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Socio-Economic Dynamics of the South African Agricultural Sector¹

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Introduction

This paper provides a short and condensed overview of the socio-economic and political reality of the agricultural sector in South Africa. Fundamental to understanding the sector is the policy environment, which is discussed first. The changes in agricultural policies over the past 10 years had certain effects on the economic trends of the sector. The latter is presented in the second section. The shifting agricultural trading patterns are discussed in the final section.

Agricultural policy evolution in South Africa: 1994-2004

The state of agriculture in contemporary South Africa cannot be understood without reference to agricultural policy and the resultant institutional framework under apartheid. The Land Acts of 1913 and 1936, along with allied legislation such as the Black Administration Act of 1927, resulted in a skewed pattern of land ownership and forms of tenure, whose purpose was to protect white commercial farmers against competition from black farmers. An elaborate system of Control Boards, originally set up under the Marketing Act of 1937, as well as allied legislation for specific industries such as wine and sugar, provided protection against foreign competition and ensured income parity with the urban economy. White farmers received comprehensive support services, including subsidised credit, subsidies on fixed improvements to land, etc. The main institutions involved here were the

Ministry of Agriculture and its research and extension services, the Agricultural Credit Board, the Land Bank, cooperatives, and so on. By contrast, a few black farmers in the homelands received weak support services, supplied at a high fiscal cost, and with narrow coverage.

Deregulation and liberalisation dominated the agricultural sector during the 1980s and the 1990s while a range of sectoral policies during the last decade also had major impacts on the agricultural sector. The most important of these policies is the deregulation of agricultural marketing. Until early in 1998 the marketing of most agricultural products in South Africa was regulated by statute, largely under the 22 marketing schemes introduced by the 1937 Marketing Act. The Marketing of Agricultural Products Act, No 47 of 1996, deregulated agricultural marketing and opened it to world market influences.

Other important policy influences on the nature and composition of the agricultural sector that happened during the past decade were:

- Land reform, consisting of land restitution, redistribution and tenure reform programmes.
- Changes resulting from the new Water Act of 1996.
- The four major labour laws in South Africa, namely the Labour Relations Act (1995), the Basic Conditions of Employment Act (1997), the Skills Development Act (1998) and the Employment Equity Act (1998), were made

Table 1: Principal statistics from the census of commercial agriculture.

Item	Unit	1993	2002
Farming units	Number	57 980	45 818
with a VAT turnover of R300 000 and above			22 429
with a VAT turnover below R300 000			23 389
Employment	Number	1 161 912	986 842
Owners and family members		68 647	46 027
Paid employees		1 093 265	940 815
Employees' remuneration (at constant 2002 prices) (cash wages, salaries and cash bonuses)	R'000	5 782 480	6 215 583
Gross farming income (at constant 2002 prices)	R'000	38 813 291	52 971 214
Field crop products		9 901 329	16 476 933
Horticultural products		9 324 884	14 197 267
Animals and animal products		19 328 436	21 222 618
Other products excluding forestry		258 642	1 074 396
Expenditure (at constant 2002 prices)	R'000	33 984 385	45 038 908
Current expenditure		29 671 164	42 092 135
Capital expenditure		4 313 221	2 946 773
Market value of farming assets (at constant 2002 prices)	R'000	138 836 539	98 428 254
Farming debt (at constant 2002 prices)	R'000	31 738 817	30 857 891

Source: Statistics South Africa, 2005.

applicable to the agricultural sector and also resulted into the adoption of a minimum wage for farm workers.

- Trade policy reform. In agriculture, quantitative restrictions, specific duties, price controls, import and export permits and other regulations were replaced by tariffs after South Africa became a signatory to the Marrakech Agreement.

During the past decade South African agriculture was characterised by extensive institutional restructuring largely as a result of the new constitutional dispensation under which agriculture was classified as a provincial competency. There were additional reasons for the restructuring. First, some institutions (e.g. the Land Bank, the Agricultural Research Council, etc.) had to be realigned in support of the development priorities of the new government. Second, there was a redeployment of functions and staff from the former homeland departments of agriculture to the new national department and to the new provincial departments. Third, agricultural institutions in the public sector were reoriented to fit in with new policy

directions. The new institutional structure for agriculture, as well as the process of deregulation, has resulted in some disconnect between national and provincial structures and also left the Ministry of Agriculture with few policy instruments (and budget) to achieve the many empowerment objectives at grassroots level.

These policy changes, especially the deregulation of agricultural marketing, had a large effect on the agricultural sector. One of the most visible measures is the Producer Support Estimate, which shows that South African farmers receive less support from the state than all countries other than New Zealand.²

Other measures of the effects include increased Total Factor Productivity (TFP),

Because agriculture is so dependent on the climate, net farm income fluctuates annually.

largely because of the decline in the use of both fixed capital (resulting from falling real prices of land) and intermediate capital, and labour; decreasing capital intensity; and increasing mobility of factors of production. Because agriculture is so dependent on the climate, NFI (Net Farm Income) fluctuates annually, and is less useful as a macro-level indicator of trends. A better indicator is the amount of capital required to produce R1.00 of Net Farm Income. Expressed in real terms, the amount of capital required declined from R4.50 in 1971/72 to less than R1.00 in 2000/2001.³

In addition to the observed effects of policy changes on the structure of the agriculture sector, there are also a number of expected effects that will result from imminent policy changes. The South African Constitution, for example, places the powers to tax real property (land) in the hands of municipalities. The restructuring of local government has meant that all agricultural land now falls under the jurisdiction of municipalities. While most municipalities are still investigating ways of exercising this power within the framework of national legisla-

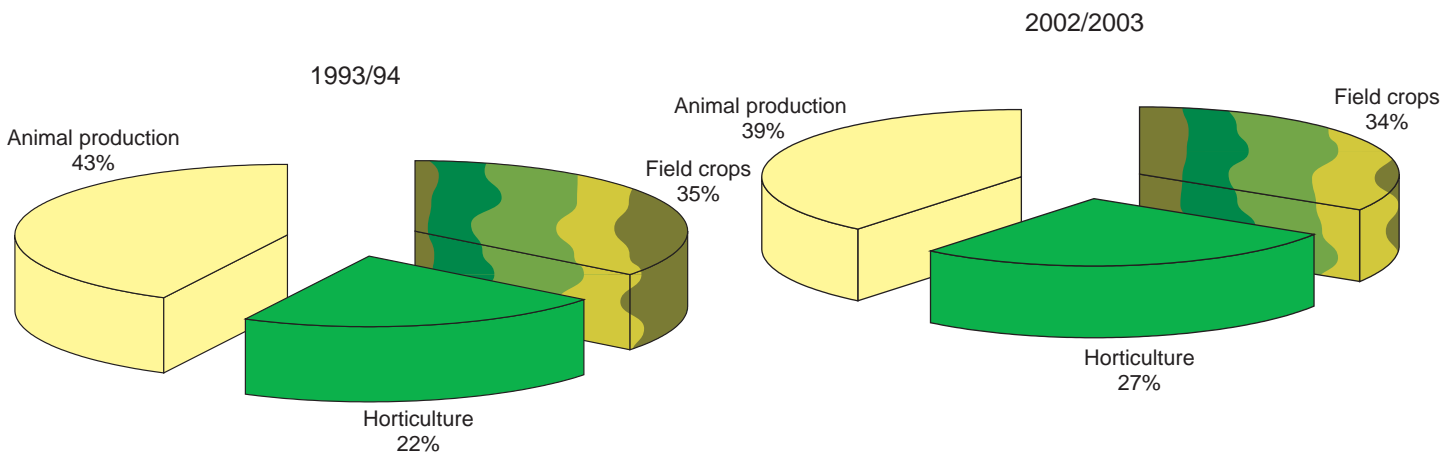


Figure 1: The changing structure of agricultural production 1993/4-2002/03. *Source: Abstract, 2004*

tion, there is some anecdotal evidence of irresponsible use of these powers, which could potentially have a negative impact on the roles of agriculture.

The tariff structure affords greater protection to value-added products. Therefore, farmers generally sell their products into oligopolistic markets, and buy their inputs from oligopsonistic sup-

pliers, adversely affecting their terms of trade. Commercial farmers have countered these effects by increasing multi-factor productivity. However, continued improvements in productivity depend on the development of new technologies, which is partly dependent on state funding. The main effects of the decline in direct government spending on agriculture

at the national level are evident in the decline in state spending on agricultural research and technology transfer systems (see also the discussion on the producer subsidy equivalent (PSE) below). While this decline is a real concern, there is no evidence that private sector spending has changed. To the extent that private sector investment has substituted for state

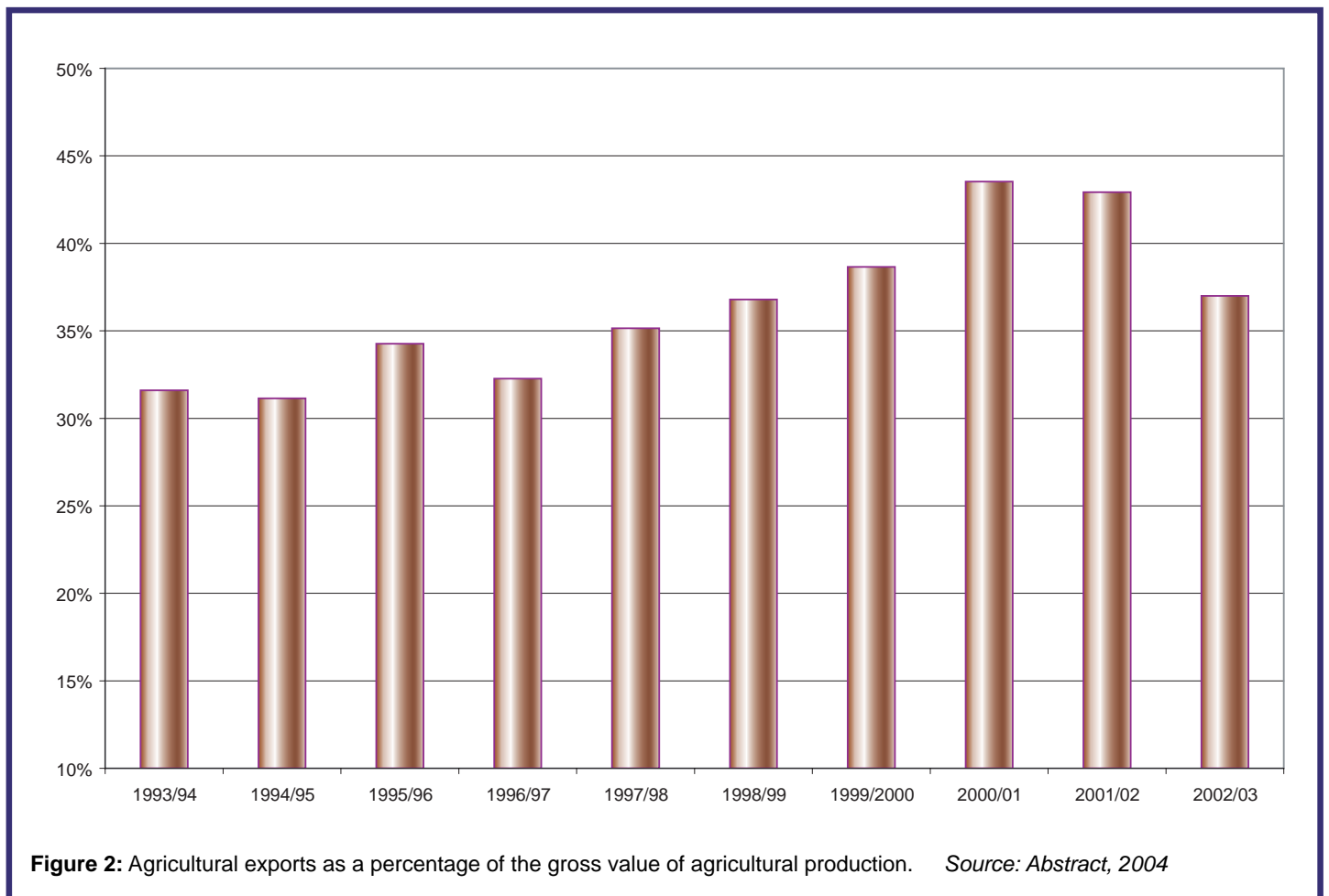
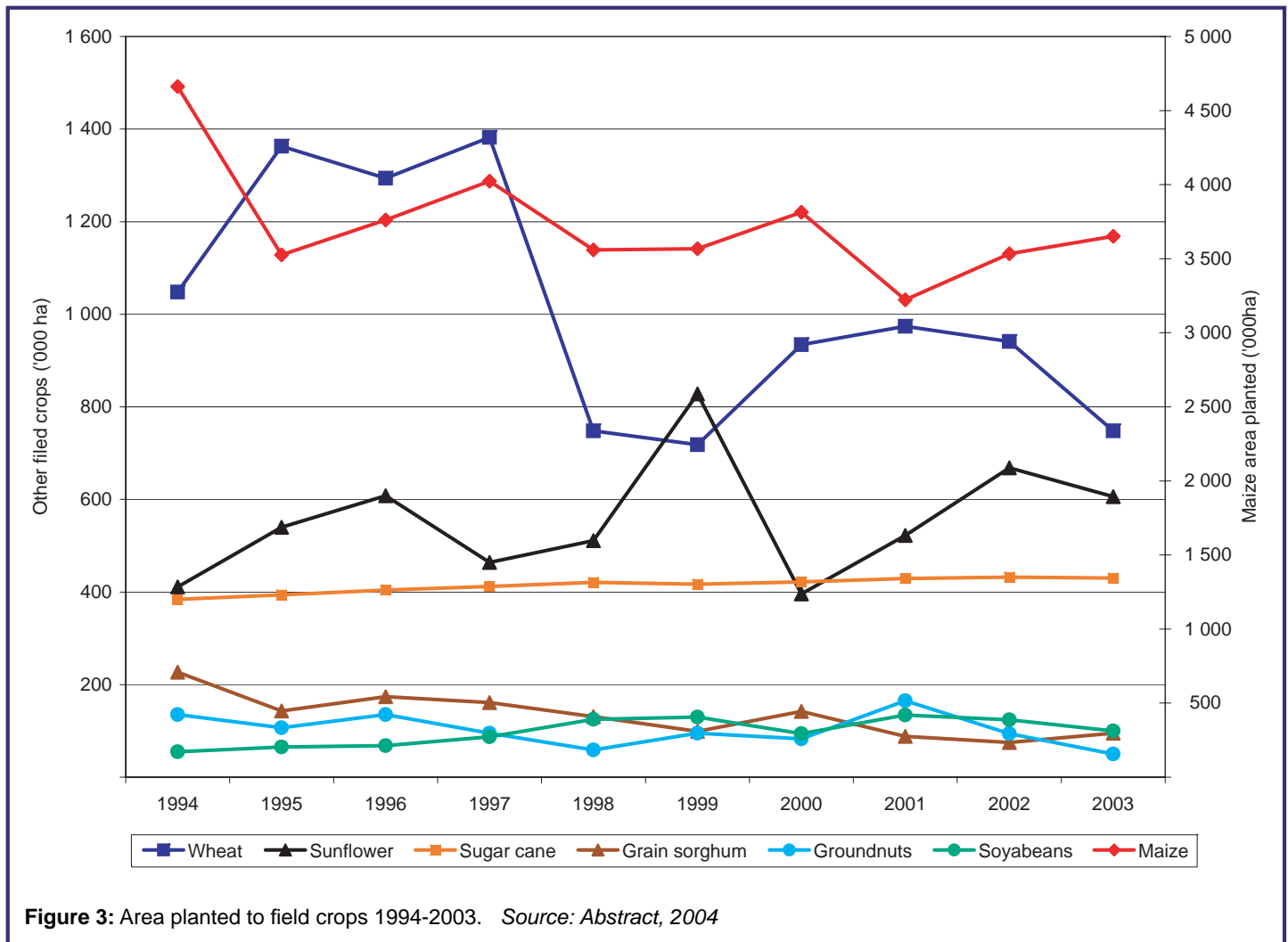


Figure 2: Agricultural exports as a percentage of the gross value of agricultural production. *Source: Abstract, 2004*



spending, or even increased beyond that level, there would be little cause for concern. Nevertheless, farmers' ability to remain competitive depends on their ability to increase multifactor productivity.

Socio-economic importance of agriculture

The dualistic nature of South African agriculture, consisting of large commercial (mainly white) farmers, on the one hand, and many small mainly subsistence farmers located in the former homelands, on the other hand, is still a reality today and remains the major challenge for future agricultural policy.

The commercial sector is capital-intensive, engaged in large-scale production and strongly linked to global markets. It is operated by approximately 46,000 farmers who occupy 87% of the total agricultural land (see Table 1).⁴ These farmers produce about 4% of the country's GDP, employ about 10% of the formal labour force (2001), and con-

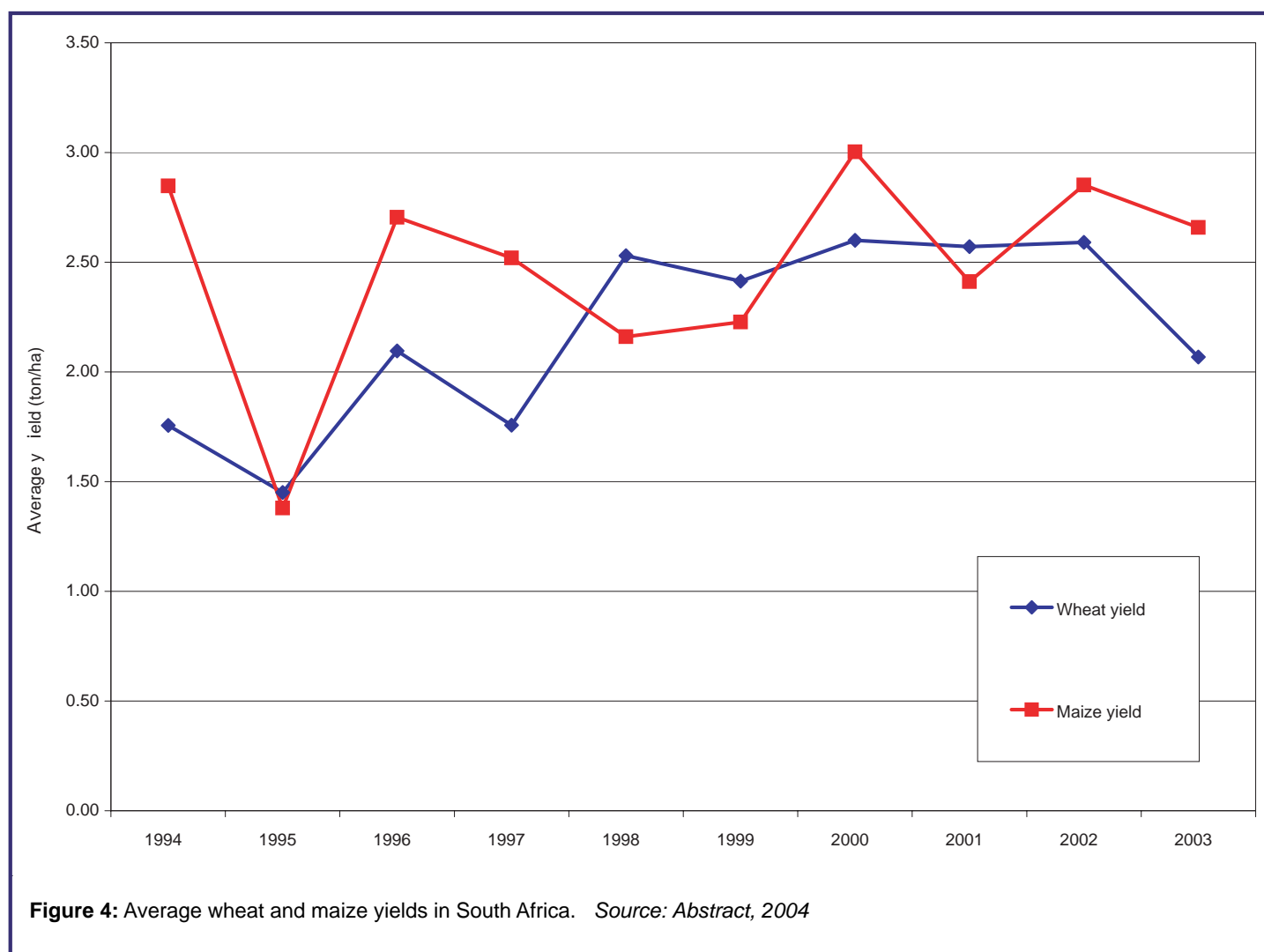
tribute 8,4% of the country's total export earnings.⁵ Further, when forward and backward linkages into manufacturing are considered, agriculture's GDP contribution amounts close to 13%.⁶

Smallholder farming, still located mostly in the former homelands, is an impoverished sector dominated by low-input, labour-intensive forms of production. Up to 2,5 million households subsist in this sector having been relegated to farming on 13% of the agricultural land in the former homelands, the apartheid creations designated in the Native Land Act, No. 27 of 1913, and the Natives Trust and Land Act, No. 18 of 1936.

Smallholder farming remains a labour-intensive, impoverished sector.

South Africa is more than self-sufficient in food production, with net exports of agricultural products constituting some 22% of the sector's contribution to GDP, compared to 15,5% in 1994.⁷ At the same time the country also imports a wide variety of foods and agricultural commodities. The Daily Energy Supply (DES) is more than 2950 calories/per capita/day, which is a relatively high quantity of calories available for consumption. In contrast, the average DES for Africa is 2250 cal/cap/day. The average for developed countries is 3300 cal/cap/day. According to the FAO methodology, the proportion of undernourished population in South Africa is estimated at about 5%. This compares favourably to the sub-Saharan average of 33%. Food availability and access to food via targeted social programmes are contributing to the generally good calories intake.

Although the national statistics reveal a food secure position at national level, the picture at household level is not the



same, warranting further discussion. Estimates suggest that approximately 1.5 million South African children suffer from malnutrition, with 24% of the children stunted and 9% underweight. Among the poorest 20% of households the stunting rate is 38%. Micro-nutrient related malnutrition is an unremitting public health problem. One third of children show evidence of marginal vitamin A status, 20% are anaemic and 10% are iron-deficient. In addition, recent nutrition surveys indicate that a growing proportion of South Africa's population faces malnutrition from 'excessive' calorie intake leading to health problems such as diabetes and heart diseases.

A 10-year statistical review of the agricultural sector

The basic statistics of the agricultural sector in South Africa are reflected in Table 1, which represents the critical indicators of the sector obtained from the agricultural censuses of 1993 and 2002. Note the

drop in the number of farms as well as the employment on commercial farms between 1993 and 2002. The drop in farm numbers is largely a function of increased consolidation. Driven by the trend of industrialisation in commercial agriculture, the only way to make a profit from commodity agriculture is by increasing the size of farming units. This implies that one farming business (owned by a company, family, or trust) could now easily consist of more than one farm as registered title. On the other hand, economic pressures have in a small number of cases also resulted in the suspension of farming activities.

Drawing from the time series in the

Exports have been rising as a share of total agricultural production.

Abstract of Agricultural Statistics that are regularly updated with the assistance of the various commodity organisations, some interesting trends on agricultural production and export and imports can be observed. Figure 1 shows the shifting share of agricultural production from field crops, horticulture and livestock. In general, there seems to have been a shift from animal production to crops. But this trend should be read with caution, taking into account the problems encountered in measuring red meat consumption in the informal sector. Nevertheless, the data show a relative shift towards horticultural production, whose share has increased by 5 percentage points compared to an increase in share of 2 percentage points for field crops.

The main reason for this shift in relative shares is the changes that have taken place in the agricultural trade arena. Figure 2 shows that the value of agricultural exports increased from about

Table 2: Top 20 agricultural export commodities: 1994 vs 2003

HS code	Description	1994			2003		
		Export value (R'000)	Rank	%	Export value (R'000)	Rank	%
220421	Beverages, Spirits & Vinegar: In containers holding 2 litres or less	69,996	18	0.8	2,632,154	1	10.4
080510	Citrus Fruit, Fresh or Dried: Oranges	369,511	3	4.2	1,629,365	2	6.4
080610	Edible fruits & nuts: Fresh	439,566	2	4.9	1,382,475	3	5.4
170111	Cane or Beet Sugar and Chemically Pure Sucrose, in Solid Form: Cane sugar	299,879	5	3.4	1,134,115	4	4.5
080810	Edible fruits: Apples	263,203	7	3.0	1,074,250	5	4.2
100590	Maize (Corn): Other	1,359,571	1	15.3	768,278	6	3.0
220210	Waters, incl. mineral waters and aerated water containing added sugar or other sweetening matter	70,401	17	0.8	562,305	7	2.2
510529	Wool and Fine or Coarse Animal Hair, Carded or Combed (incl. Combed Wool in Fragments) Other	270,515	6	3.0	543,868	8	2.1
170199	Cane or Beet Sugar and Chemically Pure Sucrose, in Solid Form: Other	106,012	15	1.2	506,872	9	2.0
510111	Wool, not carded or Combed Shorn wool	198,420	9	2.2	506,229	10	2.0
200870	Fruit, Nuts and Other Edible Parts of Plants, Otherwise Prepared or Preserved etc Peaches	145,315	12	1.6	471,932	11	1.9
220429	Wine of Fresh Grapes, incl. Fortified Wines; Grape Must (Excluding That of Heading No.20.09). Other:	147,048	11	1.7	465,316	12	1.8
220710	Undenatured ethyl alcohol of an alcoholic strength by vol. of 80per cent vol. or higher	43,949	20	0.5	433,633	13	1.7
220300	Beer made from malt	194	29	0.0	400,765	14	1.6
080540	Citrus Fruit, Fresh or Dried: Grapefruit	344,217	4	3.9	373,664	15	1.5
080550	Citrus Fruit, Fresh or Dried: Lemons and limes	0	30	0.0	366,424	16	1.4
080820	Apples, Pears and Quinces, Fresh: Pears and quinces	157,913	10	1.8	364,149	17	1.4
410221	Raw skins of Sheep or lambs (Fresh, or Salted, Dried Limed, Pickled or Otherwise Preserved, etc Pickled	128,124	14	1.4	337,540	18	1.3
200892	Fruit, Nuts and Other Edible Parts of Plants, Otherwise Prepared or Preserved etc Mixtures:	139,400	13	1.6	279,583	19	1.1
100510	Maize (Corn): Seed	220,088	8	2.5	274,140	20	1.1

Source: DTI, 2004

a third of total production in 1993/94 to well above 40% in 2001 and 2002 (largely as a result of the collapse of the rand in 2001), and remained above 35% in 2003. These proportions are far greater than the 18% achieved in 1985.

Figure 3 shows the trends in the area planted to the major field crops in the past 10 years. Maize and wheat shows a significant decline over the period, with maize area declining by a third from 4.6 million hectares in 1994 to 3.6 million hectares in 2003. For wheat the area planted dropped by less, from 1.05 million hectares in 1994 to 748,000ha in 2003. In the years prior to 2003, however, the area planted to wheat had stabilised at

960,000ha. For the other field crops, no major long-term shifts are discernable.

Despite a drop in area planted, total yields were not affected as farmers adjusted to a more competitive environment by using resources more efficiently and improving yields through adoption of new technologies and new varieties. Figure 4 shows how average yields for maize and wheat have increased to compensate for the lower area planted.

In the horticultural industry it is worth noting that the area under wine grapes has shown a steady annual increase since 1995. Before 1995 the annual net increase in area under vines was less than

500ha per annum, but the increased export demand following deregulation and the political acceptability of South Africa's products resulted in annual increases exceeding one thousand hectares, reaching as much as 3,000ha annually in 2000 and 2001. The total area under wine grapes is now 110,200ha in comparison to the 93,680ha in 1994 – an increase of 17.6%. The expansion was mainly in red varieties, which took up 80% of all plantings during 2000 and 2001, and 51% in 2003.

The fruit industry has also experienced some expansion, with the number of new trees planted annually reaching a peak between 1996–1998,

Table 3: Top 20 agricultural imports: 1994 vs 2003

HS code	Description	1994			2003		
		Import value (R'000)	Rank	%	Import value (R'000)	Rank	%
100630	Semi-milled or wholly milled rice, whether or not polished or glazed (VAT exempted)	309,677	1	6.1	1,159,579	1	8.5
100190	Wheat and Meslin: Other	243,635	3	4.8	812,529	2	6.0
230400	Oil-Cake and Other Solid Residues, Whether or not Ground or in the Form of Pellets, etc	76,318	10	1.5	659,165	3	4.9
520100	Cotton, not carded or combed	222,586	4	4.4	566,970	4	4.2
220830	Undenatured Ethyl Alcohol of any Alcoholic strength by Vol. of less than 80per cent Vol. Spirits Whiskies	281,754	2	5.5	553,274	5	4.1
100590	Maize (Corn): Other	13,860	18	0.3	468,977	6	3.5
240120	Tobacco, partly or wholly stemmed or stripped	77,375	9	1.5	456,808	7	3.4
210690	Food Preparations Not Elsewhere Specified or Included: Other:	91,993	7	1.8	418,542	8	3.1
020714	Edible meat: cuts & offal, frozen effective 1/1/96	0	26	0.0	412,653	9	3.0
150790	Soya-bean Oil and its Fractions, Whether or not Refined, But Not Chemically Modified: Other:	730	25	0.0	277,538	10	2.0
150710	Animal- or Vegetable fats: Crude oil, whether or not degummed	7,262	22	0.1	213,032	11	1.6
071333	Kidney beans, incl. white pea beans (<i>Phaseolus vulgaris</i>)	61,435	12	1.2	212,481	12	1.6
110710	Malt, Whether or not Roasted: Not roasted:	93,967	6	1.8	172,145	13	1.3
410411	Full grains, unsplit; grain splits:	0	27	0.0	153,400	14	1.1
230990	Preparations of a Kind Used in Animal Feeding: Other:	34,580	15	0.7	150,720	15	1.1
170490	Sugar Confectionery (incl. White Chocolate), Not Containing Cocoa: Other	14774	17	0.3	146,283	16	1.1
160414	Tunas, skipjack and bonito (<i>Sarda spp.</i>):	59,405	13	1.2	139,398	17	1.0
090111	Coffee, Whether or Not Roasted or Decaffeinated; Coffee Husks and Skins; Coffee Substitutes etc Not decaffeinated:	127,869	5	2.5	133,278	18	1.0
100300	Barley	9,829	20	0.2	132,563	19	1.0
410150	Whole hides and skins, of a mass exceeding 16 kg:	0	28	0.0	125,295	20	0.9

Source: DTI, 2004

in the case of citrus varieties, and between 1994 and 1996 in the deciduous fruit and table grape industry.

The shift in trading patterns is also worth noting. Exports are shown in Table 2 and Figure 5. The most important trend here is the increase in the general dominance of horticultural products, and specifically wine, which moved from 18th position in 1994 to first in 2003, with total export earnings of R2.6 billion – R1 billion more than its closest rival, oranges. Longer term trends also show the relative instability of field crop exports (principally sugar and maize) compared to the relative stability of horticultural exports.

Table 3 shows the 20 largest import categories. Here the biggest change has been the increase in imports of animal

feeds (oil cake, the various oilseeds), while traditional imports (rice, wheat, tea, coffee) have remained relatively stable.

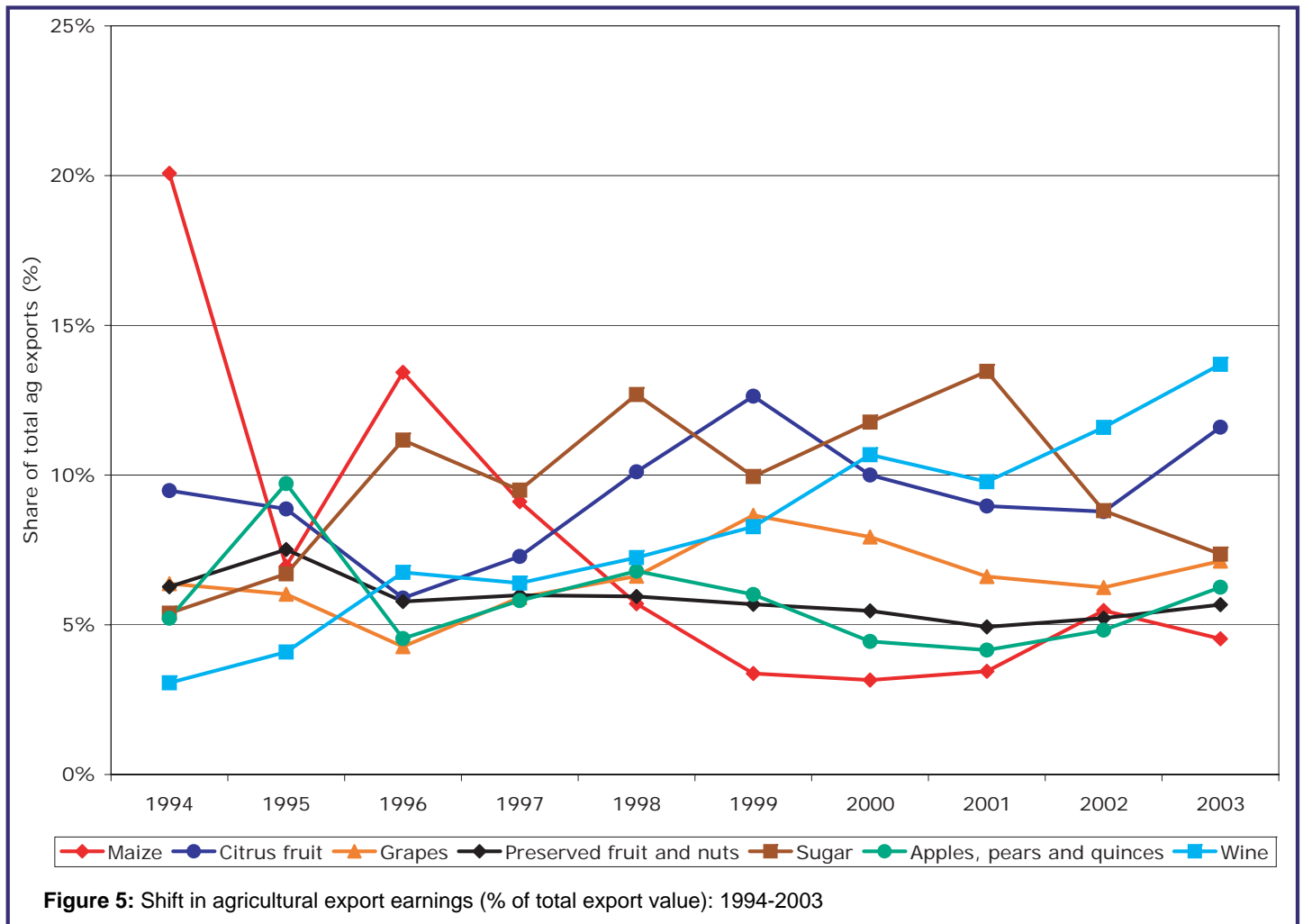
These shifts can be summarised as a relative move away from commodity trade to value-added trade in agricultural goods, as reflected in Figure 6. Between 2002 and 2004 the export volumes of wine increased by 60%, that of the different fresh fruits by 40% on average, while refined sugar exports

North America plays a modest role as an export destination, absorbing about 7%.

dropped by 55% and maize by 30%.

Europe is by far the largest importer of South Africa's products and has been for most of the past 20 years. It absorbs almost one half of the country's agricultural exports. The African market is the second most important, attracting about 26% of exports, and the Asian market is only little less significant, with a share of 18%. North America (the US and Canada) plays a relatively modest role as an export destination, absorbing only about 7%, while exports to Latin America and Oceania are marginal.

On the import side, the changes have been more profound with large increases in imports between 2002 and 2004 of cotton (230%), maize (145%) and poultry pieces (100%).



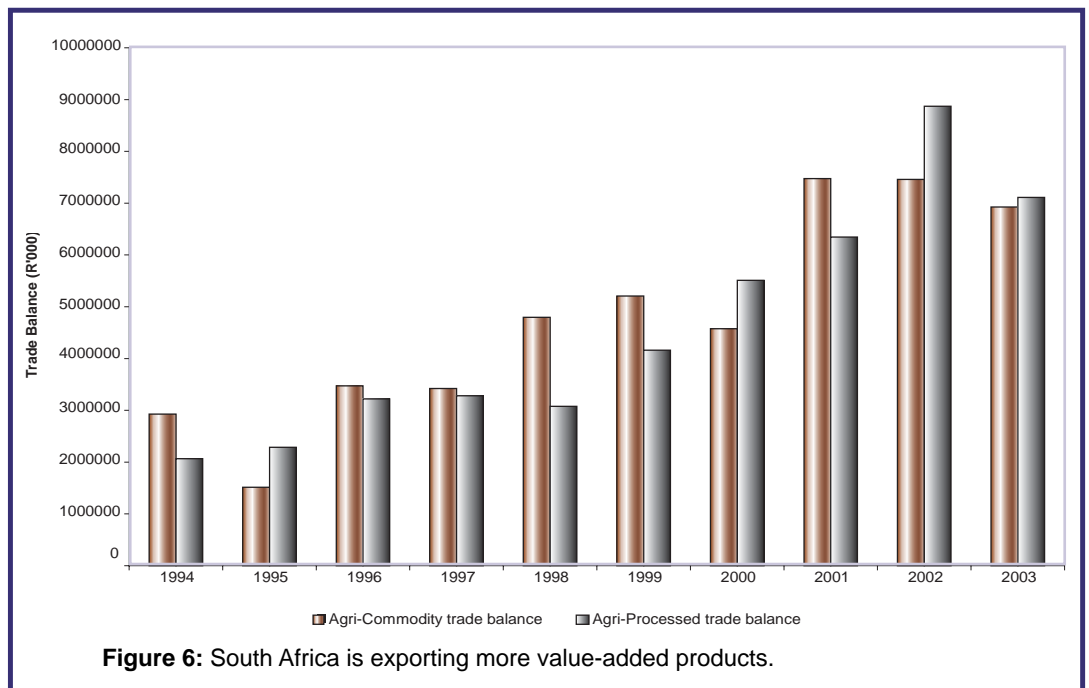
Endnotes

¹ This is a condensed version of earlier work by Johann Kirsten (University of Pretoria) and Nick Vink (University of Stellenbosch) and extracted from various papers by the two authors.

² Kirsten JF, M Gouse, N Tregurtha, N Vink and J Tswai (2000). "Producer subsidy equivalents (PSE) for South African agriculture for 1996, 1997, 1998." Report to the National Department of Agriculture, 6 March.

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⁶ Abstract (2005), *op. cit.*