in Zimbabwe are infrastructure, financing, precision farming and a lag in economic growth. In Tanzania, maize production is expected to decline for the second year in the 2015/16 marketing season as a result of erratic and delayed rains at the end of 2015.

In 2013/14 South Africa had a bumper maize crop, which supplemented the shortage in 2014/15 when South Africa suffered from the first wave of the effects of El Niño. However, in 2015/16 there was very little carry-over stock, which required an increase in the imports of maize and caused maize prices to surpass those of import parity prices. In 2015/16 South Africa imported 100 803 tonnes of white maize and 1 862 807 tonnes of yellow maize and in the 2016/17 marketing season South Africa is anticipated to import 1 000 000 tonnes of white maize and 2 300 000 tonnes of yellow maize.

In 2015/16 South Africa imported 100 803 tonnes of white maize, of which 51 040 tonnes came from Mexico, 28 238 tonnes from the US and 21 525 tonnes from Zambia. In 2015/16 South Africa imported 1 862 807 tonnes of yellow maize, of which 1 120 281 tonnes came from Argentina, 502 147 tonnes from Brazil, 212 840 tonnes from Paraguay and 27 539 tonnes from the Ukraine.

Prices
In 2015/16 domestic maize prices were at an all-time high as a result of lower production and the weaker South African rand. The higher prices supported those producers who were able to plant. The overall value of maize did not drop that much as the prices for maize compensated for the lower production. A strong rand improved economic conditions.
Outlook
With the anticipation of El Niño dissipating in the 2017/18 marketing season, white maize prices are expected to return to price levels near import parity. With the intentions to plant 2,46 million ha, total production is expected to recover to more favourable levels for commercial use. The weaker rand will support the export of about 900 000 tonnes of maize to Southern African countries, especially Zimbabwe, which is anticipated to remain a net importing country moving into 2017/18. More importantly, South Africa will need to import 1,2 million tonnes of yellow maize to meet the feed demand.

3.1.2 Sugar cane
by Karabo Takadi and Rikasha Ramburan
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International trends
Production
Global sugar consumption is expected to outperform production from 2015/16. Production is expected to decline by 7% to 164,9 million tonnes, while consumption is expected to increase by 1% to 171,7 million tonnes. This is on the back of declines in production in the main producing regions of Brazil, China, India, the EU and Thailand. Consumption is expected to continue to outstrip production in 2016/17.

Brazil is the largest world sugar producer but its total output for 2015/16 is expected to decline by 4% to 34,6 million tonnes, as the tightening of credit conditions associated with the weaker Brazilian economy will impact sugar production negatively. Reduced plantings in 2015 and dry conditions due to El Niño weather have reduced production in 2016. However, there is a higher demand for sugar in Brazil as a higher percentage of sugar cane is converted to ethanol. Brazil is expected to see improvement in production in 2016/17.

In China, production declines of 23% were recorded in 2015/16 – high producer costs and lower cane prices led to decreases in the area planted. These costs encouraged producers to switch to higher-value crops such as tobacco and bananas. The strong decline in production in China means that there will be an increased import demand, which will impact the global sugar trade.

For 2016/17, sugar production in China is expected to improve as a result of more areas planted and better cane
prices. In India, expected decreases in output of 9% are due to lower yields. For 2016/17, sugar production is expected to decline as drought conditions shrink acreage in the key growing regions of Maharashtra and Uttar Pradesh. India levied a 20% duty on sugar exports to prevent further increases in local prices because of the reduced supplies. The government has also put some restrictions on how much sugar the largest industrial users are allowed to keep. India is the world’s largest consumer and second-largest producer of sugar. Thailand recorded a 10% decline in sugar production due to dry conditions associated with El Niño weather. Should La Niña weather conditions bring moisture to the cane fields, production will improve in 2016/17. Production in the EU in 2015/16 is expected to decline due to a decline in areas under beet, coupled with average beet yields in some countries.

Prices
The beginning of 2015 saw international sugar prices beginning to decline. Prices only began to improve in August 2015. The price decreases were in line with steady declines in the market since 2011, and were the result of growth in production over the past four years, which resulted in increases in the global sugar inventories to near record levels. However, January 2016 again saw world raw prices decline until they hit a low point in mid-February. Then, in March, prices started recovering from the low levels seen in February. Prices continued strengthening and increased by 28% between March and July as a result of the tightening of the global supplies in relation to demand.

Outlook
As the market moves further into deficit in 2016, potential support to sugar prices could encourage new investment in sugar production around the world. This, together with the fact that La Niña could boost the outlook for some sugar crops, could lead to improved production in 2016/17. Weather influences will remain key in major growing regions.

Domestic trends

Production
Drought conditions have given the South African sugar cane industry a severe knock. Production levels have dropped by approximately 27% since 2013. Production estimates for the 2016/17 season indicate a 2% drop in national cane production compared to 2015/16. This is attributed to significant declines in cane production in the irrigated and dryland areas from the 2013/14 season to the present.

During the current season, irrigated areas are expected to produce approximately 30% less than that achieved in the 2015/16 season. This is mostly due to low dam levels and water restrictions hampering irrigation, coupled with the effect of a very hot, dry summer. The figures used for the 2016/17 season are based on June estimates. However, dryland areas are expected to give better yields. These areas did receive a higher rainfall in the period from May 2015 to April 2016 than in the period May 2014 to April 2015. The dryland areas are expected to perform better in the coming season when compared to the irrigated areas. This is due to
the larger area of carry-over cane from the 2015/16 season, as well as the good rains received in the Midlands and the coastal areas in the summer months.

Overall, total cane production is expected to decrease by approximately 2% from that achieved in the 2015/16 season.

Prices
The industry is expected to recover to previous production levels over the next four seasons. Diversification is a focus area for the industry. A large number of growers are expanding into macadamia and tea tree production along the coast. However, the increase received in the price of cane and the higher tonnage varieties being planted at present has regained growers’ confidence in the long-term sustainability of the sugar cane industry.

South African sugar consumption might be under slight pressure due to lower economic growth, which is forecast at 0% for the remainder of 2016. The impact of high food inflation on sugar prices and consumer demand may also affect the demand for sugar as consumers are under pressure. The South African Customs Union (SACU) is the primary market for the South African sugar industry. That region is also expected to see lower economic growth. The lower production estimates also means the industry could meet the local market demand for sugar comfortably, although there will be very little available for export purposes. South Africa only exports surplus sugar after meeting the needs of the domestic market. If there is any further deterioration in production, the industry will have to import sugar in order to build a buffer.

The August RV (recoverable value) price for the 2016/17 season has been set at R5 042/t. This indicates a 32% increase from a year ago and is 26.7% higher than the 2015/16 closing price. The 2015/16 season closed with a final price of R3 979/t RV, which represents a 15% increase in the final price of the 2014/15 season. This higher price has provided much-needed financial relief to growers. The price increase is due to the lower production estimates.

Outlook
The sugar industry is expecting a further decline in production in the 2016/17 season. The increase in producer price will help growers keep up their replanting and spraying programmes later in the year. La Niña conditions are also possible in spring and summer, which could bode well for the next planting season. The industry is expected to consolidate over the next few years and to recover to previous production levels over the next four seasons. Dryland areas are expected to perform better than irrigated areas in the coming season. Growers in the irrigated areas will be requiring assistance in order to keep up replanting programmes if the rains do come. The price increase has provided much-needed relief for growers.
3.1.3 Wheat
by Wessel Lemmer and Julie Hayward
Wessel.Lemmer@absa.co.za

International trends

Production
Global wheat production was at a record high in 2015. In 2016 wheat production is expected to be slightly lower than in 2015 and will exceed consumption for the fourth consecutive year. The lower production is a result of fewer plantings in Europe and the US and dry conditions in Africa. Argentina, Canada and Russia have increased their production, which has partly offset the considerable production cuts by the EU, Morocco, Turkey, and the Ukraine. The US is expected to produce 2,6% less wheat at 54,4 million tonnes in 2016/17 as a result of lower plantings. The consumption of wheat is expected to move slightly up as the consumption of wheat for food offsets the lower use of feed wheat. In the July 2016/June 2017 marketing season global stocks are expected to remain at an all-time high.

Trade
The global trade in wheat has slowed over the past year and there has been increased competition for market share, which in turn has put pressure on wheat prices. The global wheat trade for the marketing season is expected to be 0,3% higher at 155 million tonnes than in the 2015/16 marketing year but is still 1,5 million tonnes short of the 2013/14 record level. The increase is mainly due to increased trade in China and North Africa. The EU is expected to remain the largest wheat exporter for the fourth consecutive year. Global trade is expected to remain high but slightly lower than in 2015, which is mainly a consequence of India increasing their imports as a result of low global prices and their faltering domestic procurement. India placed a 25% tax on wheat imports in the first half of 2016, which has supported local prices and production. Japan announced that, until the end of 2016, they would sell imported wheat to their domestic millers at an average price of US$468/t, which is 7,1% lower than in the previous six months.

In South America, Brazil is the region’s largest importer of wheat. Their 2016/17 imports are estimated to be 200 000 tonnes lower year on year at 6,5 million tonnes as a result of the anticipated small increase in domestic production. Argentina is expected to export a four-year high of 8 million tonnes in 2016/17 as a result of their weak peso, higher domestic production and the removal of their 23% export tax.
Domestic trends

Production
South Africa’s wheat industry has been declared an industry in distress. The main role players in South Africa are collaborating in order to improve the domestic wheat market. A factor that has been implemented in the wheat industry is the import tariff.

The main wheat-producing regions in South Africa are the Western Cape with 51% of the wheat produced, followed by the Northern Cape with 16% and the Free State with 14%. Over the years the amount of wheat planted in the Free State has declined considerably. In the 2015/16 marketing season 482 150 ha of wheat was planted, which is 1,2% more than in the 2014/15 marketing season. The final wheat crop in 2015/16 reached 1 440 000 tonnes, which is 21,5% less than in the 2014/15 season.

The producer deliveries reported by the South African Grain Information Service (Sagis) from October 2015 to March 2016 reached 1 374 169 tonnes, which is 22% lower year on year. The estimated further deliveries from April 2016 to September 2016 are estimated to be 31 931 tonnes, which is 30% lower year on year and the retentions for farm use are estimated to be 33 900 tonnes, which is 3% lower year on year. The total demand for wheat in South Africa over the 2015/16 season was 3 221 600 tonnes, which is 6,7% less than in 2014/15. The total supply for wheat in South Africa over the 2015/16 season was 3 862 923 tonnes, which is 4,5% less than 2014/15.

Price
Wheat prices trended sideways on average in the first half of 2016. However, prices in 2016 were lower than in 2015. The strong US dollar applied pressure on wheat prices. Developments in the soybean and maize market have supported the occasional increase in wheat prices. Prices are expected to remain low moving into 2016/17.
Trade
South Africa is a net importer of wheat. The import tariff for the most of 2016 was R1 224.3/t. The revised wheat tariff of R1 591.40/t was published on 22 August 2016 in the Government Gazette. The adjustment to the wheat tariff was delayed by three months. In the 2014/15 marketing season South Africa imported 1 832 441 tonnes of wheat. South Africa is expected to import 1 850 000 tonnes in the 2015/16 marketing year.

Price
Over the 2014/15 season the average wheat price was R3 795/t and in 2015/16 the average wheat price increased to R4 279/t. The increase in the wheat price was a result of the weaker rand and the effect of drought on the final yields. In 2016 the wheat price reached a record of nearly R5 000/t.

Outlook
The long-term outlook for wheat prices points to a sideways movement in international prices as sufficient amounts of wheat are expected to be produced. Excess wheat supplies are expected to continue into the 2016/17 season, and production is expected to remain steady until 2021.

In the domestic market, the previous few years have seen a declining trend in wheat-planted areas, and this trend is expected to continue if there is too little industry and government support. The lack of such support will somewhat limit the growth of wheat production in a country which is a net importer of wheat, which will increase the risk to South

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### Wheat imports into South Africa (tonnes)

<table>
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<tr>
<th></th>
<th>Argentina</th>
<th>Australia</th>
<th>Canada</th>
<th>Germany</th>
<th>Latvia</th>
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<tr>
<td>2014/15</td>
<td>59 607</td>
<td>95 254</td>
<td>105 457</td>
<td>348 385</td>
<td>61 005</td>
</tr>
<tr>
<td>2015/16</td>
<td>49 516</td>
<td>38 439</td>
<td>105 795</td>
<td>226 794</td>
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<tr>
<td>% change year on year</td>
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<td>0%</td>
<td>-54%</td>
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<th>Poland</th>
<th>Russia</th>
<th>Ukraine</th>
<th>US</th>
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</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>43 791</td>
<td>91 483</td>
<td>719 784</td>
<td>279 364</td>
<td>28 311</td>
</tr>
<tr>
<td>2015/16</td>
<td>15 624</td>
<td>184 965</td>
<td>710 820</td>
<td>109 267</td>
<td>110 328</td>
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<tr>
<td>% change year on year</td>
<td>71%</td>
<td>51%</td>
<td>-1%</td>
<td>-156%</td>
<td>74%</td>
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### South Africa wheat exports (tonnes)

<table>
<thead>
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<th>Mauritius</th>
<th>Mozambique</th>
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<tr>
<td>2014/15</td>
<td>68 037</td>
<td>21 940</td>
<td>1 532</td>
<td>56</td>
</tr>
<tr>
<td>2015/16</td>
<td>5 346</td>
<td>4 004</td>
<td>2 490</td>
<td></td>
</tr>
<tr>
<td>% change year on year</td>
<td>-12%</td>
<td>-4%</td>
<td>0</td>
<td>1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Namibia</th>
<th>Swaziland</th>
<th>Zambia</th>
<th>Zimbabwe</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>22 780</td>
<td>16 349</td>
<td>53 138</td>
<td>90 423</td>
</tr>
<tr>
<td>2015/16</td>
<td>8 353</td>
<td>912</td>
<td>269</td>
<td>25 524</td>
</tr>
<tr>
<td>% change year on year</td>
<td>-2%</td>
<td>-17%</td>
<td>-197%</td>
<td>-3%</td>
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</table>
Africa to be food insecure. The rand to US dollar exchange rate is expected to decline moving into 2017, which will add support to future local wheat prices. Given the declines in global wheat prices, domestic wheat prices can be expected to trade at least sideways owing to the efficient tariff measures that are in place.

In South Africa the production of wheat is expected to increase while imports decline. South Africa needs to become more self-sufficient. However, to increase the local industry’s competitiveness, successful collaboration by all role players in the wheat supply chain is important. Continuous support by government for the present tariff regime is equally important to ensure the sustainability of wheat production.

3.1.4 Oilseeds
by Wessel Lemmer and Julie Hayward
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International trends

Production
Processed soybean is the largest source of the world’s animal protein feed and the second largest source of vegetable oils. The US is the main soybean producer and exporter, as soybeans comprise close to 90% of the US’s oilseed production with groundnuts, sunflower seed, canola and flax making up the balance.

In South America the production of soybean is expected to be higher in the current season as a result of favourable conditions in Brazil. This led to increased yields. Flooding rains in Argentina caused quality-related problems and lower production. The gradual strengthening of the peso and real in 2016 has allowed major exporting countries such as the US to compete in Brazil’s and Argentina’s soybean market.

Trade
In the US, soybean exports are expected to increase by 9,6% to 57,8 million tonnes as a result of a larger predicted production, coupled with tightening supplies in South America. In view of a growing demand for soybean crush and a strong global demand for protein meal, US soybean meal exports are expected to increase by 300 000 tonnes to 1,156 million tonnes. Brazilian soybean oil exports are expected to decrease by 180 000 tonnes to 1,37 million tonnes despite a higher volume of crush and a continued strong global demand for vegetable oil.

EU rapeseed imports are expected to increase by 650 000 tonnes to 4 million tonnes as a result of higher production-related expectations. US soybean exports are also expected to increase by 2,84 million tonnes to 57 million tonnes.

China’s groundnut imports are expected to increase by 32,5% to 400 000 tonnes, resulting from a growing demand for food and crush-quality groundnuts. China’s growing demand for premium oils has left palm oil imports in China decreasing by 100 000 tonnes to 5,7 million tonnes. Sunflower oil imports into China are expected to increase by 100 000 tonnes to 650 000 tonnes as a result of developments in the current marketing year and the growing demand for premium oils.
Vegetable oilseeds. Vegetable oilseeds are major oilseeds that include imported or locally produced soybean, sunflower seed, groundnuts and cottonseed. Canola or rapeseed is rarely imported. South Africa mainly produces canola locally. Minor and lesser-known oilseeds may include castor seed and linseed.

Prices
Since 2015 soybean prices have been increasing. At the end of 2016, US free-on-board soybean prices strengthened to $412.5 in November 2016. The increase in oilseed prices was mainly due to increased exports in the soybean market and the low stock of vegetable oils and an increased demand.

Domestic trends
Production
The vegetable oilseeds market is also referred to as the oilseeds complex, which includes oilseed crops and products used for human consumption and in the animal feed industry. The products of these crops can be substituted with one another when optimising animal feed rations. This will ensure that feed costs to producers of animals are minimised, as well as the cost of animal products focusing on specific consumer market segments.

The South African oilseeds complex includes locally produced primary crops, as well as crushed or processed products, for example, oilcake, pellets, meals, full-fat products and vegetable oils. The complex also includes imported vegetable oilseeds. Vegetable oilseeds are major oilseeds that include imported or locally produced soybean, sunflower seed, groundnuts and cottonseed. Canola or rapeseed is rarely imported. South Africa mainly produces canola locally. Minor and lesser-known oilseeds may include castor seed and linseed.

The structure of the oilseeds industry is changing and the following fundamental factors may shape the future outcome of this promising industry. This includes:
- the recent expansion in crushing capacity;
- the efficiency of the industry in producing quality products;
- the competitiveness of oilseed crop production to win additional hectares from other crops;
- price competitiveness of the domestic industry to compete with imported oilseeds and oilseed products; and
- African neighbours: the expansion of oilseed production,
Producers of sunflower seed planted up to 718 500 ha during the 2015/16 production season and 670 000 ha in the 2016/17 production season.

crushing capacity and exports to South Africa, coupled with improvements to crops and the development of cultivation practices. As a result of the drought conditions in the 2015/16 season, soybean plantings were lower year on year.

Sunflower seed
Over the years sunflower seed production has been declining. This is the result of maize and soybeans being the preferred crop to plant because of numerous factors such as price and improved yields resulting from improved biotechnological traits. Less expensive sunflower seed oil, oilcake and sunflower seed imports from countries such as Romania and Botswana (sunflower seed) and Argentina (sunflower seed oilcake) are a threat to the domestic industry, particularly if exporting countries in other parts of the world experience improved production conditions, thereby producing surplus stock for export purposes at competitive prices.

Producers of sunflower seed planted up to 718 500 ha during the 2015/16 production season and 670 000 ha in the 2016/17 production season.

If the current producers of sunflower seed manage to switch over to soybean production in traditional sunflower seed production areas and successfully produce such crops, the declining trend in sunflower seed production may be exacerbated. At a current 10-year average yield of 1,22 t/ha only 720 000 tonnes of sunflower seed will be produced. Consequently, there is room for expanding the area under cultivation of sunflower seed with an additional 130 000 ha to meet the total demand of 880 000 tonnes.

Soybean
The national expansion in soybean production is limited by the demand for domestically produced oilcake. The quality of the domestic oilcake product needs to be equal to the quality of imported oilcake from Argentina. The latter is delivered to the animal feeds industry, which in turn supplies coastal poultry producers in particular. The demand for domestically produced oilcake and, subsequently, soybeans of a high quality, will increase as domestic crushing efficiencies and the quality of the product improves.

The extent and ratio of diversification among, for example, maize, soybean and beef enterprises could also limit the extent to which producers are able to expand soybean production. The land for increasing soybean production may be available. However, the competitiveness of other enterprises and the lack of government support necessitates diversification into extensive beef operations as a prerequisite for managing South Africa’s unique and risky production and marketing environment. This could also limit further expansion in soybean production. For instance, climatic conditions in the US allow producers in the US to run largely diversified enterprises
consisting of only maize and soybeans at a 50:50 ratio of diversification. This may not be possible for producers in South Africa.

**Outlook**

**Sunflower seed**

South Africa planted at most 670 000 ha of sunflower seed and the majority of the harvested crop is crushed for use as sunflower seed oil and oilcake. The amount of sunflower seed crushed correlates with production as South Africa is a net importer of vegetable oils. The amount of sunflower seed oil imported during 2015/16 equals 36 064 tonne and it is expected that the country will import 35 000 tonnes in the 2016/17 marketing season.

South Africa needs about 880 000 tonnes of sunflower seed annually, which should provide enough scope to cultivate 720 000 hectares of sunflower seed. The lower crude oil price should not have a negative impact on the price of domestically grown sunflower seed or soybean oil. Vegetable oils in South Africa are refined for purposes of human consumption and receive a premium above vegetable oil for industrial purposes.

The rand is expected to weaken against the euro by 7% from November 2016 towards May 2017. Imports of sunflower seed oil from the EU and oilcake from Argentina may be even more expensive. The local crushing capacity for oilseeds in general has increased and crushers are expected to prefer crushing locally acquired feedstock rather than importing feedstock or products such as oil and oilcake at a high cost. Producers planning to increase production should receive a good incentive in terms of price to do so.

**Soybean**

South Africa planted 516 000 ha of soybean, and the vast majority of the crop will be crushed as soybean oilcake. The amount of soybean being crushed is not enough to meet the local demand for soybean oilcake. Some 124 981 tonnes of soybean were imported in 2015/16, and the country is expected to import 300 000 tonnes for the 2016/17 marketing year.

South Africa needs about 1 152 212 tonnes of soybean per annum, which presents an opportunity to expand the hectares under soybean further without importing soybean. Production can be expanded even more so as to replace the imported soybean oilcake in full.
3.2 Fibre

by Karabo Takadi
Karabo.Takadi@absa.co.za

The price of synthetics is largely determined by the price of oil. Oil prices have declined in recent times, leading to a decline in the production cost of manufacturing man-made fibres. This decline has resulted in lower prices for man-made fibres in comparison to natural fibres, as low oil prices have increased the price competitiveness of synthetic fibres.

The use of wool in clothing and textiles manufacture is therefore likely to decline in favour of synthetics. The price competitiveness of wool against cotton and polyester declined between 2015 and 2016. With global oil prices assumed to remain low in the short term, the price competitiveness of wool in global textile manufacturing appears unlikely to improve significantly in the coming year. The relative prices of wool and competing fibres affect the demand for them in global textiles manufacturing.

3.2.1 Wool

International trends

The global production of wool is expected to record some declines in 2015/16 as a result of drought conditions in the major producing countries of Australia and South Africa, the biggest Merino producers.

Wool prices are expected to be supported in 2016/17 owing to lower global wool supply and an improvement in consumer demand for woollen apparel. Moderate economic growth in the major wool-consuming economies such as the US and China may support the demand for wool. Recent data show that economic prospects in China are stabilising. However, consumer demand for wool is expected to grow slowly, as consumption for this product is strongly linked to higher incomes and strong economic growth. China’s domestic consumption of woollen goods is expected to grow more slowly, in line with an assumed slowing in economic growth. The improvement in global demand, set against the lower global wool production that has been forecast, is expected to support a moderate
increase in world wool prices. Higher wool prices will create good returns for producers.

Improved seasonal production conditions will support the herd-rebuilding process in Australia, which is expected to result in the national herd recovering in 2017. This will be beneficial to future wool production.

Lower initial international sheep numbers in 2017 are expected to lead to declines in the number of sheep shorn, but this will be balanced by the strong improvement in seasonal conditions, which may positively impact on production.

There are many campaigns that encourage consumers to be more aware of the type of material their clothes are made of. This trend will drive demand towards natural fibres, which bodes well for a future switch to natural fibres.

**Outlook**
Campaigns aimed at awareness in terms of the type of material used for consumers’ products bode well for the future consumption of natural fibres. This comes at a time when synthetics have gained popularity as their prices are lower, which have made them competitive.

**Domestic trends**
South Africa suffered a severe drought caused by El Niño in the summer of 2015/16, which led to eight provinces being declared disaster areas. The wool-producing provinces of Mpumalanga and the Free State have been negatively affected, which has had a negative impact in terms of wool yields. In response to the drought, sheep producers have also slaughtered more of their sheep, which has resulted in the national herd being reduced. This has had a negative impact on production.

Domestic wool prices have been supported by good demand and the weaker currency. In the 2015/16 growing season, auction prices have sustained higher levels. At the final sale of the season, the Merino indicator closed at 17.7% higher than the opening level. The total volume of wool received for auction showed a 0.3% decline in 2015/16, compared to that in the previous season. Increased demand from China has been one of the key drivers of prices. Between July and August 2016, China accounted for 70% of South African exports. China’s imports from South Africa have strengthened over the past three seasons, and there have been bigger orders from Europe as well.

**Outlook**
Drought conditions in 2015/16 have negatively affected the production prospects of South African wool. In 2016/17 the predicted normal to above-normal rainfall is expected to improve the quality of production and help with rebuilding the national sheep herd, which will support production. Good demand and a weaker currency are expected to continue to support prices.
3.2.2 Mohair

International and domestic trends

South Africa is the world’s largest producer of mohair, and accounts for 52% of the total global production. In 2002, South Africa produced 64% of the total production globally. In the summer of 2015, grazing conditions were affected by dry conditions in South Africa. This is expected to have a negative impact on the total volumes produced. The quality of the mohair produced and the length of the clip will be affected. Mohair, just like other natural fibres, has been used less in recent times due to pressures from synthetics. A small percentage of South African mohair is consumed domestically while most of the yield is exported to Italy and China. However, growth in the domestic market is possible with new manufacturers entering the market and designers being open to new trends. However, this growth will rely on intensive marketing by the industry and consumer education.

In recent times, the mohair industry has shown growth, as the prices paid for South African mohair over the past few years have shown steady increases. The trend of rising mohair prices was maintained in 2015. Good demand in China, Bulgaria and Taiwan, coupled with the weakening of the South African rand, added some support to domestic prices in 2015. The South African rand weakened by almost 18% in 2015, and by almost 27% over the first seven months of 2016. The mohair industry is expected to continue to enjoy favourable prices due to the weaker currency. The attractive producer prices are expected to result in good returns, and will therefore encourage producers to invest in the sector, which will encourage future increases in production.
In 2015, mohair exports recorded some declines. Italy, the second-largest export destination, has shown decreases over the past three years. Italy’s growth in GDP has slowed over these years. Moving forward, Brexit is expected to increase uncertainty and will likely weigh on Italy’s economic performance. This will hamper growth in this economy.

Depressed economic conditions in the eurozone are expected to have a continued negative impact on demand, especially as far as kids are concerned. This can weigh down on demand prospects from the eurozone. China remains the largest export destination for South African mohair and demand from that area remains strong, which contributes to total export numbers in a positive way. China surpassed Italy as the largest export destination for South African mohair in 2014, and is maintaining that momentum. Bulgaria, too, has become a very important player in terms of demand for South African mohair.

The weaker currency, coupled with a high demand and strong consumption in China, continued to be favourable for prices during the first few months of 2016. Overall, price levels remained high during the summer season, and the same momentum is expected to be carried over into the winter season of 2016. The average market indicator for the summer season reflected an overall healthy demand, and was 29% higher than during the 2015 summer season at R248,08/kg.

Outlook

The mohair industry has experienced growth over the past few years, with steady production increases recorded in 2015. In this regard, sustainable production practices and traceability of the fibre will become increasingly important moving forward. Positive mohair prices will allow reinvestment in this sector. The weaker currency and good demand from China is expected to remain the key driver, while depressed economic conditions in the eurozone may negatively impact demand. Efforts by the industry to focus on market awareness can revitalise the industry.

3.2.3 Cotton

International trends

World cotton production in 2016/17 is expected to increase by 6%, supported by improved average yields despite smaller areas planted.

For India the area planted is expected to decline in 2016/17 as producers switched to planting alternative crops for which they can receive better prices. The late arrival of the monsoon and yield losses from pest pressures during the previous season also discouraged farmers to plant more. However, expectations of higher yields will support the total output of the crop.

In China, the 2016/17 area planted to cotton is expected to decline. This decline constitutes the fifth consecutive decline. The higher production costs for cotton compared to competing crops, the lower cotton prices and decreased government support continue to reduce production in that
area. China is expected to become a big cotton importer following the offloading of its huge state surplus. China reduced its cotton inventories by auctioning off huge government reserves, which has resulted in lower ending stocks.

Cotton production in the US is expected to improve owing to favourable weather conditions and a larger area being planted to cotton. The number of hectares planted in Pakistan is also expected to decline, but a rebound in yields will support production.

Growth in world cotton consumption has been limited in recent years, declining from the high levels in 2007 and 2010 due to competition from synthetic fibres. Cotton consumption is expected to strengthen by 1% in 2016/17. This increase is higher than consumption has been over the past two seasons. China remains the largest consumer of cotton. World cotton consumption is expected to exceed production for the second consecutive year.

World cotton stocks are expected to decline for the second year running in 2016/17.

**Outlook**

World cotton prices are expected to improve on the back of declining ending stocks. World cotton stocks are expected to decline for the second year running in 2016/17, getting a boost from reduced inventories in China. World production is expected to be supported as a result of improvements in yields. Improved consumption of cotton will continue to be limited by strong competition from the cheaper alternative fibres.

**Domestic trends**

South Africa experienced drought conditions in the 2015 summer production period. This negatively impacted on planting for the summer crops. The effect of the drought was also felt among cotton producers, with significant declines in the area planted under cotton. Area planted under dryland declined by almost 70% when compared to the previous season, which had a drastic impact on the total amount of cotton that was produced. In the past, dryland cotton farming used to serve as the basis of South Africa’s cotton production. Hectares planted under irrigation were also under pressure. This was the result of strong competition for other summer crops like maize, which fetched very high prices.
Some producers chose to plant these alternative, more favourable, crops, which added to fewer total hectares being planted to cotton under both irrigation and dryland. The eighth estimate for the 2015/16 production season shows that the South African cotton crop is expected to decline by 52% from the previous season, and realise a total production of 44 590 lint bales. One of the major obstacles is the lack of adequate infrastructure, especially at farm level. Over the years, as cotton production decreased, infrastructure replacement and renewal were also neglected. The high cost of mechanising the harvesting of specifically dryland cotton has also contributed to the decline in cotton production.

Weather forecasts point to a normal to a somewhat-later-than-normal start to the rainy season, which should possibly still be in time for summer crop producers to plant well within the optimum planting window. Normal to above-normal rainfall is expected for most of the summer crop areas. This brings hope of a better season ahead. For the cotton industry to do well, good rains are needed by the end of November at least.

South Africa does not produce enough cotton to meet its domestic needs, and it is therefore a net importer of cotton. The fact that South Africa is a net importer of cotton indicates that there is scope for a substantial increase in production without fear of creating surpluses. Even so, South Africa still exports cotton. Approximately 70% of South Africa’s annual cotton crop is exported. In 2015/2016, 77% of the crop was exported. The main export destination for South African cotton is Asia, mainly China, and small volumes are also exported to Lesotho. The weakening exchange rate continues to support domestic cotton prices, especially on the export market.

The cotton industry has come up with exciting efforts to form a cotton cluster that will improve the industry’s competitiveness. The Sustainable Cotton Cluster programme brings together the entire cotton value chain – all the way from the farmer to the consumer – to bring about industry collaboration. This involves most of the well-known retail clothing and textile groups forming a cluster. One of the benefits bestowed by the cluster is that cotton producers will be able to depend on a fixed price. This guarantees that fluctuations in world cotton prices will
not affect this price in the course of the season. The cluster therefore brings about price certainty and a guaranteed off-take agreement benefiting producers.

Access to GMO technology to manage the crop is improving every year, which puts the industry in a well-placed position for growth.

Other efforts by the industry include establishing crop insurance for the producer in order to insure yield or input, and minimise risk for the financiers. The first pilot project will be launched in the Limpopo production area in the coming season.

Outlook
Cotton prices are expected to continue to benefit from the weakening of the exchange rate. Initiatives such as the Sustainable Cotton Cluster and the crop insurance programme are expected to bring about competitiveness in the industry and can encourage investment in the cotton market. This will support improved future production prospects and also minimise risk to financiers.
3.3 Horticulture and timber

3.3.1 Pome fruit
by Adri Esterhuyse
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International trends

China and Russia have the potential to hold the international apple industry hostage.

Production
From 1995 China’s apple production increased from 14 million tonnes to 43.1 million tonnes in 2015, making China responsible for just over 50% of world apple production. In 2008 China was responsible for only 28% of world apple production. China is followed by the US with a mere 4.5 million tonnes, followed by Poland and Turkey, with respectively 3.3 million tonnes and 2.7 million tonnes. World apple production was recorded at 85 million tonnes in 2015 as against 49 million tonnes in 1995. This growth was mainly due to China. The top 15 producing countries are responsible for 80% of apple production.

World apple production is expected to reach 100 million tonnes by 2025 compared to the 85 million tonnes at present. This is the result of an increased harvesting area, better genetic planting material, productivity and technology. In Asia, led by China, production is expected to increase from 55 million tonnes to 65 million tonnes. Better productivity means that the average world yield continues to increase, especially in China.

A huge driver in the growth of production was the good economic growth in China, driven by a rising domestic demand.

Growth in apple-exporting countries was largely based on the expected domestic growth of China. With China’s economic growth moving sideways, the domestic demand for apples can also follow this trend. As China’s production continues to grow, this could result in overproduction, forcing China’s apple industry to expand their exports of fresh apples and apple juice concentrate.

Trade
Russia banned the import of perishable products from the EU in August 2014, which resulted in the price of fresh apples declining across Europe. The biggest loser in this regard has been Poland. Russia used to be Poland’s biggest export market of fresh apples and apple juice concentrate. The closure of the Russian market resulted in overproduction and is forcing Poland to look for alternative markets.

Argentina and Chile are strong competitors with South Africa in the EU pear market, while the US is currently not a big importer of South African pears. Apples and pears are produced at a lower cost in Chile than in South Africa and, compared to South Africa, fewer pests occur there. Thus, the phytosanitary aspects are of less concern in Chile than in South Africa. As a consequence Chile has gained on market access. However, the logistics involved in the Chilean supply chain is more expensive. While South Africa beats Chile as far as eating quality is concerned, the Chilean pears are larger.
In 2015 approximately 8.4 million tonnes of apples produced worldwide were exported. This included trade between European producers, which was approximately 2.6 million tonnes in 2015. This internal trade was led by Italy, France and Poland. Due to the Russian ban and growth in production, more apples will be available in this market, forcing these countries to look for alternative markets. With slower economic growth in China, that country is expected to start exporting more apples. This means that more apples will be available for exports, putting further pressure on international prices.

Despite the Russian ban, Russia remains the biggest single importer of apples, followed by the UK and Germany. The European member countries combined – including the UK – are responsible for 37% of the import volume. The UK continues to be an important export destination for South Africa, and receives 25% of South African exports.

The top 10 exporting countries are responsible for 75% of world exports. The top exporters are Italy, the US, Poland and China. The top southern hemisphere export countries remain Chile, South Africa and New Zealand – all focusing on different market destinations.

**Domestic trends**

**Production**

Over the past 10 years the area planted with apples in South Africa increased by ±3 000 ha, with current plantings standing at 23 600 ha. Apple hectares mainly increased in the Ceres area, which was responsible for ±2 000 ha new orchards in the past 10 years. Some 31% of apple orchards are not yet 10 years old. These young orchards, together with more high-density plantings, will result in production increasing over the next 10 years to an expected 1.05 million tonnes from the present 0.9 million tonnes. This increase will put pressure on the present packing and cooling infrastructure.

The production of pears in South Africa is also expected to grow by 18% between 2014 and 2020. The area planted under pears is not as big as that of apples.

**Trade**

With the Russian ban continuing, more European apples will be exported to Africa, Eastern Europe and the Middle and Far East. These destinations are also important for South African exports. Apple exports represent 30% of South Africa’s exports to Africa and 24% of its exports to the Far East. As many of these countries’ economies depend on their oil industry, their buying power will be under pressure. With the expected increase in world production, prices will be under greater pressure. This will also have an impact on South African exports even though it is a southern hemisphere producer.

South Africa exports 50% of the country’s pears to the EU and Russia. Russia imports 7% of the pears, countries in the Middle East 18% and those in the Far East 15%.

**Outlook**

Over the past five years the rand weakened year on year against the dollar by an average 17%, resulting in good
returns for apple producers. In view of this, producers will continue their high focus on the export market. In 2015, ±43% of the total crop was exported. Local fresh consumption is ±28% of the normal crop. With increased production, exports as a percentage of the South African crop are expected to increase.

Africa will continue to be a major export destination for South Africa. Consumption is growing in developing countries. This is mainly owing to positive population growth and growth in the economic well-being of the consumers. In Africa, consumption has grown from 0.26 kg per capita in 1990 to 1.73 kg per capita in 2011. Over the past five years South African exports to Africa have grown by 96% and exports to the Far East and Asia by 38%, while exports to the UK, Europe and Russia have declined.

3.3.2 Citrus
by Wessel Lemmer
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Oranges

International trends

The prospects for citrus generally appear to be promising, particularly if South Africa, like the countries that are its competitors, succeeds in entering into successful preferential trade agreements for exports, and the rand systematically weakens further.

Production

The world production of oranges reached 47.9 million tonnes in 2015. The world production of oranges is expected to stagnate at about 48 million tonnes until 2021. In 2015, the largest producer of oranges is Brazil at 16.7 million tonnes followed by China, the EU, US
and Mexico. South Africa produced 1,69 million tonnes, in 2015, which is 3,5% of global production.

Trade
The world exported nearly 4,2 million tonnes in 2016. This figure is expected to grow to 5,2 million tonnes in 2021. World imports were just less than 3,8 million tonnes in 2015, with an expected growth in imports to 4,6 million tonnes. Until 2021 the consumption and processing of oranges should remain relatively stable at 30 million tonnes and 18,6 million tonnes respectively. While the production and consumption levels will stay the same, the overall trade in oranges is expected to increase.

Domestic trends

Production
South Africa’s production of oranges is expected to increase by 3,9% a year from 1,7 million tonnes to almost 2,1 million tonnes by 2021. The increase in expansion is expected to be driven by the weakening rand, which increases South Africa’s competitiveness in the export market.

Trade
Orange exports should increase by 5% a year from more than 1 million tonnes in 2015 to almost 1,4 million tonnes in 2021. Export prices may remain at higher price levels of anything between R5 400/t to R6 000/t. The domestic consumption of oranges (including fresh produce market sales, processing and other consumption) may increase by 2,8 % a year from 624 407 tonnes to 732 548 tonnes. Prices on the fresh produce market are expected to be supported by the additional exports of oranges. Consequently, orange prices on the fresh produce market may increase by an average increase of 11,6% from R2 543/t in 2015 to R4 306/t in 2021. The increase in prices is supported by the weakening rand, which favours an increase in the export of oranges to domestic consumption.

Note that the budwood sales for oranges are declining, which indicates a decline in the future supply of oranges and which will support future prices until 2021.

<table>
<thead>
<tr>
<th>Budwood sales: oranges</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1 399 534</td>
</tr>
<tr>
<td>2011</td>
<td>1 139 146</td>
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<td>2012</td>
<td>1 367 732</td>
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<td>2013</td>
<td>1 165 860</td>
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<tr>
<td>2014</td>
<td>870 914</td>
</tr>
<tr>
<td>2015</td>
<td>996 103</td>
</tr>
</tbody>
</table>
Note: A 10% year-on-year increase in the price of oranges seems extreme. It should be evaluated against the year-on-year decline in the value of the rand against the US dollar. The forecast year-on-year expenditure on food is an increase from 7,76% in 2015 to 14,18% in 2021. Furthermore, the rand is expected to weaken from R12,77 to the US dollar to R19,92 by 2021. This represents an annual weakening in the exchange rate of 9,3%.

Outlook
The outlook for oranges remains positive for the next five years until 2021. Although the world production in oranges tends to remain flat, domestic budwood sales indicates an expected decline in domestic production. The weak rand and increased expenditure on food indicates that the demand for oranges will increase. These factors support domestic prices following export prices to a higher level.

Grapefruit

International trends

Production
The world production of grapefruit reached 6,4 million tonnes in 2015. The world production of grapefruit is expected to increase to 8,3 million tonnes until 2021. In 2015, the largest producer of grapefruit was China at 4,3 million tonnes, followed by the US, Mexico, Turkey and Israel. South Africa produced 405 000 tonnes in 2015, which is 6,4% of the global production.

Trade
The world exported nearly 759 000 tonnes in 2016 and this is expected to grow to 816 000 tonnes in 2021. World imports were 684 000 tonnes in 2015, with an expected change in imports to 674 million tonnes in 2021. Until 2021,
the consumption and processing of grapefruit should increase from 5,6 million tonnes and 710 000 tonnes respectively to 7,5 million tonnes consumed and 760 000 tonnes processed. While production and consumption levels will increase, the overall trade (imports and exports) in grapefruit is expected to stay relatively unchanged. Grapefruit production and consumption will increase in China.

**Domestic trends**

**Production**
South Africa’s production of grapefruit is expected to increase by 3.9% a year from 385 774 tonnes to almost 475 000 tonnes by 2021. The increase in expansion is expected to be driven by the weakening rand, which increases South Africa’s competitiveness in the export market. South Africa is the major grapefruit producer and exporter in the southern hemisphere.

**Trade**
Grapefruit exports should increase by 3.9% a year from more than 224 000 tonnes in 2015 to almost 276 000 tonnes in 2021. Export prices may increase from R5 152/t in 2015 to R8 700/t in 2021. The domestic consumption of grapefruit (including fresh produce market sales, processing and other consumption) may increase by 3.8% a year from 161 607 tonnes to 198 384 tonnes. The majority (95%) of the total domestic consumption is processed. Prices on the fresh produce market are expected to be supported by the additional exports of grapefruit. South Africa exports 58% of the total production, while nearly 40% is processed locally. Consequently, grapefruit prices on the fresh produce and export markets may increase at an average of 11.5% from R3 887/t in 2015 to R6 582/t in 2021. The increase in prices is supported by the weakening rand that favours an increase in the export of grapefruit to domestic consumption.

Note: An 11.5% year-on-year increase in the price of grapefruit seems extreme. This should be evaluated against the year-on-year decline in the value of the rand to the US dollar.

**Outlook**
The outlook for grapefruit remains positive for the next five years until 2021. South Africa is the main exporting country in the southern hemisphere. Except for expansions in China the production of grapefruit tends to remain flat. Domestic budwood sales indicate an expected decline in production. The weak rand and increased expenditure on food indicates that the demand for grapefruit will increase not only in the domestic market but especially for exports to Asia. These factors support domestic prices to follow export prices to higher levels.

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**Budwood sales: grapefruit**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
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</tr>
<tr>
<td>2011</td>
<td>58 840</td>
</tr>
<tr>
<td>2012</td>
<td>31 020</td>
</tr>
<tr>
<td>2013</td>
<td>162 730</td>
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<tr>
<td>2014</td>
<td>78 990</td>
</tr>
<tr>
<td>2015</td>
<td>54 860</td>
</tr>
</tbody>
</table>

Note that the budwood sales for grapefruit are declining, which indicates a decline in the future supply of grapefruit that will support future prices until 2021.
Lemons

International trends

Production
The world production of lemons reached nearly 6.9 million tonnes in 2015. The world production of lemons is expected to increase to 7.6 million tonnes in 2021. In 2015, the largest producer of lemons was Mexico at 2.3 million tonnes, followed by Argentina, the EU, the US and Turkey. South Africa produced 330 000 tonnes in 2015, which is 4.6% of the global production.

Trade
The world exported nearly 1.8 million tonnes in 2016 and exports are expected to grow to 2 million tonnes in 2021. World imports were just more than 1.6 million tonnes in 2015, with an expected increase in imports to 1.9 million tonnes in 2021. Until 2021, the consumption and processing of lemons should increase from 4.6 million tonnes and 2.1 million tonnes respectively to 5.2 million tonnes consumed and 2.4 million tonnes processed. The largest increase in lemon consumption is expected to take place in the US and the largest increases in processing in Argentina.

Domestic trends

Production
South Africa’s production of lemons is expected to increase by 2.7% a year from 330 000 tonnes to more than 383 000 tons by 2021. The increase in expansion is expected to be driven by the weakening rand, which increases South Africa’s competitiveness in the export market. Next to Argentina, South Africa is the largest lemon producer and exporter in the southern hemisphere.
Lemon exports should increase by 7.3% a year from 225 710 tonnes in 2015 to almost 325 000 tonnes in 2021. Export prices may increase 6.4% a year from R12 279/t in 2015 to R16 965/t in 2021. The domestic consumption of lemons (including fresh produce market sales, processing and other consumption) may increase by 12.2% a year from 113 393 tonnes in 2015 to 196 679 tonnes in 2021. The greater part (90%) of the total domestic consumption is processed. Prices on the fresh produce market are expected to be supported by the additional exports of lemons. South Africa exports 74% of South Africa’s total production, while nearly 22% of South Africa’s production is processed locally. Consequently, lemon prices on the fresh produce and export market may increase at an average of 6.4% from R7 247/t in 2015 to R10 013/t in 2021. The increase in prices is supported by the weakening rand, which favours an increase in the export of lemons relative to domestic consumption.

Note: An average 6.3% year-on-year increase in the price of lemons until 2021 seems limited compared to recent increases. This should be evaluated against the year-on-year potential increase in production in the southern hemisphere. Note that a large portion of the harvest is processed locally while most South African lemons are exported. Because most exported lemons are processed, the product can be stored for long periods, other than soft citrus, which is a more perishable product. However, lemon prices may not follow an expected weakening rand because increases in production and exports, as well as competition by Argentina, may dampen future international price increases.

Outlook
The outlook for lemons remains positive for the next five years until 2021. South Africa is the main exporting country in the southern hemisphere. Except for a recovery of production and exports from Argentina, the production of lemons tends to increase globally. Domestic budwood sales indicate an expected increase in production. The weak rand will support future increases in export prices to countries such as Asia but also in prices for the domestic market.

Soft citrus
International trends
Production
The world production of soft citrus reached nearly 28.9 million tonnes in 2015. The production of soft citrus is expected to increase to 34.9 million tonnes in 2021. In 2015, the largest producer of soft citrus was China at 20 million tonnes, followed...
by the EU, Japan, Morocco and Turkey. South Africa produced 205 000 tonnes in 2015, which is 0.7% of the global production.

Trade
The world exported nearly 2.3 million tonnes in 2015 and exports are expected to grow to 3.3 million tonnes in 2021. World imports were just more than 2.1 million tonnes in 2015, with an expected increase in imports to 2.9 million tonnes in 2021. Until 2021, the consumption and processing of soft citrus should increase from 27.2 million tonnes and 1.5 million tonnes respectively to 35.3 million tonnes consumed and 1.9 million tonnes processed. The greater part of the increase in soft citrus consumption and processing is expected in China.

Domestic trends

Production
South Africa’s production of soft citrus is expected to increase by 9.5% a year from 202 563 tonnes to more than 520 449 tonnes by 2021. The increase in expansion is expected to be driven by the weakening rand and global seasonal demand. South Africa competes seasonally in the export market. Next to Argentina South Africa is the largest producer and exporter of soft citrus in the southern hemisphere.

Trade
Soft citrus exports should increase by 9.5% a year from 150 002 tonnes in 2015 to almost 456 960 tonnes in 2021. Export prices may increase from R11 392/t in 2015 to R15 783/t in 2021. The domestic consumption of soft citrus (including fresh produce market sales, processing and other consumption) may increase by 3.5% a year from 52 561 tonnes in 2015 to 63 488 tonnes in 2021. Just more than half (54%) the total domestic consumption
was processed in 2015. Prices on the fresh produce market are expected to be supported by the additional exports of soft citrus. South Africa exports 74% of the country’s total production while 14% of South Africa’s production is processed locally. Consequently, soft citrus prices on the fresh produce and export markets may increase from R5 606/t in 2015 to R7 767/t in 2021. The increase in prices is supported by the weakening rand and an increased demand that favours an increase in the export of soft citrus, as well as domestic consumption.

Note: A 9,5% year-on-year average increase in the price of soft citrus is supported by a weakening exchange rate and export demand. This should be evaluated against the year-on-year decline in the value of the rand to the US dollar.

**Outlook**
The outlook for soft citrus remains positive for the next five years until 2021. South Africa is the main exporting country in the southern hemisphere. The potential to expand in the production and consequent exports of soft citrus is clear from the above graph. South Africa is able to supply the world during a unique market window. There is ample opportunities to expand on exports. Domestic budwood sales indicate an expected sharp increase in production. The large demand in the market window and the fact that soft citrus is the most perishable product of the various types of citrus may offer unique export growth opportunities. The weak rand, the seasonality of production and the unique export window in the northern hemisphere will support future soft citrus prices in both the domestic market and for exports. These factors support further increases in domestic production.

### 3.3.3 Table grapes
by Wessel Lemmer and Napier de Kock
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**International trends**

**Production**
South Africa exports about 90% of the total table grape crop produced annually. A small percentage (1,2%) is exported to Africa. Table grapes are a highly perishable product. Maintaining the logistical cold chain for exports is a prerequisite but has not been well established for African markets. India is another potential market but similar problems are experienced in terms of the cold chain requirements. The market in India is currently relatively small as imported table grapes are mainly used for consumption in restaurants.
Peru and Chile compete directly with South Africa in the traditional EU and UK market destinations during the same marketing window. The grapes in Peru are produced about 150 km south of Lima and irrigated with borehole water originating from underground sources or aquifers. Peru enters the export market from week 34 to week 17 compared to South Africa and Namibia, who enter the export market from week 45 to week 18. The majority, about 80%, of the South African varieties are seedless while the majority of the varieties in Peru (65%) still contain seed. Peru is an emerging market and produces good-quality grapes, at an early stage in the marketing window.

Chile comes on board two weeks after South Africa, namely from week 47, and remains in the export market until after week 20. In 2015/16 Peru’s exports reached a weekly high of about 25 200 tonnes a week during week 49. South African exports peaked at 27 000 tonnes in week 3 while exports from Chile topped just more than 66 300 tonnes in week 10. Note that the production of table grapes in Chile is three times the size of production in South Africa. However, Chile is currently not an important and reliable exporter of table grapes of good quality. The labour market in Chile is expensive and unreliable, impacting negatively on production.

Trade
The consumption of fruit is part of the culture in Asian countries such as Thailand, Indonesia and China. Some of these countries do not produce table grapes and are dependent on imports. Markets in the Far East are seen as attractive destinations for exports. The joint import share of six countries in the Far East, namely China, Hong Kong, South Korea, Indonesia, Vietnam and Thailand is 18,5% of total world imports. This compares to the import share of the US (15,1%), the UK (8,4%) and Germany (8,0%).

The UK is an important trading partner for South Africa. Brexit has led to a weakening pound relative to the euro. The UK and EU are the most important export destinations as approximately 80% of our table grape exports are destined for the EU and UK markets. Following the Brexit vote and the resulting weakening of the pound, exporters and producers have run the risk of earning less compared to previous years. Although the pound has weakened, the currency is still stronger than the euro. Since the Brexit vote the rand has strengthened to R17 and lower to the pound. Table grape producers break even at an exchange rate of R18 to the pound. Should the rand weaken to R19 to the pound, the profitability of table grape production could improve.

Our future competitive growth to countries in the Far East is of critical importance. We need to negotiate increased market access for the export of table grapes. Supportive bilateral trade agreements are necessary but South Africa is falling behind. This will limit our future export growth for table grapes. Table 1 lists the countries that negotiated successful preferential trade agreements with increased market access for table grapes. Phytosanitary requirements for exports from Africa to the EU will remain an issue as special conditions need to be met to prevent pests being exported to the EU market.
Domestic trends

Production
The deregulation of agricultural marketing in South Africa has offered opportunities for South African producers to pool their resources and jointly export their grapes. Fruit breeding has developed in accordance with consumer needs and, since deregulation, a couple of table grape varieties have been commercialised.

They include a range of varieties, of which several have highly unusual flavours and shapes. These varieties are mainly seedless with a good eating quality. The aim is also to develop cultivars that require less labour. Two of the interesting new cultivars include Cotton Candy and Candy Hearts. Cotton Candy is a white seedless variety tasting like candy floss and Candy Hearts is a midseason red seedless variety tasting like butterscotch. The other cultivars attracting attention are Joy Bells with bell-shaped berries and other varieties with elongated shapes. Increased obesity in the population has created an opportunity to market table grapes as a healthy substitute to curb the consumption of sugar.

The innovative breeding of new cultivars to meet consumer demands or to introduce cultivars consumers cannot imagine going without has introduced a higher replacement rate in the table grape industry compared to the wine industry. Led by innovation, the average age of a vineyard planted for use as table grapes is eight years compared to the average age of 15 years for a vineyard planted for making wine. Consequently, the replacement cost is double that of wine grape producers. Nevertheless it is worthy to note that, in terms of years, a block of

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Limited or no preferential trade agreement for market access. Existing trade agreement on preferential market access.

Source: SATI
table grapes breaks even with cost earlier than a block of vine. Some analysts are concerned that the industry is developing fashionable cultivars with a short demand cycle of say five years, while investment may require a period of 15 years. Since deregulation, individual producers in the table grape industry have learned to innovate in order to survive ever-changing market conditions and domestic competition among individual producers introduced by deregulation.

Except for the Olifants River region, the production of table grapes has not been affected by the drought which occurred during the 2015/16 production season. Producers in the Loskop region allocate water in favour of permanent crops compared to annual crops. Despite the drought, the producers of table grapes have experienced excellent gross incomes over the past four years. The industry grew over the past two years from about 51 million cartons to packing between 60 million to 65 million cartons. Growth is expected to continue to reach 70 million cartons or 315 000 tonnes within five years.

The industry is challenged by particular circumstances. Second to the vegetable industry, the table grape industry has the highest potential for employment and is therefore exposed to uncertainty regarding labour policies. It is not possible to mechanise the harvesting of grapes.

Trade
Compared to Namibia as a competitor, our regulatory restrictions raise the transaction costs of exports. Our competitors such as Peru are aggressively changing the composition of cultivars offered for exports to our export markets. If they succeed, our future exports can be hurt. Peru is a large producer of table grapes and their product is ready at an earlier stage for exports to compete with South Africa. The future research capacity in the public sector may fail to keep up with the research and demands for technological development in the industry, enabling it to stay abreast of competing exporter countries. To achieve this, the existing experience of the relevant government departments needs to be used optimally and its capacity increased.

Outlook
In the past the table grape industry experienced a number of favourable seasons leading to unprecedented growth. To continue on this growth path led by new, innovative cultivar development, we need to increase preferential trade agreements and market access to existing and new markets. We therefore need to retain our existing markets but also need to gain new markets while striving to optimise production.
3.3.4 Viticulture  
by Adri Esterhuyse  
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At present, international wine consumption is basically the same as 10 years ago. The only difference is the shift in the demand for wine. Consumption is increasing in the US, while it continues to decline in the traditional wine countries in Europe, which remain the main destinations for South African export wine. As international markets are therefore saturated, it is essential to grow the local market. Over the past three years local wine consumption has, in fact, increased by 7% year on year.

International trends

Production
World wine production in 2015 was 274 million hectolitres. This is approximately 5.8 million hectolitres more than in 2014. The combined production over the past three years was 832 million hectolitres, compared to 789 million hectolitres between 2010 and 2012. The higher production over the past three years, compared to lower production the preceding six years, has increased world inventories. Italy, France and Spain are still responsible for 49% of world wine production.

Trade
The international wine trade is also dominated by these three countries, together accounting for 56% (58 million hectolitres) of the trade volume of the global market in 2015 and 57% in terms of value (€16.2 billion). The US remains the biggest importer in terms of value. The value of its imports increased by 22% in 2015, although its volume increased by only 2.6%. Of wine consumed 25% is imported, mainly in the higher price segment.

In 2015, the world consumption of wine was around 240 million hectolitres, an increase of 0.9 million hectolitres compared to the previous year. This excludes wine for industrial use. In 2007, before the economic and financial crisis, world consumption was around 250 million hectolitres. Since 2008 the best consumption was in 2012 when 244 million hectolitres were consumed. It seems that consumption is stabilising at around 240 million hectolitres, with only marginal growth expected.

Ten countries still account for approximately two thirds of the world consumption. Over the past five years continuous growth has been recorded in the US, now the largest domestic market in the world. Consumption in France, the second largest market, has continued to decline over this period. There has been a slight improvement in consumption in the UK, Germany, Italy and Portugal. However, over the past five years consumption in the UK, Spain and Portugal has remained relatively the same.

Domestic trends

Production
A smaller wine harvest was recorded in South Africa for the 2016 harvest (1.07 million litres). In the preceding three years record harvests resulted in the biggest stock levels in the history of South African wine. In view of the smaller 2016
harvest, carry-over stock is expected to decrease by 8%.

In the medium term, harvest volumes are expected to begin a continuous decline as too few vineyards will be replaced, resulting in ageing vineyards. Quality and volumes will come under pressure. In five years’ time 62% of the vineyards planted with wine grapes will be 16 years and older, compared to the current 46% if the current rate of replanting is maintained.

The biggest future threat for wine sellers in South Africa could be the inability to ensure a large enough volume. However, this is not necessarily a bad thing. For producer wine cellars it would be a challenge to maintain current profitability, unless there is an increase in the international price of wine.

The profitability of the South African wine producer is under pressure due to increasing cost inflation and wine prices only increasing marginally. This is reflected in lower plantings and more hectares replaced by fruit trees and vegetables. In traditional areas such as Paarl and Stellenbosch, the area planted for wine has declined by 3 964 ha over the past 10 years (11%). Even in higher-producing wine areas such as those around Robertson, more and more fruit trees are being planted on land previously used for producing wine.

Trade
For the 12-month period between July 2015 and June 2016 wine exports amounted to 421 million litres compared to 429 million litres the previous year (a decrease of 2%). Of the exports, accounting for 42% of total natural wine sales, 60% were in bulk. Packaged wine showed a declining trend. The UK and Germany continue to be the main bulk and packaged wine markets
for South Africa. In a very competitive global bulk wine market, bulk wine trade is responsible for ±38% of international wine trade in volume but comprises only 10% of the total wine trade value. Spain continues to be the dominant market player in the bulk wine trade market.

**Outlook**

Over the past five years wine grape hectares in South Africa have declined by 1 971 ha as a result of more vines being uprooted than planted. At present 48% of red wine grape varieties are 16 years and older and 44% of white wine cultivars are 16 years and older. If the current trend of the past five years continues, the vineyards of 73% of red wine cultivars and 54% of white wine cultivars will be 16 years and older. This should result in a decline in production over the medium term.

The continued growth in sales in the local market should reduce pressure on the current high volumes, together with the expected decline in wine production in the future. In the saturated international wine market the US remains a growing high-value market destination. Trade agreements are important to open up and support export markets.

**3.3.5 Macadamias**

by Karabo Takadi and Johann Coetzee
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South Africa and Australia remain the largest producers and processors of macadamias in the world.

**International trends**

At present the world market for macadamias is estimated at 170 000 tonnes, which is expected to grow to 270 000 tonnes in 2020. South Africa and Australia remain the two largest producers and processors of the macadamia nut and will remain significant role players for quite some time.

**Production**

This season the South African crop has been somewhat smaller, down from the expected 50 000 tonnes crop to 39 000 tonnes. The 2016 Australian macadamia crop is on track to reach 46 750 tonnes in-shell at 3,5% moisture (50 000 tonnes in-shell at 10% moisture) and Bundaberg is set to become the largest macadamia-growing region in Australia by the end of the year. The Chinese have also planted a considerable number of hectares over the past couple of years but the quality of the nuts will be affected considering the terrain it is farmed on.
As macadamia nuts are still fairly unknown, it remains very important for the industry to invest in research in terms of health and consumer awareness. This will be crucial for the industry if it wishes to take advantage of growth opportunities. Internationally, about 70% of macadamias are used for snacking purposes, while 30% are used as an ingredient in a final product. A future shift towards using macadamias as ingredients is expected. Uses of macadamia include snacking, biscuits, ice cream, nut mixers and oil in the cosmetics industry. In many areas, the nuts are still considered a luxury product. It is therefore easy for consumers to go without them.

Domestic trends

Production
Over the past five years macadamia plantings grew at a very healthy rate with 1 247 ha in 2013, 1 547 ha in 2014 and 1 892 ha in 2015. In 2016, the growth in area planted is expected to be at least 2 000 ha, the main planting region still being Mpumalanga.

Mpumalanga remains the largest macadamia-producing region in South Africa (53%) and after coal, macadamia is the second-largest foreign export earner in the province. Limpopo is the second-largest producer, accounting for 30% of total production, followed by KwaZulu-Natal, with 16% of macadamia nut production in the province. In 2016, a total of 24 771 ha of macadamia plantings distributed through Southern Africa have been confirmed, with 49% of the plantings in Mpumalanga, followed by 21% in Limpopo, 19% in KwaZulu-Natal, 1% in the Eastern Cape and the remaining 10% spread in other regions.

As a result of the drought, the total output of macadamias is expected to decline to about 39 000 tonnes, which is a decline of about 15% down from last year’s crop of 46 000 tonnes. The dry conditions were not suitable for growing the crop. In 2017, the crop is expected to continue to remain low as a result of the aftermath of the drought. Good production volumes
are expected only in 2018. Expectations from the industry are for the production of macadamias to double in the next five years. This is the result of producers continuing to plant more trees and other trees reaching full production. South Africa needs a lot more cracking facilities that will satisfy the need for processing the nuts and also to take full advantage of the various export markets.

**Outlook**
The macadamia industry still seems to be very promising for South African growers as export prices will be supported by the weakening exchange rate. Investments in the industry are expected to continue for the near future as the margins in farming the nuts will remain very lucrative. There needs to be a massive emphasis on researching the health aspects of the nuts as the nut is rich in omega-7. Intensive consumer research also needs to be conducted on consumer preferences in the ingredients markets. The latter have a great deal of market-expanding potential which has not been exploited yet.

### 3.3.6 Timber
by Deon van Wyk
deonvw@absa.co.za

**International trends**

**Production**
The overall global GDP growth is expected to remain muted at 3% to 4%. This will have a direct impact on the demand for timber products. The increase in global timber production for 2016/2017 is forecast at 1,7%.

**Trade**
The global outlook for paper and forest products over the next year remains stable as increasing home construction and economic growth drive the demand for these products.

More recently, there has been a growing and considerable interest in forestry and timberland investment by corporate pension funds, sovereign wealth funds and groups charged with diversifying huge portfolios away from coal and high-carbon assets. The two largest woodchip-importing markets are Japan and China, both countries with limited forest resources to supply the pulp industry with sufficient wood fiber.

The prices for globally traded hardwood chips fell to a record low in May 2016, while softwood chip prices reached the highest level in seven months. The forecast is that the international markets will improve, but at a much slower
The forestry industry nevertheless remains one of the strategic economic sectors in South Africa, making a significant contribution towards the GDP.

pace according to the latest FOEX Chip Price Indexes. However, the decrease in hardwood chip prices was not experienced in the local prices paid to producers, mainly due to the worsening of the rand/dollar exchange rate.

Domestic trends

Production
South Africa is lightly forested with 7% of the country’s area being suitable for growing timber. Only 1% of the total area of South Africa is under commercial forestry. Almost 80% of the established timber areas in the country are in Mpumalanga and KwaZulu-Natal, the balance being in the Eastern Cape, Limpopo and the Western Cape.

New afforestation in South Africa has come to a standstill, mainly due to new legislation. No new water permits are granted by DAFF and suitable forestry land is becoming increasingly less available. There is also a marginal conversion of forestry land to other agricultural uses, mainly for economic reasons. Within the forestry industry itself, mainly dictated by market demands, some species are constantly being replaced by other species.

Trade
The forestry industry nevertheless remains one of the strategic economic sectors in South Africa, making a significant contribution towards the GDP. The industry also retained a positive growth rate over the past 18 months despite the economic slump and drought conditions.

Private sector ownership in forestry accounts for 83% of the total area planted to timber. This includes corporates such as Sappi, Mondi, NCT, and other corporate landowners. 56% of the plantation area is managed mainly for pulpwood production, 36% for sawlog purposes and 4% for mining timber. The remaining 4% is used for other purposes.

Primary roundwood is processed by 184 plants, of which 90 are sawmills (including veneer and plywood plants), 33 pole-treating plants, 18 pulp and board mills and chipping plants and 13 mining timber mills.

Outlook
The South African timber market follows world price trends. About 75% of the timber produced in South Africa is exported, mainly as wood chips but also in the form of treated poles and sawn timber.

The demand for pulpwood from South Africa was under pressure in 2014 but has improved since 2015, a trend that has continued in 2016. The harder wattle and some eucalyptus species are preferred and it is found that producers of the preferred species do not have problems to sell their product. Most exporters have recorded an increase in demand for wood chips on the export market. The rand/
Global consumption of timber products will grow substantially from current levels.

dollar exchange rate has pushed the local price paid to producers upwards by 14% since January 2016.

The net value per hectare of eucalyptus has increased over the past three years and six months from R38 000/ha to the current R92 000/ha.

Conclusion
• Global consumption of timber products will grow substantially from current levels, with both developed and developing countries increasing consumption at the same time.
• Construction output, including house building in the developed world, still remains far below pre-recession levels.
• New markets for timber will compete for supply with traditional uses.
• With an increase of 14% in income and an increase in costs linked to inflation, the outlook for the timber industry is very positive at this stage.
• The rising demand and constrained supply will cause the relative value of timber plantations to increase by at least 15%.
• The procurement of timber plantations by saw mill operators and other processors will increase to ensure that they have raw material to process in the medium and long term.
• The current drought had a very limited effect on the timber industry.
• A major challenge faced by the South African forestry sector is land reform. Land claims have been instituted for a significant land area currently under forestry. This increases uncertainty about land tenure and the benefits of the land. These claims could lead to a further reduction in land under forestry, which has already been estimated to have dropped by between 9.1% and 14.9% since 1996.
3.4 Vegetables

by Wessel Lemmer
Wessel.Lemmer@absa.co.za

Although South Africa was in the middle of one of the worst droughts on record in 2016, it is important to note that the drought has, except for potatoes, not severely affected the total sales and export values of vegetables.

Due to price increases for staple commodities such as maize, coupled with a decline in maize production, there is a greater demand for vegetables. As a consequence, this has led to price increases for vegetables. The trade data suggest an increase in the value of imports and exports. However, it should be noted that the rand weakened by 29.4% from R1 1,92 to R1 5,42 in the first and second quarters of 2015 and 2016. Note also that the average white maize price increased by 88.1% from R2 568/t for the first semester (or six months) of 2015 to R4 831/t in the corresponding period in 2016. Yellow maize prices increased by 48.9%, trading at an average of R2 348/t, which increased to R3 498/t in the first semester of 2016.

White maize was at a premium compared to yellow maize, and increased from 9.4% in 2015 to 38.1% in 2016. In the first semester of 2016, white maize traded at a premium of R1 333/t or 38.1% above the yellow maize price, which traded near import parity. The increase in the value of vegetables exported is therefore mainly attributed to the weakening rand. This situation led to an increase in the demand for vegetable exports such as onions.

Consequently, the product prices on the fresh produce markets enjoy underlying support and prices increased because of an increase in demand, stimulated by the additional vegetable volumes exported.

3.4.1 Potatoes

The potatoes traded on the fresh produce market for the 2015/16 (September/August) marketing year amounted to R3,38 billion. In value potatoes are the largest traded vegetable on the five large fresh produce markets in South Africa.

From September 2015 to August 2016 a total of 797 924 tonnes of potatoes were sold on the five largest fresh produce markets, compared to 851 839 tonnes during the previous 12 months. Because of the impact of the drought the production of potatoes declined by 6.4%. The production of potatoes has been lagging behind the three-year average production since January 2016. After prices reached a low of R2 683/t (R26,83/10kg bag), they increased by 135% to reach R6 303/t in March 2016. Prices then declined sharply by 30% to reach R4 422/t in April 2016. Prices continued to decline until August to reach R4 072/t compared to R2 321/t a year earlier.

**Trade**

The total import value of potatoes for the first and second quarter of 2016 totalled R5 411 992 compared to R354 406 year on year. The total export value of potatoes for the first and second quarter of 2016 totalled R418 512 544 compared to R314 746 732 year on year. This is an increase in the value of exports of 33%. The rand weakened over the same period by 29.4%. The average domestic price for potatoes delivered on the fresh produce market increased by 87.9% over the same time period from R2 787/t to R5 238/t.

The correlation between the potato price and the white maize prices for the past 12 months until August 2016 is an
astonishing 88%, compared to that of the potato price to the rand of 81%.

**Outlook**
Given the strong correlation between the white maize price and the potato price, the planting decisions of maize producers are expected to have a significant impact on the production of potatoes. The prices for white maize in the new season have already declined significantly compared to the maize prices in the previous season. Consequently, the price for potatoes may follow suit from May onwards to trade lower on the domestic fresh produce markets. Export prices for potatoes will continue to find underlying support from the weakening rand in 2017. Weather conditions are expected to favour production in 2017, leading to increased production volumes which may add to price pressure. The potato is the vegetable with the largest turnover on the fresh produce markets. Lower potato prices that coincide with lower green mealie prices and prices for sweet corn will support food inflation to reach single-digit levels from the second quarter of 2016 onwards.

### 3.4.2 Tomatoes

The value of the tomatoes traded on the fresh produce market for the 2015/16 (September/August) marketing year amounted to R1,47 billion. In value tomatoes are the second-largest traded vegetable on the five large fresh produce markets.

From September 2015 to August 2016 a total of 233 701 tonnes of tomatoes were sold on the five largest fresh produce markets compared to 232 097 tonnes during the previous 12 months. The drought did not have a significant impact on the production of tomatoes compared to potatoes, which declined by 6,4 % in volume. The production of tomatoes has increased since February 2016 so that consistently greater volumes have been produced than the three-year average production. Production increased substantially, namely by 48%, from May 2016 from 17 706 tonnes to 26 143 tonnes in August 2016. After declining from R8 106/t in April 2016 prices reached a low of R3 488/t in August 2016 compared to R5 875/t in August 2015.

**Trade**
The total import value of tomatoes for the first and second quarter of 2016 totalled R1 427 655 compared to R1 061 876 year on year. The total export value of tomatoes for the first and second quarters of 2016 totalled R68 736 354 compared to R55 801 791 year on year. The export value of tomatoes
increased by 23%. Given the weakening of the rand by 29% over the same period the volume of exported tomatoes may not have increased. It is mainly their value, supported by the weak rand that has increased.

**Outlook**

It should be noted that the warm, dry winter favoured the production of tomatoes under irrigation, leading to higher inventories of this perishable product. The volumes produced increased significantly from April 2016 onwards to exceed the average production levels over three years. The subsequent increase in the production of tomatoes impacted directly on prices, causing them to head south. Tomatoes are a perishable product with limited opportunities for increasing exports. The South African economy is not robust enough to support higher consumption levels of tomatoes to clear the surplus stock of July and August. The weakening rand did not provide underlying support to tomato prices but impacted negatively on the cost of input and tomato seed. This may have added to the cost squeeze experienced by producers.

### 3.4.3 Onions

The onions traded on the fresh produce market for the 2015/16 (September/August) marketing year amounted to R1,44 billion. Next to tomatoes, onions are in value the third largest traded vegetable on the five large fresh produce markets.

Onion prices continued to increase from September 2015 from R2 317/t to reach R6 162/t in June 2016, after which prices fell to R5 542/t in August. From September 2015 to August 2016 a total amount of 326 824 tonnes of onions were sold on the five largest fresh produce markets, compared to 324 422 tonnes during the previous 12 months. As in the case of tomatoes the drought did not impact negatively on the production of onions. With the exception of a significant increase in the sales of onions in December, the volume of onions traded followed the three-year average cycle.

**Trade**

The total import value of onions for the first and second quarters of 2016 totalled R41 645 951 compared to R24 813 353 year on year. The value of imports increased by 67,8% year on year. The total export value of onions for the first and second quarters of 2016 totalled R354 959 672, compared to R235 1 19 552 year on year. The export value of onions increased by 51% year on year. The rand depreciated during the same period by 29,4%, year on year. The volumes sold on the major fresh produce markets remained similar to those sold during the previous six months. Onions are bought for export from the fresh produce markets. The export value increased more than the rand weakened and the volumes traded were similar to those in the previous year. This indicates that the export of onions directly from the farm and warehouses increased significantly in 2016.

**Outlook**

The increased export numbers for onions support onion prices as the rand continues to weaken. Other than in the case of potato prices, the prices for onions do not correlate closely with those of white maize prices, as it is not a vegetable rich
The demand for onion exports to SADC countries and the rest of Africa has grown substantially over the past seven years.

In contrast with potatoes, tomatoes and onions the prices for peppers declined from December 2015 from R12 961/t to reach a low of R7 733/t in June 2016. Prices increased to R10 370/t in August. From September 2015 to August 2016 a total amount of 43 449 tonnes of peppers were sold on the five largest fresh produce markets compared to 42 529 tonnes during the previous 12 months. As in the case of tomatoes and onions, the drought and heat did not impact too negatively on the production of peppers. Except for a decrease in the sales of peppers in January and February, the volume of peppers traded increased from March to exceed the three-year average cycle month on month.

3.4.4 Peppers

The value of peppers traded on the fresh produce market for the 2015/16 (September/August) marketing year amounted to R453 141 120. In value peppers are the fourth largest traded vegetable on the five large fresh produce markets.

In contrast with potatoes, tomatoes and onions the prices for peppers declined from December 2015 from R12 961/t to reach a low of R7 733/t in June 2016. Prices increased to R10 370/t in August. From September 2015 to August 2016 a total amount of 43 449 tonnes of peppers were sold on the five largest fresh produce markets compared to 42 529 tonnes during the previous 12 months. As in the case of tomatoes and onions, the drought and heat did not impact too negatively on the production of peppers. Except for a decrease in the sales of peppers in January and February, the volume of peppers traded increased from March to exceed the three-year average cycle month on month.
### 3.4.5 Carrots

The value of the carrots traded on the fresh produce market for the 2015/16 (September/August) marketing year amounted to R398 242 228. In value carrots are the fifth largest traded vegetable on the five large fresh produce markets.

In the same way as potatoes, carrot prices reached a seasonal high in March and April. Carrot prices followed the three-year average trend closely except for prices trading higher from February 2016 to July 2016. In contrast to tomatoes and onions, the prices for carrots increased from September 2015 from R2 452/t to reach a high of R6 218/t in April 2016. From September 2015 to August 2016 a total amount of 105 516 tonnes of carrots were sold on the five largest fresh produce markets compared to 101 191 tonnes during the previous 12 months. Although higher than the three-year average, the drought and heat may have impacted negatively on the production of carrots compared to production in the previous year. The sales volume of carrots followed the three-year average cycle month on month.

**Trade**

The total import value of carrots for the first and second quarters of 2016 totalled R76 080 compared to R583 360 year on year. The total export value of carrots for the first and second quarters of 2016 totalled R101 449 060 compared to R63 710 188 year on year. The export value of carrots increased by 59% in 2016.

**Outlook**

Vegetable exports into Africa are supported by the relatively higher GDP growth in the sub-Saharan region, coupled by the boldness of retail supermarkets that have expanded into Africa over the past two decades. These countries are still forecast to grow their GDP significantly faster than South Africa and the trends of urbanisation and the inevitable switch from informal to formal retail means that supermarkets not in South Africa should continue to deliver growth in excess of what can be achieved in South Africa. The trade in vegetables such as carrots and onions with the rest of Africa will continue to develop and presents opportunities for producers.

Source: Absa AgriBusiness and RSA Market Agents.
3.5.1. Poultry and eggs
by Wessel Lemmer and Karabo Takadi
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International trends

Production
Global poultry production is expected to increase by 1% to reach 89.65 million tonnes in 2016. The increase is owing to expansions in the main producing countries, with the exception of China. Production in China is expected to record declines of 5.22% in 2016. A reduction in imported breeding stock, as a result of the highly pathogenic avian influenza (HPAI) virus and related trade restrictions, are expected to lower production in China. Production in the US will increase by about 2.6%, as producers realise heavier weights and increased bird numbers. Expansions in production are expected to continue in Brazil. This is supported by higher exports.

The struggling Brazilian economy, as well as weak global market conditions, will pose challenges for the industry. High feed costs will also limit growth prospects.

Higher production of poultry meat is also expected in the EU. However, animal welfare legislation is reducing production capacity in north-west Europe and is impacting supplies.

Trade
Global exports are expected to increase by 4.7% in 2016. This is driven by increased market access and the partial removal of trade restrictions on US
poultry following the 2015 avian flu outbreak. Robust Chinese demand due to lower supplies in that region, as well as a continued weak Brazilian real, supports exports. Exports from the US are also expected to improve by 6.7%. The return of US exports to the international market has triggered increased competition for Brazil, Argentina and Thailand. Exports from the EU have also been positive. Trade with South Africa, the Philippines, Hong Kong and the Ukraine is particularly strong, and higher value exports to Saudi Arabia are also increasing. Prices in the EU might be supported due to strong exports, which might benefit the industry.

The world’s imports are expected to improve by 0.8%, driven by good demand from China, while significant declines in imports have been recorded by Russia following a ban on imports of certain agricultural products from the US, Canada, Australia, the EU and Norway.

**Prices**

Long-term prices are expected to remain sideways. As a result of the return of the US in many international markets, some exporting countries had to reduce their prices as a way of being competitive and of defending their market share. This has put downward pressure on prices. However, the reopening of markets will support prices in the US. Factors such as increased red meat competition with abundant meat protein in the market will be bearish for market prices.

**Domestic trends**

The poultry industry faces specific challenges in the short term which includes priority-wise, low-cost imports, high feed costs and the development of an export market.

**Production**

**Imports of broiler meat**

Poultry producers compete with lower-quality and lower-priced broiler meat imports from the EU. Poultry is imported from the EU (including the UK) at very competitive prices. The industry is continuously lobbying Government to provide import protection.

EU consumers prefer white breast meat cuts at a premium price to bone-in dark meat cuts. The premium received on white breast meat enables the EU to export bone-in dark meat cuts at very low prices. The South African consumer prefers bone-in dark meat to white meat. Consequently, South Africa is the largest export destination of bone-in dark meat from the EU.

South Africa imports about 57 000 tonnes from the EU a month compared to the annual limited import quota of 65 000 tonnes from the US. The imports from the EU are unlimited and can continue to grow in future. According to the South African Poultry Association (SAPA) imports amounting to 10 000 tonnes of poultry meat replace a thousand jobs. Current lobbying efforts by the poultry industry are aimed at ensuring that the imported finished product is at least equal to the comparable quality and packaging of domestically processed products.

The majority of the big broiler companies are publicly known and listed on the JSE.
Prices

Low egg prices are dominated by the buying power of the retail sector

While prices in the broiler industry are impacted negatively by lower import parity prices, egg producers are failing to negotiate better prices for eggs from the retail sector. Consequently, the current supply of eggs needs to decline in order for egg prices to rise. The profitability of egg production is under threat because supply has increased too much. Under these circumstances egg producers tend to deplete their stock by shortening the productive lives of the layer hens.

While the larger egg producers manage to survive due to economies of scale, the medium to smaller egg producers’ margins remain under pressure. However, it is important to note that egg prices have started to increase, which is positive for the egg industry.

High feed cost

Broiler feed consists mainly of maize (65%) and soybean (20%). The relation between the poultry and yellow maize prices gives an indication of the economic status of the industry. The norm is that the industry should break even with cost at a poultry:maize price ratio of 8,5. Since June 2015, profit margins in the poultry industry have experienced increased pressure as the poultry:maize price ratio has dropped below the break-even ratio of 8,5.

The price of feed increased significantly compared to that in the previous production season. The price of maize and soybean is expected to remain high until stock levels for maize and soybean recover in the next production season. Until then profit margins will remain under pressure. Those producers who have diversified into maize and soybean production, as well as feed processing, should be more sustainable as they will have access to lower-cost maize and soybean for feed. Producers who successfully hedge their price risk well in advance should also experience more favourable margins.

Trade

Development of an export market

Since 2013, the poultry industry has focused on establishing a viable export market for the higher-quality broiler meat products. It is difficult to compete with a high-quality product in a low-end quality domestic market dominated by lower import prices. The domestic broiler industry recently achieved success with the export of whole birds to the United Arab Emirates and Oman. Bilateral trade negotiations
between South Africa and Saudi Arabia have not yet been finalised but developments are progressing well. The region prefers whole birds as large families stay together in compounds, preparing up to eight whole birds per meal.

Other challenges
Input costs
The increased cost of fuel, electricity and labour is a concern but the impact is not comparable to the impact of imports and the higher feed costs.

Brexit
According to Sapa business relations between the UK and the South African poultry industry are strong and are better than those with the EU. Historically, the working relationship with the UK has been better and the aftermath of Brexit should not change any of this.

Correlation between GDP growth and domestic consumption
The per capita consumption of broiler meat and eggs in South Africa correlates closely with the growth rate of the gross domestic product (GDP) in South Africa. The current expected GDP growth rate of South Africa stands at 0.4%. This implies that the demand for poultry meat and eggs will be fairly flat.

Furthermore, international commodity prices are expected to trade sideways over the medium term. This implies that imports will remain a challenge to the industry with the exchange rate being the wild card that can help protect the industry and even help stimulate exports.

Outlook
A plentiful supply of meat will keep poultry prices bearish in the medium term. The return of the US to the export market has increased competition while future avian flu outbreaks will continue to disrupt trade. Poultry producers in South Africa will continue to experience tight margins until feed supplies start to recover in 2017. The imports of lower-cost poultry products will continue while higher-cost poultry products will increasingly benefit from the export trade.
3.5.2 Beef
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International trends

Production
Global production is expected to record modest increases in 2016 to reach a total of 59 million tonnes. This increase is due to expansion in production in the US, India, and Brazil. Larger cattle supplies, higher carcass weights and cheaper feed are driving expansion in the US. In Brazil, a weaker real and market access improvements are encouraging exports, which supports expansion in the production of beef.

Production in India is boosted on the back of expectations of stronger export demand in Southeast Asian countries. Notable declines in production can be seen in Australia and Argentina. Production declines in Australia come as producers are rebuilding herds after an extended liquidation period. Moreover, recent widespread rainfall in Australia has strengthened the expectation of tighter cattle availability over the coming 12 months.

Production in the EU is expected to record slight gains, due in part to steady exports despite the ample availability of beef and competition from abundant lower-priced proteins.

Trade
World beef exports are expected to improve by 1% to 9.6 million tonnes. The recovery in exports emanate mainly from Brazil, India and Canada. In Brazil, the weaker currency, high domestic prices and slow economic conditions support increased Brazilian beef exports. In the meantime India
has outperformed Australia as the top exporter, with beef shipments from Australia expected to decline by 18%. Lower supplies in Australia and New Zealand have reduced the export availability in terms of beef, but will support the US export market. However, the strong US dollar will be a limiting factor in terms of exports.

World beef imports are also expected to improve in 2017, with strong gains realised in China. This is due to steady growth in consumption and new market access for Brazil and Argentina. Higher and middle-income earners can support continued imports as they continue to seek quality beef products while the Chinese economy slows down.

**Prices**
In the short term, prices remain supported owing to smaller overseas supplies, with slaughtering in New Zealand at seasonal lows and slaughtering in Australia also recording declines. South American markets have also strengthened owing to improved market access for Brazil and Argentina and contracting supplies in Uruguay and Paraguay. For other markets, oversupply of other competing meats are weighing on beef prices.

**Outlook**
Price pressures from competing proteins arising from the abundant supply of those commodities are weighing on the market. Pork and poultry prices are low, and cheap grain prices have encouraged expansion of these commodities. However, US production expansion and declining wholesale beef prices are positive as this spurs demand. In Brazil, economic instability and weak domestic demand will remain risk factors in the beef industry.
Domestic trends

Production
In the summer of 2015/16, South Africa experienced severe dry conditions, which negatively impacted on the planting of summer crops and led to dry pastures. The drought also resulted in sharp declines in the number of cows and replacement heifers. This was the result of producers slaughtering older cows and retaining replacement heifers as there wasn’t enough grazing to accommodate all their animals. It becomes expensive for producers to keep all their animals during a period of drought, as there are financial implications to keeping more animals. This means the size of the national herd is expected to decline following increased slaughtering. Rebuilding the herd will be a lengthy process, which could take from two to seven years. The national cattle herd is therefore expected to take a while to return to previous levels. Breeding herds are expected to be much smaller than before the drought. Stock theft is another matter that has to be addressed in order to protect the national herd. Producers are urged to report stock theft cases, in order to address this problem.

Prices
The drought conditions also resulted in less grain being planted, which led to higher yellow maize prices due to tight-ending stocks. Prices moved to import parity, as yellow maize had to be imported in order to meet local demand. However, the tight supply situation is expected to improve during the 2016/17 production season because of the La Niña weather conditions which have been forecast and are associated with wet weather. These conditions will result in lower grain prices and will also be beneficial to reviving pastures. This will improve the beef-to-maize price ratio, which is currently under pressure at below a break-even ratio.

Trade
South Africa has imposed strict import regulations for cattle, sheep and goats from Botswana, Lesotho, Namibia and Swaziland. These new regulations, which came into force on 1 July 2016, are expected to limit the supplies of weaners from Namibia into South Africa. South Africa is a big market for the Namibian weaners, so this will result in a shortage of weaners in the domestic market, which will add an upward pressure to weaner prices.

The weaker exchange rate offers good opportunities to the export market, which has been gaining momentum. Foot-
and-mouth disease is under control and on-farm, biosecurity remains of the utmost importance. This is crucial at the time when exports are important for ensuring the competitiveness of the sector.

The Red Meat Producers’ Organisation (RPO) expects the demand for red meat in the African market to double by 2050, while the international market is expected to show slower growth, even though demand is expected to continue to increase. China will be an exciting market as a result of a growing demand from the growing middle class. The value of South African exports to the rest of the world in 2015 grew by over 100%, while the value of exports to Africa also continued to record steady growth. In order to take full advantage of these markets, better technology and management; higher intensification; cultivated production systems and precision farming will be some of the key drivers.

3.5.3 Dairy
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International trends

The dairy industry has been faced with prolonged lower producer prices, which discourage increased production. Production is expected to decrease in response to these lower producer prices. This will lead to declines in exportable surpluses. Other factors such as lower oil prices and weaker economic growth do not support the demand for dairy products. Lower oil prices are limiting purchasing power in many oil-exporting countries, which hampers demand. Global export prices of skimmed milk powder (SMP) and whole milk powder (WMP) have been strengthening recently, which could suggest that the global milk powder market may be in the early stages of a recovery.

On the upside, the low international prices for dairy products are expected to improve global demand.

Production

In Argentina, milk production is expected to decline as farmers face low profit margins and deal with the aftermath of the floods generated by strong El Niño weather conditions. Producers are also met with lower producer prices, high inflation, and increased production costs, which discourage production.
Milk production will be negatively affected by dry conditions in Australia, which are expected to lead to reduced production.

Milk production in China in 2016 is expected to improve slightly, but imports are expected to improve, especially for ultra-high temperature (UHT) milk. China saw increased demand during the first half of 2016. The Chinese import prospects are supported by hot and dry weather in some producing regions, which negatively impacted the supply of milk.

Milk production in New Zealand is expected to improve in 2016 as a result of favourable weather conditions over most producing areas.

In the EU, the production of milk increased between January and April 2016, with deliveries growing by nearly 6%. For the balance of 2016, the pace of milk production is expected to slow significantly as average weighted producer prices dropped by approximately 13% from January through June 2016. Additional aid payments in the EU can, to some extent, alleviate low milk prices.

**Outlook**
Milk production is declining in most producing areas in the world, in response to low milk prices. This is expected to bring the world’s milk supply and demand back into balance. The continuous weak demand due to low prices, the weaker economic growth and higher milk stocks might hamper prices. Potential risks to the price outlook could be how much milk would be available in New Zealand and Australia, as October is a peak month for production.
Domestic trends

In September 2016 the price of imported dairy products started to increase. Global prices increased due to a decline in global production. The weakening exchange rate will support higher import prices. The higher import prices should lead to an increased demand for local products, thereby supporting local producer prices.

Dairy producers are the ultimate price-takers in agriculture. The limited amount of milk buyers in the dairy industry, lack of sufficient competition by different stakeholders and the fact that a perishable product cannot be stored to trade later when prices improve, mean that prices are subject to bearish factors and will remain under pressure. The long-term average producer share in the retail price is about 37%. This share dropped to a low of 31% in August 2016, compared to levels last seen in November 2005. It should be noted that the importer’s price share in the retail price also dropped to 31%, adding to the weakness in the producer prices of dairy milk. Historically, the upper limit of local producer prices is determined by the price of imported milk. When a global surplus leads to low prices coinciding with a strengthening rand, domestic producer prices decline. However, if the local demand of milk increases, the shortfall in production is imported. Producer prices in the dairy industry do not immediately follow higher import prices but when import prices suddenly decline below producer prices, the latter follow suit.

However, the demand for milk is increasing year on year. The growth of a bigger middle class and the development of chain stores in townships have led to an exceptional increase in the demand for milk. Increases in production and imports both support the growing market demand both locally and for exports to sub-Saharan countries. The long-term trend also shows an increase in imports. Although at a relatively small, but consistent rate, South Africa is becoming increasingly dependent on dairy product imports.

Around March 2015, a large quantity of milk was imported, which led to a subsequent decline in producer prices. The higher feed prices during the 2015/16 drought and the low milk prices resulted in disinvestment in the local production of milk increasing. This was particularly the case in those areas where surpluses are produced and demand is low. Retail prices for milk increased significantly between July 2015 and July 2016 from R11.32/l to R15/l. Milk prices improved to sustain supply in areas where the lower regional supply affected consumption negatively.

The break-even level for the milk:feed price ratio is between 1.3 and 1.4. Since June 2015 this ratio has declined to fall below 1.4 after the producer price of milk was lowered. The lower price followed an oversupply of milk brought about a sharp increase in imports. Unfortunately, the subsequent drought led to an increase in feed prices. The result is that the feed price ratio declined to an all-time low of 0.9 at the start of 2016. This affected the production of milk and imports started to increase again.

The producer’s share in the retail price of milk is expected to recover in a period of six months to meet the long-term average of 37%. Production will become profitable again in 2017,
The local demand for milk will increase further as milk becomes more and more accessible through additional outlets in townships.

especially as feed costs will improve and producer prices increase.

**Outlook**
Producer prices are expected to follow the recent increase in the retail prices for milk to at least a price level where the producer share of the retail price will meet the long-term average of 37%. Unfortunately, producer prices may lag behind for up to six months before catching up. By that time, from May 2017 onwards, feed prices may start to recover and the profitability of milk production will increase. The local demand for milk will increase further as milk becomes more and more accessible through additional outlets in townships.

3.5.4 Sheep meat
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**International trends**

**Production**
Production of ovine meat has shown moderate increases over the past number of years. In 2016, production is expected to continue to record slight increases as a result of generally satisfactory pasture conditions in many of the major producing areas. Meanwhile, limited output is expected in other production areas such as Australia and New Zealand because of drought-imposed reduced herds and the subsequent need to rebuild these herds. China is the largest producer, consumer and importer of sheep meat. Demand for Australian lamb in China weakened significantly in the 2015/16 season following an increase in China’s domestic sheep meat production and a build-up of stocks of frozen imported lamb in cold storage.

**Trade**
The export trade in ovine meat is very concentrated and is dominated by Australia and New Zealand. Reduced exports from these major exporting nations are expected to weigh down on world trade. Some New Zealand sheep produc-
ers have reportedly transitioned to dairy farming, which reduces the quantity of lamb that country can export. Reduced imports are expected into China due to the limited availability of world exports and the weakness of the Chinese economy. Other regions such as the EU, the US and Canada are expected to record moderately greater levels of imports.

**Prices**
In the US, the amount of lamb and mutton in cold storage, which has nearly doubled in two years, together with overall declining prices for other meats, might weigh on prices. There are abundant supplies of other meat proteins, which might put pressure on the demand for lamb products. Sheep numbers in New Zealand and Australia continue to trend lower, at a time of good international demand. This will add some support to prices.

**Outlook**
World production is expected to increase marginally because of generally satisfactory pasture conditions in many of the major producing areas. Lower supplies and herd rebuilding will support sheep prices in exporting nations Australia and New Zealand. Australian and New Zealand’s lamb prices are also expected to remain strong this year owing to an increasing export demand. The softening in world economic growth might be bearish in terms of demand for lamb and mutton, especially at a time when there are abundant supplies of cheaper protein alternatives.

**Domestic trends**

**Production**
Following the dry conditions in the summer of 2015/16, more sheep were slaughtered. However, the extent was not as severe as that of the cattle slaughtered. In total 9.21% more
sheep were slaughtered for the period June 2015 to February 2016 than in the period June 2014 to February 2015.

The local sheep herd has been showing a steady decline in numbers over the past few years. The drought has contributed to exacerbating this situation, along with other factors such as stock theft, which discourage producers from farming with sheep. Producers need to report stock theft cases in order to address this problem and protect the national herd.

La Niña weather conditions are expected in the summer of 2016/17, which will then support producers in rebuilding their herds. There are opportunities for improving the carrying capacity of the veld by way of new-generation cultivated grazing. The herd-rebuilding process will result in less sheep meat production and hence add some support to lamb and mutton prices. In 2011, significant price increases were recorded for meat and feeder lamb prices as Rift Valley fever reduced the sheep flock.

**Prices**

In terms of lamb and mutton products, the spending ability of consumers is the most important price driver. During economic hardships, consumers are likely to consume cheaper meat protein such as poultry and pork, and to some extent beef rather than lamb and mutton. In the present South African context, demand for sheep meat is negatively affected by the recent weaker economic growth, higher food prices following the drought, raised interest rates and the high unemployment rate.

Demand for sheep meat into the future is positive owing to the growing middle class. Producers have to adapt to changing consumer behaviour, and produce the right cuts, at the right quality at the right price. As consumer behaviour is also changing, especially regarding the use of new technology and the like, producers need to position themselves to cater for technologically savvy consumers by either delivering the product to their doorsteps or by using cellphone apps to track their demand.

**Outlook**

Mutton prices are expected to remain supported into the next year as a result of the aftermath of the drought. Producers are expected to continue rebuilding their herds, after losing animals during the dry conditions. The national herd has been declining, and it will take some time for it to return to previous
levels. However, if weather conditions deteriorate in summer, encouraging producers to reduce their stock levels, which will in turn result in temporary, abundant supplies in the market, prices will be under pressure. The South African economy is not expected to grow, with the Reserve Bank predicting 0% growth for the rest of 2016, which does not bode well for the demand for sheep meat. However, the long-term demand prospects are positive.

### 3.5.5 Pork

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#### International trends

Global pork production is expected to decline by 0,9% to 109,3 million tonnes. The biggest contributors to these declines are China and the EU, who more than offset the gains made by the US, Brazil, and Russia.

Production in China, the world’s largest consumer and producer, has declined as a result of new environmental regulations. These regulations saw some producers shut down their farming enterprises, and others having to relocate their farms. Pork production was reduced after the biggest sow cull in history decreased the number of pig sows. Weak prices into early 2015 stimulated the number of herds being reduced, which contributed to lower supplies. Prices have been following an upward trend in recent months, and are expected to continue to increase while supply is not expected to recover before 2017 as new regulations continue to keep herd expansion in check. The main drivers for price increases are supply shortages.

A combination of high consumption and supply shortages has led to a strong demand for Chinese imports. The outlook for a continued deficit in Chinese pork production suggests a sustained import demand for at least the rest of this year, which will support prices. However, the Chinese pig herd is expected to start increasing towards the second half of 2016 as producers might see the higher prices as a good reason to invest in the industry.

Pork production in the US is expected to increase by 1,9%, boosted by lower feed prices and herd growth. The strength of the US dollar is hampering trade, but export opportunities with China will help absorb this growth in production. Brexit has added to the strength of the US dollar, making US pork more expensive around the globe. Larger volumes of other competing meats are also putting pressure on pork prices.
EU production is also expected to decline as low prices discourage herd expansion. The EU is expected to capitalise on the growing Chinese demand, and push more exports into that market.

Increased exports, driven by a weak currency and improved market access, will support production in Brazil. The ongoing depreciation of the real has given support to both the growing pork and maize exports.

Russian production will continue with reasonable expansions, although at a slower pace as a result of the struggling economy, as well as competition from lower global pork prices.

Outlook
Expanding trade prospects with China provide an opportunity for exporters across the globe, with strong demand in China being supportive to prices. The low costs of grain continues to bring about an opportunity for expansion as producers have been experiencing lower cost of production when compared to those of previous years.

Domestic trends
Industry under pressure
South Africa has been battling with a drought, which has had a distressing impact on the pork industry. As a result of dry conditions during the summer of 2015, producers were unable to plant maize crops, which resulted in significant increases in maize prices. Feed is one of the main components of production costs in the pork industry. Yellow maize accounts for between 60% and 70% of feed costs in the pork industry. Maize prices increased significantly towards the end of 2015, and continued to trade at import parity into 2016 due to lower crops. The weakening of the currency also made imports of the maize grain more expensive in rand terms.

Production costs on pig farms have therefore been dominated by high feed costs, putting margins under pressure. This was exacerbated by the fact that South African pork producer prices failed to increase during the same period. The greater availability of beef in the domestic market as a result of increased marketing on the back of the dry conditions also proved to be problematic for the pork industry, as it contributed to increased supplies in the market at affordable prices.

Swine fever threatens export market
The industry is struggling with outbreaks of African swine fever (ASF), as several outbreaks have been reported across various farms in the country. In order to safeguard animals against this outbreak, the facilities in which the pigs are kept are surrounded by double fencing to ensure that they do not come into contact with the affected animals. Animals are also regularly tested in units. This practice grants them acceptance by South Africa’s trading partners.

Following reports of African swine fever outbreaks in South Africa, Namibia immediately suspended the importation of live pigs and raw pork from South Africa. The suspension will be in force until the outbreak is resolved satisfactorily. Namibia trusts the South African system, and borders are expected
to be reopened. Monitoring of the surveillance activities will be increased at the official border points to ensure that products entering the country do not pose any risk to the pork industry.

**Exports expected to grow**
The industry has attempted to improve the export market by gaining more market access to other regions. This will help in terms of industry competitiveness, and act as a cushion to counterbalance the impact of large imports. A country like Singapore has already conducted its inspections, and India seems interested in South African pork.

The beef and pork industries have appointed a veterinary professional to monitor issues concerning the export of meat. Growing demand for the South African product can be seen in the African market, as the shorter distance allows the industry to compete based on geographic location. Countries such as the EU face increased transportation costs to other African countries compared to South Africa. China, India, Singapore and Thailand are important markets for pork exports. Current exports to African markets are mostly to neighbouring countries such as Namibia, Mozambique, Lesotho and Swaziland.

**Imports**
The South African Pork Producers’ Organisation (Sappo) has indicated that about 30 000 to 35 000 tonnes of pork are imported per annum, of which roughly 50% are ribs. The EU and Canada are the main exporters to South Africa. 70% of pork imports are from the EU and imports from this region have increased in recent times. Russia closed its borders to the EU three years ago, which added to the build-up of stock in the EU. The excess stock then had to be diverted to other markets as they accumulated other costs such as storage costs.

Most pork cuts entering South Africa are subject to an import duty of 15%, or a minimum of $1.30/kg. Ribs, which are imported at zero import duty, are the exception. South Africa has a free trade agreement with the EU. South Africa cannot produce enough ribs, hence the need to meet its consumption needs by importing. It seems that, as a result of lower prices, local producers are not willing to take the risk of producing more in order to compete with imports. Production in the EU is also subsidised, which adds to the difficulty of competing against this trade bloc.

South Africa officially opened to US pork on 26 February after months of negotiations. The market had been completely closed to US pork since June 2013 following the introduction of trade barriers.

**Water and electricity add pressure**
Unstable electricity supply is a risk to the industry as it remains essential for heating purposes. Electricity is needed to regulate the required temperatures in order to provide additional heat or, when necessary, cooling effects that will achieve the best results. In terms of water, sufficient water of a high quality is required for the production of sows. Some producers use biogas in their operations, but the main challenge remains the fact that biogas is more expensive and smaller operations cannot afford it.

**Special housing needed**
Global animal rights organisations are not happy about the way in which animals are handled. These organisations continue to put pressure on the industry by calling for changes to the way animals are raised. However, it is expensive for industry players to fully comply with their demands due to the associated high costs. Big farms have already met the requirements set by these organisations. The industry has since set a deadline of 2020 to fully convert the pens the animals are housed in, etc. and meet the requirements.

**Outlook**
The long-term prospects of the pork industry remain positive. Short-term pressures from higher feed costs on the back of
the drought, the weakening of the South African rand against major currencies, unstable water and electricity supplies, increased labour costs and lower poultry prices remain. Consumers’ reduced disposable incomes, which were met with higher interest rates at the time when pork supplies remained constant, added to the pressure. Prices are expected to improve towards the end of the year. Investment in the sector is needed to ensure the long-term profitability of this sector and continued improvements in technology need not be ignored. The export market also provides long-term opportunities for the industry.

3.5.6 Game
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Following almost a decade of unprecedented growth, the live trade segment of the wildlife industry in South Africa finds itself in somewhat uncharted territory. It is clear from recent developments that the segment does not function in isolation and, like all other agricultural commodities, is affected by both internal and external factors at play. The negative price movement of the past couple of months are often laid at the door of the current unfavourable economic climate and subdued economic growth, and rightfully so. However, laying it all at the door of a struggling economy may be an oversimplification of a far more complex situation that is likely to continue to impact on game prices in the foreseeable future.

Looking back, the current market trends actually started at the beginning of 2015 with the prices of certain species doubling overnight. These prices attracted widespread interest, and many people started to question whether they could be sustained. This, coupled with the seasonal price adjustment that followed during the winter months of 2015, laid the foundation for the uncertain investment sentiment that developed. What transpired was a bidirectional relationship between uncertainties and declining prices, i.e. the emergence of an uncertain investment sentiment that led to lower demand and subsequently lower prices on the one hand, and the continued decline of prices, which fuelled uncertainty, on the other.

In the same way, negative developments in the broader political, economic and legislative environment leading up to the municipal election in 2016, contributed towards lower levels of business and investor confidence. Not much has since changed, signs of a feud between the President and the Minister of Finance have reappeared; and questions remained unanswered as far as Guptagate and the capture of state resources and business are concerned. Uncertainty is growing following the decision of Futuregrowth to stop any advancement of money to some of the largest state-owned companies in the midst of what appears to be a political battle for power over these companies, and uncertainty remains in terms of policy directives as far as land reform is concerned.

In addition to the uncertain market/investment sentiment in the wildlife and broader economy, the industry was also hard hit by the negative financial effects of what is described as one of the most severe droughts in centuries. However, all is not doom and gloom – the weather prospects for the coming season seem to be better. Good rains would not only contribute towards a much-needed positive sentiment in the agricultural sector but could also be fundamental in terms of support to the general economy. The same goes for the most recent political developments, where the power in most of the major metropoles shifted away from the ruling party. Effective and efficient service delivery, coupled with the elimination of fraud and corruption, could well send out a message that could be helpful in terms of regaining some of the investment confidence lost over the past year or so.

Prices
The general decline in prices over the past year is, however, not only the result of demand being under pressure. Auction statistics clearly present a picture of increased quantities being offered for sale at formal auctions. In other words,
the breeding segment of the wildlife industry is facing uncharted territory in that price pressure is being instigated from both the demand and supply side at the same time. Never in the history of this fairly young industry has a similar situation been witnessed – at least not to the same extent. This is the result of a combination of financial, economic, political and legislative factors that exerted pressure on demand, while supply at the same time started to increase.

With the above in mind, live game prices are expected to remain under pressure. Figure 1 presents a monthly forecast in terms of the numbers and prices for colour variants, specifically females or breeding herds, to be sold on auction. It should be noted that the volumes and prices, both historic and forecast, are index-based, i.e. the numbers and prices are not representative of one specific species but a group of species. The colour variant index consists of black impala and golden blue wildebeest. The lower market price and subsequent profitability, the uncertain market/investment sentiment and higher population growth rates on the back of growing breeding stocks and intensive breeding practices, are all factors which will likely contribute towards an increase in the number of animals offered to be auctioned. With supply that is expected to increase and demand that is likely to remain under pressure, prices for most colour variants are likely to continue along its weakening path (Figure 1).

A similar trend is expected in terms of higher-value species, especially female animals. Prices are likely to continue along the weakening path of the past couple of months. Again, lower profitability, larger breeding stocks and an uncertain market/investment sentiment are among the factors that will contribute towards both demand and supply pressure (Figure 2).

A slightly different trend is expected in terms of higher-value males. Animals such as sable antelope and disease-free African buffalo remain among the most sought-after trophies around the world. Besides, the recent developments in the live game trade segment have instigated renewed energy and efforts into the “revitalisation” of the hunting industry in South Africa. The focus of the industry over the past decade was primarily on the breeding and live sales of game animals and as a result, a significant amount of South Africa’s international market share (in terms of the
number of overseas hunters) was lost to Namibia. However, South Africa remains one of the most sought-after hunting destinations in the world and with the renewed focus on regaining the momentum of the past, growth is imminent.

This, coupled with the expectations of a relatively weak exchange rate and improved environmental conditions could well support the demand for these animals. On the other hand, supply is expected to increase on the back of larger breeding stocks. Consequently, prices are expected to remain at or close to current levels in the coming months.

The prices of intermediate species, such as nyala, are also expected to remain under pressure (Figure 3). Again, an uncertain market/investment sentiment, increased supply and higher feed or production cost will be the main factors that will negatively impact on the price of these animals.

The effects of the drought and the softening of the colour variant market was clearly visible in the prices of most plains game species during the middle to latter parts of 2016. However, improved environmental conditions are expected for 2017 and although it will bring much-needed relief, the impact is only likely to become more visible towards the latter parts of 2017. Figure 4 presents a monthly forecast in terms of the number and prices for smaller plains game species, specifically females or breeding herds. In general, supply is expected to increase with prices that are likely to stabilise at or close to current levels. A similar trend is expected in terms of the prices for larger plains game female animals when compared to those of small plains game female animals (Figure 5). Similar to smaller plains game, the drought and softening of the colour variant market were foremost among the factors that had a negative impact on the average prices of these animals in 2016. Supply is expected to continue along the positive path with prices stabilising close to or at current levels.

The prices for both smaller and larger plains game male animals are also expected to remain at or close to current levels. Although renewed efforts at revitalising the hunting industry, a weaker exchange rate and improved climatic conditions could stimulate demand for these animals, an increase in supply on the back of larger breeding stocks will most likely offset any positives price movements in the months to come.
Game meat
Other segments of the wildlife industry such as the game meat segment have received a lot of attention over the past year. Exploiting the opportunities presented by game meat is most probably the key in terms of new market development and/or expansion in the quest to ensure the continuous growth and sustainability of the game-ranching industry in South Africa.

Although a notable percentage of the red meat consumed in South Africa is game meat, the market is largely undeveloped and many consumers consume game meat unknowingly. Future growth expectations rely heavily on developments in terms of game meat. At the same time, cohesive growth and development will be central in terms of ensuring the sustainability of the industry in future. The different segments of the game-ranching industry cannot function in isolation. Unlike in the past, future success will depend on how successful the industry could grow the different segments proportionally to each other. The latter will require that future growth and development be guided by the principles of long-term sustainability and not by potential short-term gains that may be at the expense of other segments in the industry.

Game ranching in South Africa is unique, not only in terms of species diversity, but also in terms of our institutional environment, i.e. South Africa is one of only a few countries in the world where ownership of wildlife is vested in private landowners, which presents game ranchers with a comparative advantage second to none – there is no reason why game ranching cannot become or remain one of the leading agricultural land use options in years to come.

With the above in mind, the growth potential of the industry is ample; however, it will be difficult to sustain the robust growth rates of the past. The industry is likely to report a more moderate growth rate in the years to come.
Agricultural exports into Africa increased significantly over the past decade following investment by retail chains, especially in Angola, Cameroon, Ethiopia, Ghana, the Ivory Coast, Kenya, Nigeria, Tanzania and Zambia. PWC (March 2016) identified significant trends likely to have an impact on the development of the region’s retail and consumer goods industries in the coming years. Agricultural development is needed to supply these industries with the necessary food and fibre.

1. Macro developments
Many countries in the region have emerged to be among the world’s fastest-growing economies. Administration has improved and democracy has deepened. These developments, together with urbanisation and an increasingly connected and demanding consumer class, have led to a growing interest in investment.

2. Economic factors
The softer demand from the EU and China for commodities such as oil, from Angola and Nigeria, has impacted negatively on GDP growth. Security threats in Nigeria and Kenya are also unfortunate. The strong US dollar has inflated the costs of imports, putting added pressure on local economies. Despite these challenges Africa’s prospects remain significantly better than the global average.

3. Demographic changes
Africa’s young population is expected to drive consumption and economic growth. Africa will be the continent having the youngest population, with 25% of the global population in Africa by 2050. When the labour force grows more rapidly than the population that is dependent on it, resources become available for investment in economic development and personal consumption. This offers an opportunity for rapid economic growth.

4. Urbanisation
Sub-Saharan Africa is undergoing the largest wave of urban growth in its history. It is the most rapidly urbanising region in the world. Urbanisation will bring about huge social, economic and environmental transformation. The urban population in Africa is due to increase from 35% in 2010 to 56% in 2050. Supply chains will be pressured to meet the changing demand patterns and consumer tastes.

5. Income growth
Although uncertainty prevails about the true size of the middle class, most analysts seem to agree that incomes are rising. The current optimism about the region hinges on the assumption that a consumer class is emerging. Some analysts believe that the current 15 million middle-class households in 11 sub-Saharan countries are contributing 50% of the GDP in sub-Saharan Africa. These households are expected to grow to 40 million by 2030, assuming that the overall growth trend remains robust.

6. Busier, healthier and more informed consumers
Consumer lifestyles are evolving and ambitions are influencing consumer behaviour. As a result of the growth in internet penetration and travel, Africans are more connected to global trends than ever before.

7. Home-grown champions making their mark
African champions are boosting their presence in the rest of
the continent after becoming dominant players in their home markets. Pioneers such as Shoprite first entered Zambia in 1995 and are currently active in 14 countries with over 300 stores. Few JSE-listed retailers or consumer goods manufacturers do not have a footprint north of the Limpopo.

8. Shift to modernisation but informal trade continues to lead
Informal retail will continue to dominate sales in sub-Saharan Africa with the exception of South Africa and Angola. Although modern trade is expected to continue growing, companies should not underestimate the strength of the informal sector as products in the malls are priced at a premium. The lack of appropriate formal retail space is restricting the growth of modern retailers. Building shopping malls is a tough and expensive business due to challenges surrounding the securing of land, skills and the cost of building.

9. Online retail showing promising potential
The digital age is increasingly disrupting the retail industry globally and redefining the role of the traditional store. Although online retailing is still in its infancy, the industry is certainly showing promising potential. Sorghum producers in Pandamatenga, Botswana are using the technology successfully for importing second-hand harvester combines from the US and exporting commodities.

10. A more sophisticated retail sector
Formal retailers exploit growth and market-enhancing initiatives such as private labels, loyalty programmes and retail credit. The entry of regional and foreign players is expected to boost these kind of initiatives as they are already applied in their home markets.

11. Moving into secondary towns
The expansion of modern retailers focused on the major cities and capitals, but second-tier cities and emerging towns are now increasingly attracting interest.

12. Import substitution
Thousands of consumer goods still arrive at Africa’s ports every month. However, there is a growing trend towards domestic production. Growing democracy and stability gives companies the confidence to invest in assets on the ground. Second, companies invest to circumvent import duties, port delays, and high transport costs. Third, governments are granting incentives for local manufacturing and production to create jobs and to diversify their economies. Most importantly for farmers, Africa’s enormous agricultural potential provides ample opportunities for local agro-processing.

13. Supply chain optimisation
Surging competition means supply chain optimisation will be a priority for most retailer and consumer goods companies. Supply chains are complex, challenging and expensive. Poor transport infrastructure, inadequate local supply capacity and the dominance of informal retail trade make distribution a strenuous exercise. The stable supply of agricultural produce remains a challenge.
**Maize**

### World maize production, consumption, trade and price

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### Total SA maize supply, demand and price trends

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## Oilseeds

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## Poultry

### World poultry trends

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## Beef

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Hortgro  
ITC Trademap  
Milk Producers’ Organisation  
Mohair SA  
National Agricultural Marketing Council  
Oilworld  
Orix  
Potatoes SA  
Quantec  
Rabobank  
Red Meat Producers’ Organisation  
RSA Market Agents  
SA Cane Growers’ Association  
SA Citrus Growers Association  
SA Grain Information Service  
SA Macadamia Growers’ Association  
Santam Agri  
SA Pork Producers’ Organisation  
SA Ostrich Business Chamber  
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