



# STATUS OF MARKET ACCESS AND MARKET TRENDS IN THE AGRICULTURAL SECTOR: INPUTS AND FOOD PRICES

**Annual Report: 2021/22**

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## EXECUTIVE SUMMARY

This report provides the status on first, market access South African agricultural produce, both locally and internationally; secondly, the market trends in the agricultural sector in relation to production input costs and food prices and thirdly, the status of food availability in the country. The analysis is mostly descriptive and spans over a period of 10 years.

The agricultural sector remains the backbone of South Africa's economy with untapped potential in terms of the sector's potential in contributing towards economic growth, food security, and employment targets enshrined in the 2030 National Development Plan (NDP) as well as the development of rural areas. Accessing both local and international markets plays an important role in the national development agenda in addressing inclusive growth, reducing poverty and employment creation. This report aims to uncover untapped potential that exists for South Africa both locally and internationally. Throughout this report, it is demonstrated that South Africa has realistic export opportunities for high-value crops. South Africa as a global player that can benefit from its trading partners in Africa, Asia, the Americas and Europe. Through various trade agreements, South Africa has made strides in penetrating some niche markets in the trading partners. However, there remains a possibility to expand the markets even further.

Over the past decade, South Africa's agricultural products gained access into new markets with trading partners globally. This can be attributed to the continued support through government interventions and collaboration between the government and private sector. During this period, trade protocols were negotiated and new markets, especially in Asia opened for citrus, pome fruits and table grapes. China and Viet Nam are new lucrative markets for South Africa's table grapes, while citrus and pome markets have been steadily increasing in China

and Philippines. Looking into the future, some commodities that penetrated new markets also feature among the prioritized commodities as per the Agriculture and Agro-processing Master Plan (AAMP). Commodities with potential in the strategic countries in Africa are maize, cane and beet sugar as well as fresh apples. However, realization of the full potential requires that trade barriers are resolved. South Africa faces high tariff rates and non-tariff barriers in many countries of strategic importance.

In addition to opened markets in Asia, South Africa has potential realistic export opportunities with other African countries under the African countries Free Area Agreement (AfCFTA). The strategic markets which South Africa can trade in agricultural commodities include East Africa: Kenya, North Africa: Morocco, Egypt, Libya and West Africa (ECOWAS): Ghana, Cote d'Ivoire, Guinea, Senegal, Burkina Faso and Nigeria.

Under Agricultural Trade for South Africa under Southern African Development Community – European Union (SADC-EU) Economic Partnership Agreement (EPA) trade agreement, South Africa has realistic export opportunities in the Netherlands, United Kingdom, Germany, France and Italy. Under the Southern African Customs Union (SACU) - European Free Trade Area (EFTA) Free Trade Agreement (FTA), South Africa can trade and realise its export potential in Iceland, Liechtenstein, Norway and Switzerland. In Europe, South Africa enjoys zero tariffs for a majority of agricultural commodities but has almost exhausted the potential for fruits. Germany has the highest export potential of the identified strategic countries for commodities such as fresh grapes, fresh or dried oranges, nuts, as well lemons and limes. Generally, nuts and citrus still have potential to gain in Europe. Grapes, oranges and apples from South Africa currently face high tariff rates in the Asian countries identified, however they have the highest

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potential. With the potential to trade between SA and its trading partners, South Africa faces relatively high tariffs compared to countries with which South Africa has trade agreements such as European and Asian countries particularly for dried grapes and fresh grapes. Similarly, South Africa has realistic export opportunities under the SACU- Common Market of the South, South American Regional Economic Organization (MERCOSUR) countries such as Brazil, followed by Argentina, Uruguay and Paraguay. However, the high import tariff duty faced by South Africa in these strategic markets remains a challenge that requires immediate attention from policymakers. The import tariffs that SA receives can be as high as 77%.

Despite the ambition to penetrate the international market, local market access remains the immediate solution to address unemployment and food security concerns in the country. This is particularly important within the context of concentrated value chains that exclude emerging farmers to participate in the value chains due to barriers to entry and stringent market requirements. Market participation by smallholder farmers has been flagged in the National Agricultural Marketing Council (NAMC) report which recommends that 30% of the fresh produce trade in the National Fresh Produce Markets (NFPMs) must come from black commission market agents. NFPMs have remained an important part of the price setting mechanism, distribution, and marketing of fresh produce in South Africa. This report highlights that participation by black economic agents or smallholder farmers, in general, remains a challenge. While the value of the fresh produce depicts growth in mass and value of fruit and vegetables sold on the major fresh produce markets, it is important to assess this trend against the recommendation that 30% of the volumes to be traded should be through the black commission market agents. The challenge

that remains is how data can be disaggregated to measure the true reflection of market participation by small-holder farmers in the NFPMs. The recent efforts by the government and other fresh produce industry stakeholders in the context of the Project Rebirth initiatives are commendable. Cooperation from all relevant stakeholders, especially the Department of Cooperative Governance and Traditional Affairs (DCOGTA) will play a significant role in ensuring that NFPMs are refurbished and maintained as key market access points for smallholder farmers.

Notwithstanding the existing potential that exists globally, South Africa is exposed to global market forces that translate into macroeconomic challenges such as inflation. The fact that South Africa operates in a global environment, the economic performance is largely dependent on market dynamics in the global environment. This is largely reflected by fluctuations in the contribution of the sector towards Gross Domestic Product (GDP), employment, food prices, inputs costs into the production process as well as food availability.

The report also highlights how global market forces such as production input costs, fuel and freight affect food prices that consumers pay. Input costs such as fertilizers, freight and rail play an important role in the ultimate determination of the prices that consumers pay at the retail stores.

Analysis of the period between 2015 and 2021 against the base year period (2016) there is an indication that fertilizer is currently less affordable. Since the beginning of 2021, international fertilizer prices have been rising steeply, and thus, domestic fertilizer prices have followed the same trend due to the global effects on the local economy. Between 2015 and 2021, the local fertilizer prices for Urea, Mono-Ammonium Phosphate (MAP) and Potassium

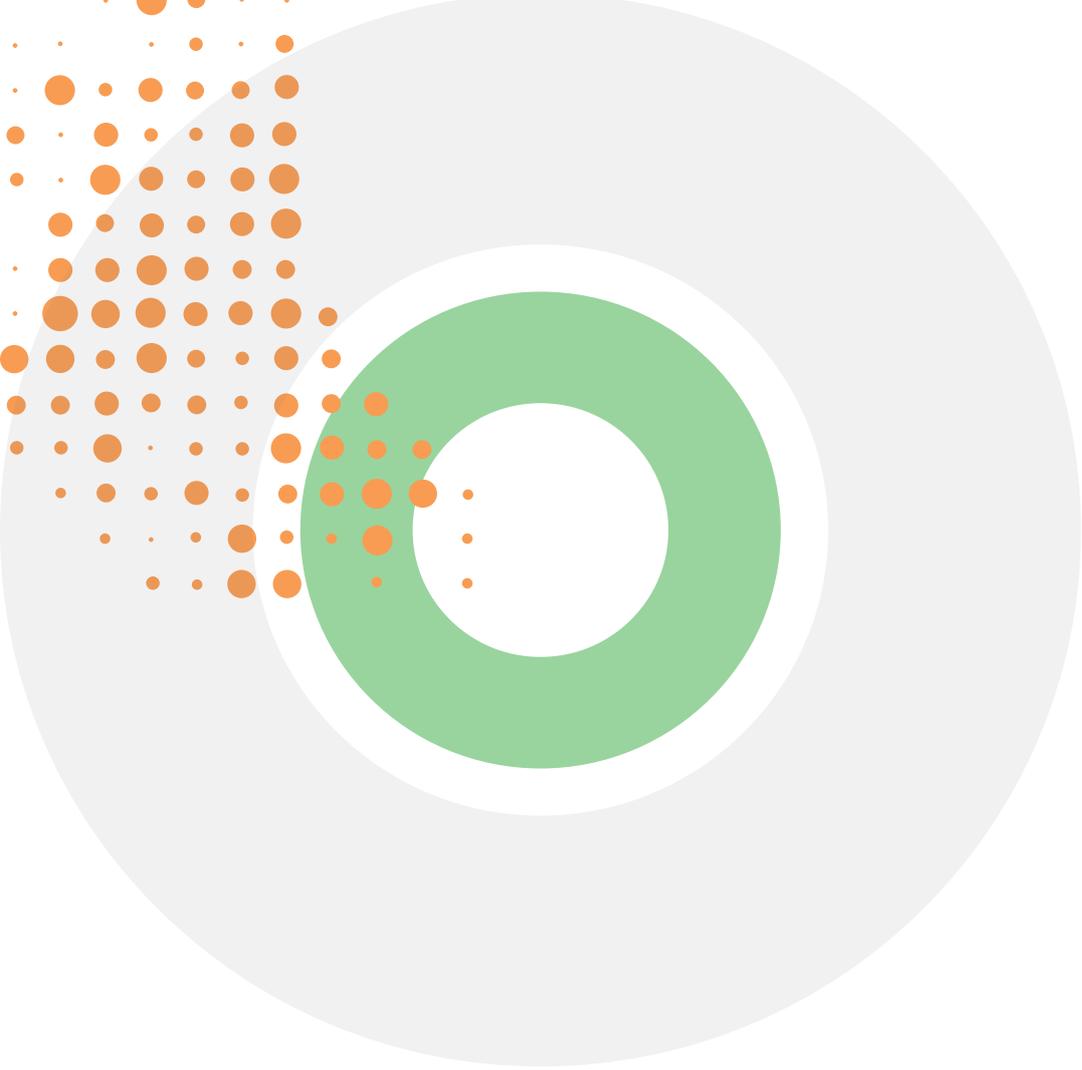
Chloride (KCL) increased by 72.5% (from R6 329/ton to R10 919/ton) and 55.2% (from R9 987/ton to R15 498/ton) and 52.7% (from R7 134/ton to R10 897/ton). Similarly, global factors such as natural gas shortages in Europe and Asia and local weaker currency affect the local fuel prices as evidenced by the recent record fuel price increases from 03 November 2021, with both grades of petrol set to rise by R1.21/litre, diesel by R1.48/litre and illuminating paraffin by R1.45/litre.

The observed changes in the production input costs can be associated with the increase in food prices. The NAMC's 28-food items basket for the respective years from 2010 to October 2021 indicated that the food basket has been steadily rising with 2017 showing a noticeable jump from R667.88 in 2016 to R839.88 in 2017, representing an increase of 26%. Food items with the highest price increases throughout the period 2010 to October 2021 include animal protein, dairy & eggs and bread & cereals.

Some of the commodities that recorded the highest price increase form part of the staple food for the majority of the people in the country, particularly the poor. High food prices in turn is directly linked with food affordability and food security for the majority of the people in the country. Food security is now more than ever at the forefront of most policy deliberations, given the expected population growth in the foreseeable future. While South Africa is food secure at a national level, it is food insecure at the household level since not all households have adequate food. The report alludes to the production, consumption and price trends for

some of the commodities that need necessary attention from policymakers in ensuring a food secure South Africa. These commodities include but are not limited to maize, wheat and sunflower. It is however important to note that the solution to a food secure country goes beyond focusing on these few mentioned commodities but should include other untapped crops that are unsaturated and can be produced with limited market barriers and under resilient climatic conditions such as those in rural areas. Compared to 2011/12, the projected 2020/21 maize production was up by 32% on account of favourable weather conditions, improved agronomical practices and higher-yielding cultivars. Wheat is the second most significant crop in South Africa. The Western Cape Province is South Africa's leading wheat-producing province, with an average crop production of 1 780 282 tons during the last ten years. A total of 2 120 000 tons were produced during the 2020/21 production season, breaking the 2-million-ton barrier for the first time since 2008, with a total area planted of 509 800 hectares compared to 748 000 hectares in 2008, which could be attributed to better yielding cultivars and good agronomical practice. The prices of these commodities are heavily dependent on global market forces which also affect local prices that producers receive. For example, during the 2020/21 marketing season (October 2020 to September 2021), the domestic wheat price averaged between R5 154/ton and R6 084/ton.

Based on account of the descriptive analysis of the report, a number of recommendations are suggested



## ACKNOWLEDGMENTS

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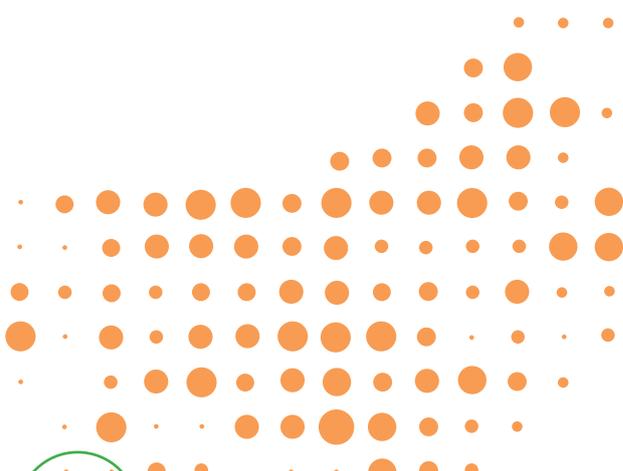
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## ACRONYMS AND ABBREVIATIONS

AAMP	Agriculture and Agro-processing Master Plan
AEWG	Agricultural Economics Working Group
AfCFTA	African countries Free Area Agreement
AgriCensus	Agri-Census
AI	Avian Influenza
AIDA	Accelerated Industrial Development for Africa
AMT	Agricultural Market Trends
AU	African Union
BBBEE	Broad-Based Black Economic Empowerment
BDI	Baltic Dry Index
BIAT	Boosting Intra-Africa Trade
CAADP	Comprehensive Africa Agriculture Development Programme
CCTV	Closed-circuit television
CET	Common External Tariffs
CFO	Chief Financial Officer
CoBPs	Codes of Best Practice
DALRRD	Department of Agriculture, Land Reform and Rural Development
DCOGTA	Department of Cooperative Governance and Traditional Affairs
DoE	Department of Energy
EU	European Union
ECOWAS	East Africa: Kenya, North Africa: Morocco, Egypt, Libya and West Africa
EFTA	European Free Trade Area
EPA	Economic Partnership Agreement
FAO	Food and Agriculture Organization
Fruit SA	Fruit South Africa
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GOFI	Grain and Oilseeds Freight Index
Grain SA	Grain South Africa
HCD	Human Capital Development
IGC	International Grain Council
IMASA	Institute of Market Agents of South Africa
KCL	Potassium Chloride
LED	Local Economic Development
MAP	Mono-Ammonium Phosphate

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MERCOSUR	Common Market of the South, South American Regional Economic Organization
MIG	Municipal Infrastructure Grant
MT	Metric Ton
na	Not available
NAMC	National Agricultural Marketing Council
NDP	National Development Plan
nes	Not elsewhere specified
NFPMC	National Fresh Produce Market Council
NFPMs	National Fresh Produce Markets
OCSLA	Office of the Chief State Law Adviser
OPEC	Organization of the Petroleum Exporting Countries
PIDA	Programme for Infrastructure Development in Africa
Potato SA	Potato South Africa
PPECB	Perishable Product Export Control Board
PPP	Public–private partnership
PRSC	Project Rebirth Steering Committee
R	South African Rand
RMAA	Red Meat Abattoir Association
SA	South Africa
SAATM	African air transport market
SADC	Southern African Development Community
SADC-EU	Southern African Development Community – European Union
SACU	Southern African Customs Union
SACU-MERCOSUR	Southern African Customs Union - Common Market of the South, South American regional economic organization
SAGIS	South African Grain Information Service
SAUFM	South African Union of Food Markets
SDGs	Sustainable Development Goals
SLAs	Service Level Agreements
SOPs	Standard Operating Procedures
SPS	Sanitary and phytosanitary
Stats SA	Statistics South Africa
UN	United Nations
USA	United States of America
USDA	United States Department of Agriculture

# CHAPTER 1: OVERVIEW OF INTERNATIONAL MARKET ACCESS IN THE AGRICULTURAL SECTOR (2010-2020)

## 1.1 Introduction

This section provides an insight into new markets developed for the various export-oriented agricultural products over a ten-year period. Export-oriented industries contribute immensely towards the country's Gross Domestic Product (GDP), most especially the horticulture sub-sector. Broadly, the agricultural sector remains the backbone of South Africa's (SA) economy with untapped potential in terms of the sector's potential in contributing towards economic growth, food security, and employment targets enshrined in the 2030 National Development Plan (NDP) as well as the development of rural areas. The opening of both local and international markets plays an important role in the national development agenda due to a restricted and relatively small local demand, as well as the increasing pressures from global competition and imports. The NDP outlines a long-run strategy and plans to 2030 in which the agricultural sector is projected to contribute about 1 million additional jobs, of which high-value export-orientated crops are to contribute about one-third of the intended additional jobs-mix.

Trends over the past two decades also clearly show that the agricultural sector shifted to off farm jobs in processing and manufacturing as well as intensification and mechanisation. The gains in the primary sector were only due to the sector's very progressive export-led component at the current pace of investment in the fruits and nuts sector. SA agricultural sector operates in a global environment where goods are traded with potential trading partners. Consequently, SA has trading partners in Africa, Asia, the Americas, and Europe. Through various trade agreements, South Africa has made strides in penetrating some niche markets in the trading partners.

However, there remains a possibility to expand the markets even further.

For the purpose of this report, a descriptive analysis of the trends for the period 2010-2020 is provided for selected commodities in specific agricultural sub-sectors. Descriptive analysis is based on the information sought from industry associations (e.g., Fruit SA) and the Department of Agriculture, Land Reform and Rural Development (DALRRD) on new markets accessed during the past decade.

Various markets for specific products have been opened/accessed in the form of protocols negotiated on specific products with trading partners during the last 10 years. The following markets have already been opened for these agricultural products:

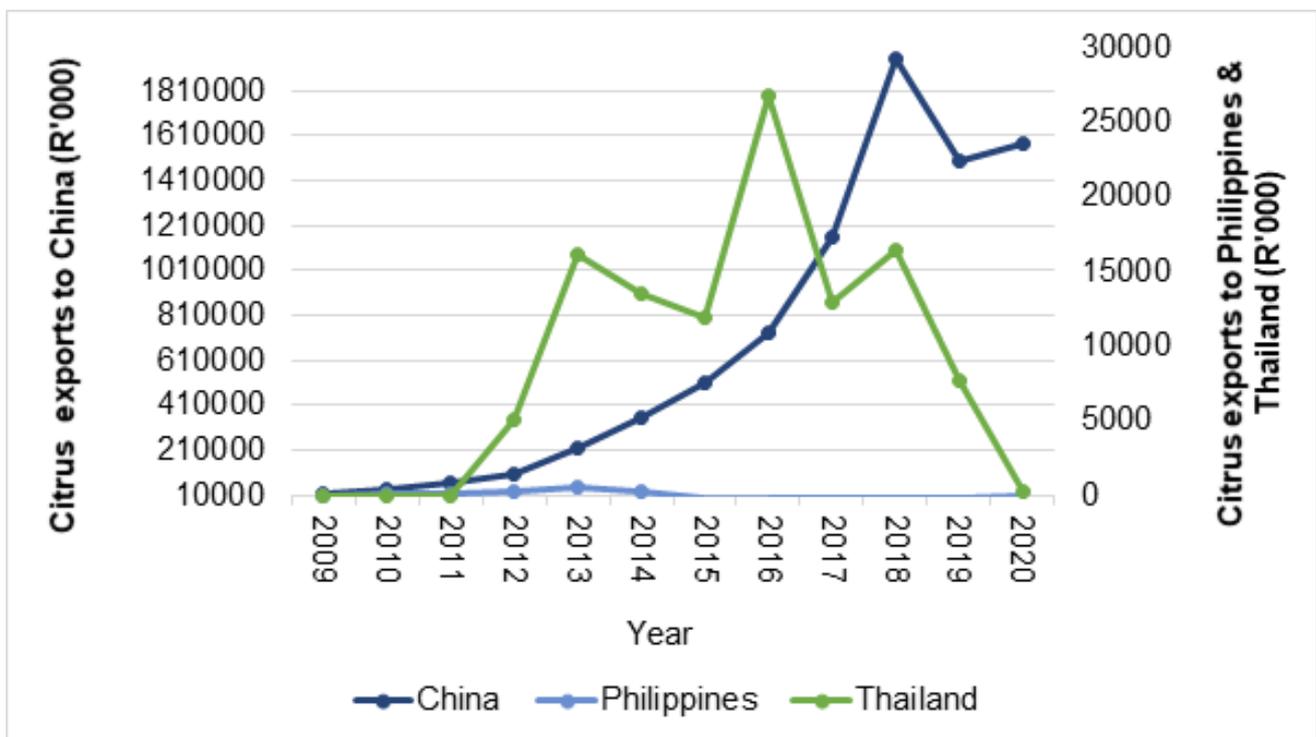
- Citrus - Thailand, Philippines and China;
- Pome (Apples) – China and Taiwan; and
- Table grapes - China, Thailand and Vietnam.

## 1.2 Evolution of export trends for selected products in markets accessed between 2010 and 2020

This section provides an overview of how exports of selected products have evolved over time in markets where South Africa gained market access.

### 1.2.1 Citrus

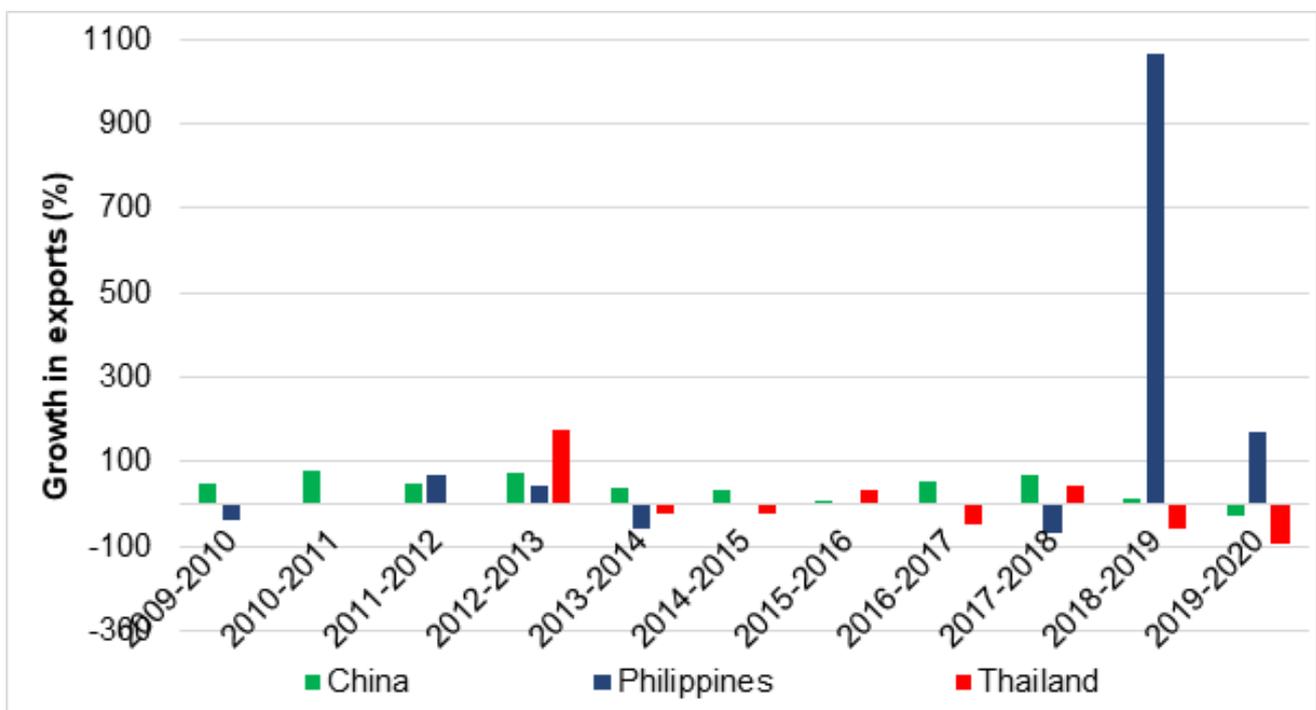
According to **Figure 1**, citrus exports to China drastically increased until 2018 when a significant decline of about 31% was recorded in 2019.



**Figure 1:** Citrus exports trends between 2010 and 2020

Source: Trade Map (2021)

Exports to the Philippines were the lowest while citrus destined for Thailand registered significant fluctuations over the years. For China, the Philippines and Thailand, the highest growth in the quantity of citrus originating from South Africa occurred during 2012-2013, 2018-2019 and 2012-2013, respectively (**Figure 2**).



**Figure 2:** Growth in the quantity of South Africa's citrus imported by China, the Philippines & Thailand

Source: Trade Map (2021)

### 1.2.1 Pome

Figure 3 reveals that South Africa's apple exports destined for China and Taiwan increased over the years under consideration, most especially after 2017. Between 2014 and 2019, Taiwan recorded drastic changes in the value of imports of apples originating from South Africa. This might have been driven by the drop in the volume of apples exported by South Africa due to the prolonged drought experienced during those years. The highest drop (52%) in the volume of apple exports destined for Taiwan was recorded between 2018 and 2019 period (Figure 3).

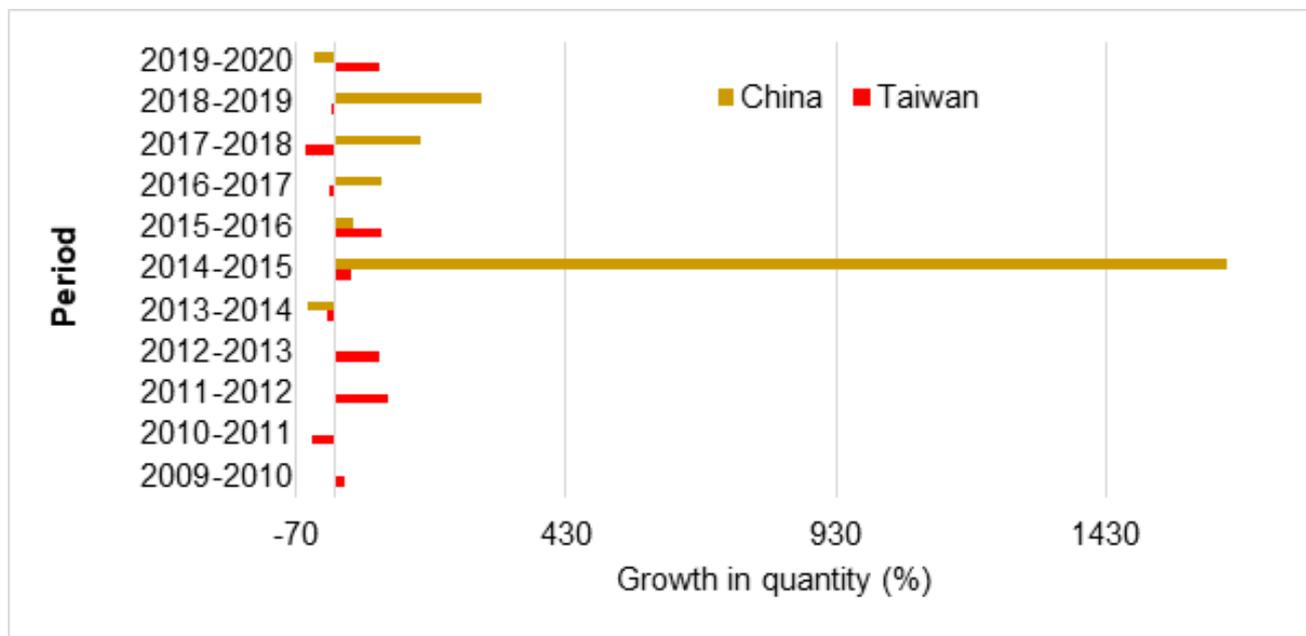


Figure 3: South Africa's apple exports destined for China and Taiwan

Source: Trade Map (2021)

### 1.2.2 Table grapes

Since 2012, South Africa's value of grapes exports to China and Viet Nam have exponentially increased by 1904% and 1374%, respectively while in the case of Thailand, the growth sprang from zero to over R6.73 million by the end of 2020 (Figure 4).

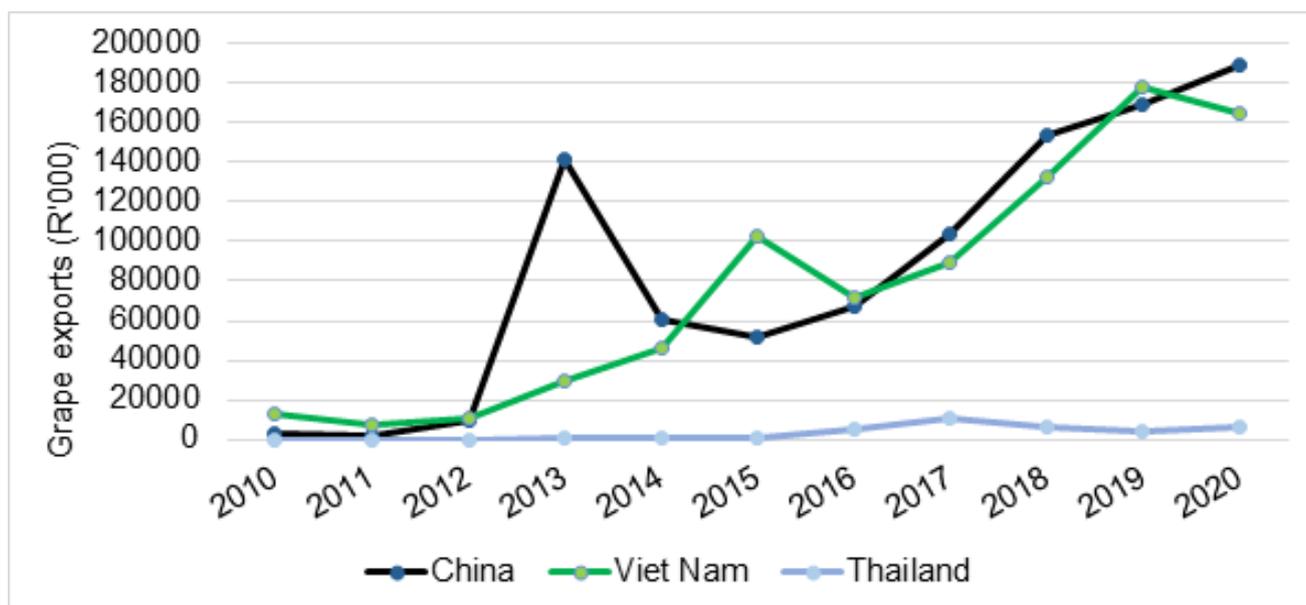


Figure 4: South Africa's value of grapes exports to China and Viet Nam

Source: Trade Map (2021)

Across all the three markets, the increase in the value of grapes was driven by growth in the volume of South Africa's grapes exported, except for the period between 2013 and 2016 (Figure 5) when Southern Africa was hit by a prolonged drought which affected agricultural productivity in general.

Figure 5: Percentage growth in the quantity of grapes exported by South Africa

Source: Trade Map (2021)

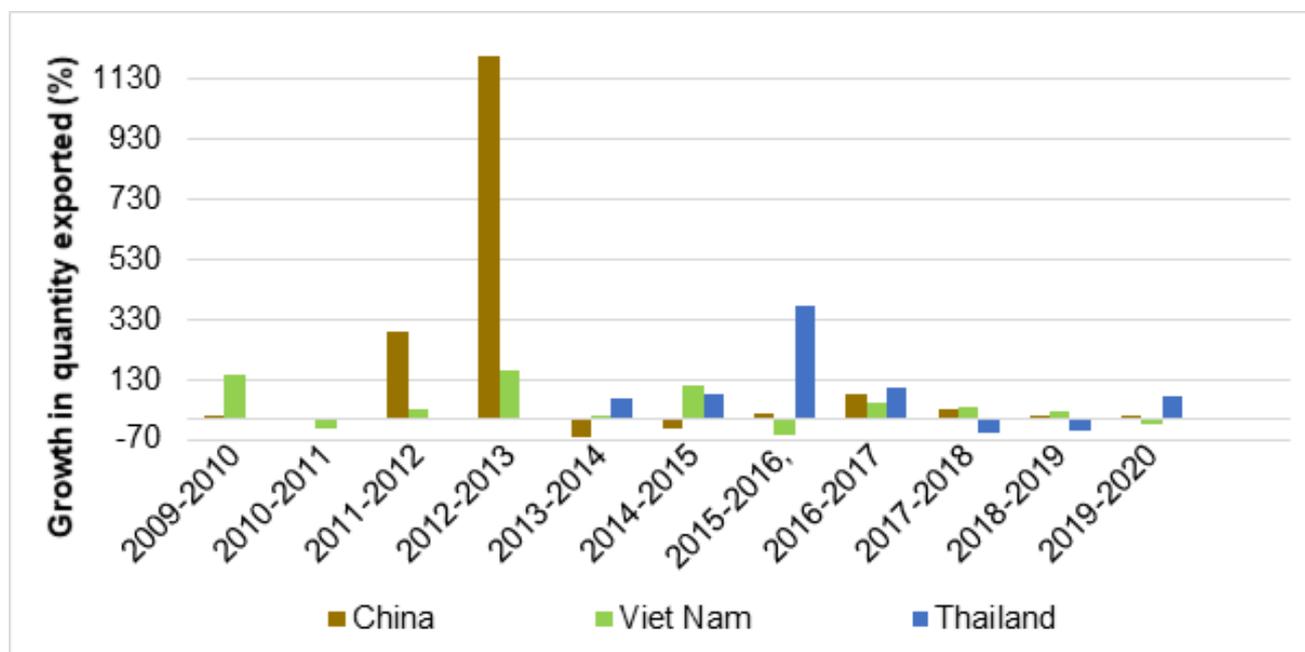


Figure 5: Percentage growth in the quantity of grapes exported by South Africa

Source: Trade Map (2021)

### 1.3 Agricultural trade potential for South Africa

The aforementioned section focused on markets that have been accessed over the past 10 years. Notably, those markets identify with the prioritized markets as per the Agriculture and Agro-processing Master Plan (AAMP). For the prioritized markets (Table 1), it is foreseen that negotiations for market access and/or relevant protocols will be undertaken.

Table 1: Prioritised markets and commodities as per the AAMP

Targeted market	Prioritised commodity
China	Pears, Avocados
South Korea	Table grapes, Avocados
Japan	Avocados, Mangoes
United States of America (USA)	Avocados, Mangoes
Viet Nam	Table grapes, Oranges
Taiwan	Pears, Avocados
Mexico	Pome fruits, Avocados
India	Avocados, Litchis
Philippines	Table grapes, other deciduous fruits

Source: AAMP

This section, therefore, provides insights into the potential realistic export opportunities in the various trade blocks across the globe.

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## 1.4 Descriptive analysis and potential realistic export opportunities: Agricultural Trade between SA and African countries (AfCFTA)

The agreement establishing the African Continental Free Area agreement (AfCFTA) was signed at the 10<sup>th</sup> extraordinary summit of the African Union (AU) Assembly. Agenda 2063 is Africa's framework for structural transformation. It builds on and aims to facilitate the implementation of existing continental initiatives Accelerated Industrial Development for Africa (AIDA), Programme for Infrastructure Development in Africa (PIDA), Boosting Intra-Africa Trade (BIAT) and Comprehensive Africa Agriculture Development Programme (CAADP).

The establishment of the AfCFTA, a single African Air Transport Market (SAATM), and the free movement of people are Agenda 2063 flagship projects. The AU has adopted legal instruments for the effective implementation of these flagship projects. Importantly, the United Nations (UN) Agenda 2030's 17 Sustainable Development Goals (SDGs) are incorporated in the 20 goals of Agenda 2063. By implementing Agenda 2063, Africa will also meet its global commitments under the SDGs.

The African Free Trade Area (AfCFTA) is viewed as an instrument that can contribute to the achievement of SDGS such as lifting millions of people out of poverty and end food insecurity in Africa. It is world's largest free trade area, representing the 1.2 billion consumer market, and with the mandate to remove tariffs and non-tariff barriers between trading partners in order to boost shipments and services and boost economic growth.

With the implementation and establishment of AfCFTA, South Africa identified strategic countries (markets) that can be tapped into under AfCFTA. The strategic markets are presented in **Table 2** together with the potential agricultural commodities that can be exported into:

- East Africa: Kenya;
- North Africa: Morocco, Egypt, Libya; and
- West Africa (ECOWAS): Ghana, Cote d'Ivoire, Guinea, Senegal, Burkina Faso, Nigeria.

South Africa is the main exporter of agricultural commodities to the rest of the continent, followed by Zimbabwe, Egypt, Kenya and the Ivory Coast. Ivory Coast (mainly cocoa beans) accounts for most of the agricultural exports beyond the continent, followed by South Africa (citrus & wine) and Egypt (citrus, onions & potatoes). Maize is an important potential commodity when looking at strategic markets and dominates in almost all the markets. This is followed by raw cane sugar, beet sugar and apples. South Africa continues to face high import tariffs in some of the identified potential commodities. However, the establishment of AfCFTA presents an opportunity to address some of the barriers that inhibit agricultural exports. It is important to highlight that trade within the continent is also constrained by other non-tariff barriers such as poor road infrastructure, limited customs capacity, information asymmetries, etc.

**Table 2:** Continental strategic markets for South Africa's agricultural exports

Strategic countries	Potential commodities	Value of untapped export potential remaining	Import tariff faced by South Africa (%)
Kenya	Maize	R343.7 million	50
	Raw cane sugar	R449.3 million	na
	Fresh apples	R145.5 million	25
	Cane or beet sugar	R99.12 million	60
	Wine	R32.0 million	24.9
Morocco	Raw cane sugar	R126.30 million	na
	Maize	R84.7 million	2.5
	Crude soybean oil	R13.7 million	2.5
	Vegetable seeds for sowing	R4.7 million	2.5
Egypt	Maize	R204.64 million	0
	Fresh apples	R48.0 million	40
	Raw cane sugar	R28.8 million	na
Libya	Fresh apples	R1.9 million	0
	Maize	R2.0 million	0
	Live sheep	R957 658.4	0
	Live bovine	R778 597.1	0
Ghana	Cane or beet sugar	R297.4 million	20
	Undenatured ethyl alcohol	R142.3 million	11.3
	Margarine	R145.5 million	20
Cote d'Ivoire	Wine of fresh grapes and grape must	R64 million	20
	Groats and meal of maize	R35.2 million	10
	Cane or beet sugar	R28.8 million	20
Guinea	Cane or beet sugar	R71.9 million	20
	Preparations for sauces & prepared sauces	R49.6 million	20
	Fresh apples	R19.2 million	20
	Malt extract	R22.4 million	10.8
Senegal	Malt extract	R62.4 million	10.8
	Maize	R33.6 million	5
	Fresh onions & shallots	R30.4 million	35
	Cane or beet sugar	R27.18 million	20
Burkina Faso	Beer made from malt	R10.9 million	10.8
	Malt extract	R7.1 million	10.8
	Groats and meal of maize	R9.8 million	10
Nigeria	Raw cane sugar	R780.2 million	na
	Malt extract	R171.1 million	10
	Wine of fresh grapes	R94.3 million	20

Source: Trade Map, 2021

## 1.5 Descriptive analysis and potential realistic export opportunities: Agricultural Trade for SA under SADC-EU EPA trade agreement

The European Union (EU) is South Africa's largest trading partner: constituting about 24.5% of SA exports and 29.7% of SA's total imports. The EU runs a large trade surplus in manufactured goods (R140 billion) and South Africa has a surplus in agriculture and agro-processing goods (R4 billion) and commodities (R76 billion). SA achieved its objectives under the Economic Partnership Agreement (EPA): preserve the SACU Common External Tariffs (CET); improve access to EU market (in fish exports, 32 agricultural products; and improved rules of origin); and some additional policy space (allowances for export taxes, special agricultural safeguard). Protocol on Geographical Indications protects 102 SA wine names and 3 agricultural product names (rooibos, honey bush and Karoo lamb). Table 3 highlights South Africa's strategic markets for potential agricultural commodities. These countries include the Netherlands, United Kingdom, Germany, France and Italy. South Africa has surpassed its export potential in commodities in European countries, such as fresh dried grapes, other citrus, avocados in the Netherlands; fresh grapes, wine, other citrus, oranges, lemons in the United Kingdom; oranges in France; as well as lemons and limes, oranges in Italy. Most of the identified potential commodities from South Africa enjoy free access into EU shelves because of the existing trade arrangements, this is in exclusion for fresh or dried oranges that faced 22% duty in Netherlands and Germany markets.

**Table 3:** SADC-EU EPA strategic markets for South Africa's agricultural exports

Strategic countries	Potential commodities	Value of untapped export potential remaining	Import tariff faced by South Africa (%)
Netherlands	Fresh or dried oranges	R7.1 million	22
	Lemons and limes	R769 million	na
	Grapefruit	R537.2 million	0
	Nuts nes	R418.9 million	0
United Kingdom	Wine of fresh grapes and grape must	R735.4 million	0
	Nuts nes	R123.1 million	0
	Dried grapes	R68.8 million	0
Germany	Fresh grapes	R1.3 billion	0
	Fresh or dried oranges	R1.9 billion	22
	Nuts	R1.6 billion	0
	Lemons and limes	R927 million	na
France	Grape fruit	R73.54 million	0
	Avocados	R40.0 million	0
	Nuts nes	R129.5 million	0
	Lemons and limes	R70.35 million	na
Italy	Nuts nes	R255.8 million	0
	Fresh pears and quinces	R105.5 million	0

Source: Trade Map, 2021

## 1.6 Descriptive analysis and potential realistic export opportunities: Agricultural Trade for SA under SACU-EFTA FTA trade agreement

SACU's Free Trade Agreement (FTA) with the European Free Trade Area (EFTA), comprising Iceland, Liechtenstein, Norway and Switzerland, came into force on 1 May 2008. It provides SACU with duty, quota-free access for industrial products to EFTA but more limited access to agricultural goods. The EFTA is currently under review of SACU priorities which include meat, vegetables, nuts, sugar, fruits, fruit juices, honey, chocolate, and pasta products. EFTA is seeking access to chocolates, cheese, sheep and goat meat, and industrial products such as plastics, textiles and clothing, and autos. According to Table 4, South Africa has identified three (3) strategic markets under SACU-EFTA FTA and such include Switzerland, Norway and Iceland (based on trade and investment opportunity they present).

**Table 4** presents the summary of strategic markets and potential agricultural commodities that South Africa can take advantage of. Most of the potential agricultural commodities are fresh fruits and wine. In Iceland, oranges, wine and apples present a greater value of untapped export potential with the limited import tariff for South Africa, while lemons and limes have an opportunity in Switzerland with about R 6.6 million untapped potential export opportunity. Fresh grapes are highly protected in Switzerland with a 77% import tariff imposed on South Africa's grapes. Norway also presents an opportunity for wine, oranges and apples with minimal import tariffs imposed on these commodities.

**Table 4:** SACU-EFTA FTA strategic markets for South Africa's agricultural exports

Strategic countries	Potential commodities	Value of untapped export potential remaining	Import tariff faced by South Africa (%)
Iceland	Oranges	R2.0 million	0
	Wine of fresh grapes	R2.1 million	1.3
	Fresh apples	R4.0 million	0
Switzerland	Oranges	R62.35 million	0
	Fresh grapes	R20.8 million	77
	Lemons and limes	R6.6 million	na
Norway	Oranges	R46.4 million	10.3
	Wines of fresh grapes and grape must	R51.2 million	0
	Apples	R46.36 million	18.2

Source: Trade Map, 2021

## 1.7 Descriptive analysis and potential realistic export opportunities: Agricultural Trade for South Africa and Asian Countries

Most Asian countries are leading global importers of agricultural products and this presents an opportunity for South Africa to invest in an export-led growth path in the agricultural sector. Overall, Asia has accounted for a quarter of South Africa's agricultural exports, with indications that the country can potentially increase its market presence in Asia. Some of the strategic markets in Asia include China, South Korea, Japan, Thailand, Vietnam, Taiwan, Philippines and India.

**Table 5** highlights the summary of strategic Asian markets together with potential commodities, value untapped, and import tariffs faced by South Africa. In general, South Africa faces relatively high tariffs compared to countries with which South Africa has trade agreements with such as European countries.

**Table 5:** Asia strategic markets for South Africa's agricultural exports

Strategic countries	Potential commodities	Value of untapped export potential remaining	Import tariff faced by South Africa (%)
China	Oranges	R1.8 billion	11
	Nuts nes	R746.0 million	24.4
	Grapes	R1.7 billion	12.5
	Wine of fresh grapes	R1.4 billion	14.7
South Korea	Oranges	R567.1 million	50
	Grapes	R175.7 million	40.7
	Wine of fresh grapes	R59.1 million	15.1
Japan	Maize	R568.7 million	16.7
	Oranges	R578.3 million	24
	Grapefruit	R151.8 million	10
Thailand	Apples	R455.3 million	10
	Grapes	R399.4 million	39.4
Vietnam	Apples	R325.9 million	10
	Grapes	R222.1 million	10.3
	Oranges	R225.3 million	20
Philippines	Grapes	R126.2 million	6.6
	Apples	R84.67 million	7
	Citrus fruit nes	R75.1 million	na
India	Apples	R1.4 billion	50
	Oranges	R190.1 million	30
	Crude soya bean oil	R265.2 million	14.9

Source: Trade Map, 2021

## 1.8 Descriptive analysis and potential realistic export opportunities: Agricultural Trade for South Africa and SACU-MERCOSUR Countries

South Africa trades with the Common Market of the South, South American Regional Economic Organization (MERCOSUR) countries within SACU and both regions benefit from concessions on over 1000 (all sectors) tariff lines offered by each party. The concessions are through preference margins ranging between 10%-100%. Within the MERCOSUR, most South African agricultural exports are destined for Brazil, followed by Argentina, Uruguay and Paraguay. The agreement also seeks to promote trade-related issues such as customs cooperation, sanitary and phytosanitary (SPS) measures and further product coverage for preferential treatment. Argentina, Brazil, Paraguay and Uruguay are identified as strategic MERCOSUR markets for South African agricultural exports.

**Table 6** illustrates the summary of strategic MERCOSUR markets and considers the potential commodities, value untapped and import tariffs faced by South Africa. On average, South Africa has exported the following commodities to MERCOSUR – beverages/spirits, oilseeds/oleaginous fruits, edible fruits/nuts etc. Each strategic market has specific potential commodities that South Africa can export to, looking into the unutilized potential that it presents. Argentina presents vegetable seeds, animal feeds and food preparations, while Brazil still demands wine, oranges and pome fruits. However, the high import tariff duties faced by South Africa in these strategic markets remains a challenge that requires immediate attention from policymakers.

**Table 6:** SACU-MERCOSUR PTA strategic markets for South Africa's agricultural exports

Strategic countries	Potential commodities	Value of untapped export potential remaining	Import tariff faced by South Africa (%)
Argentina	Vegetable seeds for sowing	R12.6 million	0
	Preparations used in animal feeding	R14.8 million	9.9
	Food preparations	R13.6 million	16.6
Brazil	Wine of fresh grapes	R48 million	25.1
	Oranges	R81.5 million	10
	Apples	R81.5 million	10
	Pears	R75.1 million	10
Paraguay	Beer made from malt	R6.9 million	20
	Food preparations	R685 329.6	14.5
	Wine of fresh grapes	R46 327.7	19.1
Uruguay	Greasy shorn wool, not carded/combed	R46.3 million	6.4
	Food preparations	R1.2 million	14
	Sheep/lambs raw skins, with wool on, nes	R2.1 million	2

Source: Trade Map, 2021

## 1.9 Concluding remarks

South Africa's agricultural trade performance and production is encouraging despite the trade barriers the country faces in some of the strategic markets identified. The subsector that presents measurable export potential is the horticultural sector which may utilize some of the production surpluses for exports. South Africa has registered an increase both in value and quantity of products destined for markets opened during the past 10 years (2010-2020). There is potential for South Africa to still expand into the global market if the necessary enabling factors are met. In Africa, there are high transaction costs linked to trading with the continent. However, these can be addressed through policies such as the AfCFTA agreement and investments in infrastructure. In Asian countries, there is a need to negotiate better tariffs as agricultural commodities are protected. Furthermore, non-tariff barriers such as SPS requirements cannot be neglected as these play a huge role in attaining international market access.



## Chapter 2: Overview /Status of local market access: A case for Fresh Produce Market Systems and Section 7 recommendations

### 2.1 Introduction

This section gives an overview and analysis of the status of local market access in South Africa, with specific focus on the National Fresh Produce Markets (NFPMs) and recommendations of a previous Section 7 study on the same topic. Since the deregulation of South Africa's agricultural sector in 1997, NFPMs have remained an important part of the price setting mechanism, distribution and marketing of fresh produce in South Africa. However, these markets have witnessed limited growth in the volumes of fresh produce traded during the post-deregulation period. This can be attributable to the expansion of new markets, particularly retail market outlets and supermarkets which increased the inclusion of fresh produce on their shelves. Despite this loss of market share by NFPMs, the overall production of fresh produce has increased exponentially during the post-deregulation period. For instance, the production of deciduous fruit increased by 9.1%, from 1.832 million tons in 2018/19 to 1.999 million tons in 2019/20. The production of peaches and nectarines showed an increase of 16.6%, followed by apples with 13.2%, plums by 4.5% and grapes with an increase of 4.2% (DALRRD, 2021).

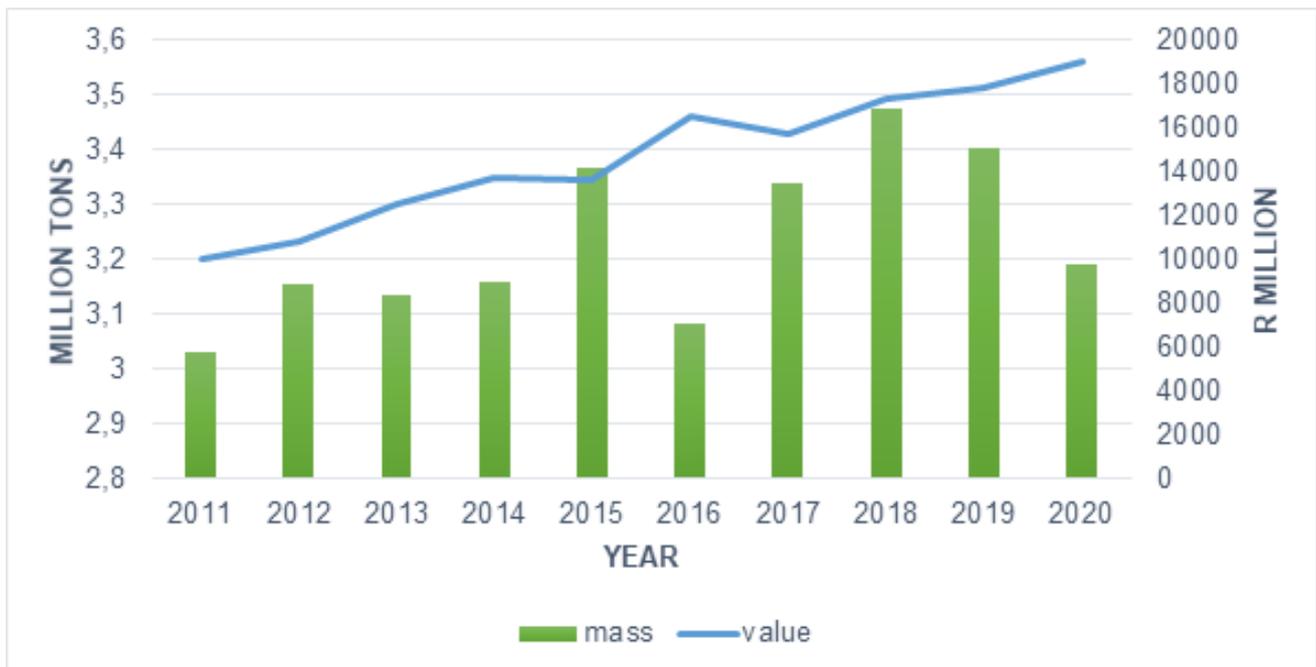
Furthermore, the performance of the NFPMs relative to the production growth in the fresh produce sector may be attributable to the failure by these markets to respond to the challenges presented by the deregulated marketing environment. These challenges include infrastructure, consignment control, safety and security, transformation, human capital development and slow supply chain and recruitment processes. This section is organized into three major sections. The first section presents the local market for selected commodities, and the second section provides a discussion of the aforesaid challenges in full

detail. The third section provides information relating to recent government interventions in the fresh produce markets.

### 2.2 Local market access for selected fresh produce commodities (2011-2020)

As alluded to in the introduction, NFPMs have witnessed limited growth in the volumes of fresh produce traded during the post-deregulation period and yet the overall production of fresh produce has increased exponentially during the post-deregulation period. This section depicts a picture of the performance of the NFPMs and how the performance can be assessed against the recommendation of Section 7 Committee of the NAMC.

**Figure 6** shows the mass and value traded on 20 South African fresh produce markets from 2011 to 2020, and these are measured in millions of tons and Rands, respectively. Over the depicted period, the mass rose from 3.03 million tons to 3.19 million tons with fluctuations observed in different years. These fluctuations can be attributed to many factors such as climate variation which affects seasonal production, perishability, prices, substitution between products, consumer habits and per capita income. The lowest mass of 3.03 million tons in 2016 confirms the negative impact of the greatest drought in 100 years in the country. However, the largest trades in terms of mass were observed in 2018 (3.46 million), 2019 (3.40 million) and 2015 (3.37 million). The lock-down regulations arising from Covid-19 pandemic led to a 6.2% (0.21 million tons) decline in mass traded from 2019 to 2020.



**Figure 6:** Mass and value of fruit and vegetables sold on the 20 major fresh produce markets  
Source: DALRRD, 2021

The turnover showed an upward trend over the period under consideration with 6.6% increase witnessed from 2019 to 2020, and this is largely influenced by food price inflation. The overall mass traded in the stated period consisted of approximately 208 different agricultural commodities, with potatoes, onions, tomatoes and bananas commanding more than 65% of the annual turnover. The Johannesburg, Tshwane, Durban and Cape Town fresh produce markets commanded 82 percent share of the annual turnover, jointly.

While the value of the fresh produce depicts a positive picture, it is important to assess this trend against the recommendation that 30% of the volumes to be traded should be through the black commission market agents. For instance, if the target had been met, in October 2021 this would account for 81 629 MT matched by R538 million (see **Table 7**), with potatoes commanding the largest share at 25 393 MT (R175 393 million), followed by onions at 10 058 MT (R26 577 million), tomatoes at 7 374 MT (R63 654 million), bananas at 5 692 MT (R46 million), and other fruits and vegetables at 13 610 MT (119 628 million) and 19 502 MT (106 722 million), respectively. However, this ideal picture or target does not resonate with actual reality indicating that transformation in this sector is one of the contentious issues that remains unresolved after 27 years into democracy. Some NFPMs have attempted to make space available and allocate floor space to new black-market agents but the impact of these agents in terms of turnover is very minimal. However, most markets do not have a programme in place to support new black-market agents.

**Table 7:** Summary of black-market agent's sales estimates for the top 4 commodities based on NAMC's 30% recommendation

Agricultural Product	Mass (000 MT)	Revenue (Million Rands)
Potatoes	25	175
Onion	10	26
Tomatoes	7	63
Bananas	5	1-06
Other fruits and vegetables	13	119

Source: South African Union of Food Markets (SAUFM) (2021)

## 2.3 Challenges in the NFPMs

### 2.3.1 Regulatory Environment in the NFPMs

Except for privately owned and operated markets, all NFPMs are owned by municipalities and regulated through market by-laws. These by-laws serve to govern and guide the market's operations daily particularly for issues that cannot be addressed through standard operational policies or specific arrangements with role players such as lease contracts and rental agreements. There are currently no standardized by-laws because each market creates its own by-laws to govern its operations. However, the majority of markets by-laws are outdated and have not been reviewed in more than three decades (30 years). For proper and efficient functioning of the NFPMs in a dynamic agricultural marketing environment, these market by-laws need to be reviewed every five years but, the process is lengthy and time consuming, and this is exacerbated by the lack of capacity in market management to draft and update the by-laws.

Apart from the market by-laws, NFPMs are required to comply with other piece of legislation which include:

- **Agricultural Product Standard Act (Act 119 of 1990):** This act provides regulations relating to grading, packaging, and marketing of produce intended for sale in the Republic of South Africa.
- **Occupational Health and Safety Act (Act 85 of 1993):** This act deals with protecting the health and safety of labourers, agents, farmers, and buyers conducting their business at the markets.
- **Agricultural Produce Agents Act (Act 12 of 1992):** This act regulates the conduct of market agents in the NFPMs.
- **Perishable Products Export Control Act (Act 9 of 1983):** This act provides for the establishment of the Perishable Products Export Control Board (PPECB). The PPECB an independent service provider of quality certification and cold chain management services for producers and exporters of perishable food products.

In some instances, especially is small fresh produce markets, compliance with the legislations (APS Act, OHS Act, APA Act and PPECB Act) remains a challenge. This is exacerbated by market management's inability to put mechanisms in place and enforce compliance.

### 2.3.2 Infrastructure

Most of the NFPMs were built 40 years ago and as a result their infrastructure is dilapidated. On the other hand, municipalities as owners of these markets have failed to invest in infrastructure refurbishments, repairs and maintenance. This has continued to happen despite the NFPMs generating revenue through the 5% market fees received from sales by municipalities. Hence, the infrastructure for these markets is generally old and does not conform to food safety standards leading to potential collapse. Sadly, the generated revenue by NFPMs is diverted to other social services within the municipalities such as building clinics and salaries for municipality staff, thus compromising the market infrastructure. Moreover, the municipalities who own the NFPMs are cash-strapped, giving priority to social services and this is exacerbated by the fact that municipalities do not recognize the functioning of the market as their core mandate.

Without the commitment from the municipalities to avail part of their budgets for market infrastructure and maintenance, the NFPMs will continue to deteriorate further under the current structure. Therefore, the continuous lack of investment into market infrastructure and refurbishments is likely to reduce the market share of fresh produce in the NFPMs as buyers and farmers seek alternative channels to source and/or deliver their produce.

### 2.3.3 Hygiene, cleanliness and food safety standards

The level of hygiene and cleanliness in some NFPMs is extremely poor. For instance, cleaning is conducted randomly while cleaning protocols, regimes as well as a hygiene plans are almost absent. The facilities, especially the cold rooms, ripening facilities, market floors, trading platforms and ablution facilities are very dirty and do not comply with food safety legislation. Therefore, fresh produce sold through the markets cannot be guaranteed to meet all necessary food safety requirements. Due to lack of compliance to food

safety standards, majority of retailers and buyers are now sourcing directly from producers.

### 2.3.4 Consignment Control

To ensure that NFPM's income stream is protected and profits are maximized, every produce entering and exiting the market must be recorded on the official sales system from the entrance gate. For successful implementation of Standard Operating Procedures (SOPs) on consignment control, the following must be in place in the NFPMs:

- Installation of a computer programmed with the official Freshmark system and linked to a back-office system at the gate to enable correct stock recording and efficient stock reconciliation;
- Designate full-time consignment control officers (on a shift/rotational basis) at the main gate to be in charge of recording produce immediately at the gate and stock counts; and
- Introduction of night shifts for stock control officers as the bulk of stock/consignment is delivered at night.

The majority of the markets are failing to implement proper consignment control procedures, which has resulted in municipalities losing a portion of their 5% revenue while also having increased percentages of stock shortages and surpluses. This has an implication that some produce traded through the NFPMs cannot be traced.

### 2.3.5 Safety and Security

The level of safety and security at the NFPMs is a major concern. Currently, there are no control measures to ensure safety and security in the markets. To guarantee the safety and security to people, stock and money the following measures must be put in place:

- *Access control (visible security)*: There must be enough security personnel all the time throughout the market premises to assist with access control at the gate, be visible in the market hall and must be armed with necessary equipment;
- *Closed-circuit television (CCTV)*: The camera system must be functional to capture and record all footages and movements of people within the market premises; and
- *Lights*: Proper lighting especially at night improves the visibility of the area and assist the security personnel to observe the market premises properly.

### 2.3.6 Transformation Agenda

A report by the NAMC (2006) highlighted five specific areas for reconfiguration of NFPMs. These include ownership and management, legal framework, commission system, infrastructure and lastly, market access and transformation. On the latter the report presents four targets to be met in 2014 and they are as follows; (i) at least 25% of existing agencies to have Broad-Based Black Economic Empowerment (BBBEE) involvement/participation; (ii) every market to identify five black sales people of repute and ability to become market agents, (iii) 50% of market masters to be black, and (iv) 30% of volumes to be traded through black commission market agents.

### 2.3.7 Human Capital Development

In the context of NFPMs, Human Capital Development (HCD) refers to the skills level and competency of workers in the market. A professional market manager and market workers are essential for optimal functioning of the FPM and to successfully implement appropriate Standard Operating Procedures.

However, there still exist a high vacancy rate at market management level coupled with lack of continuity, and where market management exists, some are inept, without the required skills to run the market efficiently.

The vacancy rate for municipal manager and Chief Financial Officer (CFO) positions has a direct impact on how the fresh produce market operates. The positions of Municipal Manager and CFO are critical because they hold accountable several senior managers for failing to deliver under their portfolios. Over the years, it has been observed that in markets where the positions of Municipal Manager and CFO are vacant, accountability and efficiency at market management level are non-existence. As a result, most market managers end up not completing their work efficiently. This ultimately, compromises the service standards and operations of the market.

### 2.3.8 Slow supply chain and recruitment processes

For the acquisition of services, the markets are subjected to a long and laborious supply chain procedure which is centralized within the municipality. A NFPM is a business facility that requires efficiency in terms of turnaround time for key infrastructure repairs. In some cases, cold rooms require maintenance and must be repaired within few hours to maintain the cold chain of produce. However, in such cases markets are required to go through the tender system which takes long and by the time a tender is awarded the produce has already been destroyed, resulting in a loss of income for all stakeholders involved.

Furthermore, the filling of vacant positions at FPMs is a tedious and time-consuming process. Majority of markets do not fill critical positions quickly, with some municipalities not filling the position of market manager for more than four years. Typically, the acting market managers do not make any major decisions, and this jeopardizes market operations.

## 2.4 Recent interventions – Project Rebirth

As already indicated, the marketing of fresh agricultural produce in South Africa has been mainly done through the NFPMs and most of these markets were established more than three decades ago and have since undergone little or no substantive operational and transformational changes in line with the macro-economic and industry reforms that took place in South Africa since 1994.

There are currently twenty-two (22) NFPMs, majority of which are directly owned and managed by municipalities as departments or business units. There are four categories of NFPMs in terms of ownership and management, namely: (1) those that are municipally owned and municipally operated; (2) corporatized (municipal entities); (3) those that are municipally owned but privately managed under a public–private partnership (PPP) arrangement; and (4) those that are private entities under private ownership and management.

As early as 1997, there were concerns raised with regard to the operations of the NFPMs, mainly arising from the significant deterioration in infrastructure and service standards, together with the collapse in management which seriously affected the rendering of efficient and commercially competitive services to farmers, market agents and buyers, and thereby also on the ability of the domestic fresh produce marketing system to transform and provide

market access to smallholder producers. These concerns triggered the then Minister of Agriculture and Land Affairs (Minister Thoko Didiza) through the National Agricultural Marketing Council (NAMC) to launch investigations termed Section 7 Committee Investigations (in terms of section 7 of the Marketing of Agricultural Products Act, 1996).

In 2013, the continuing deterioration in service standards in the NFPMs triggered key stakeholders in the fresh produce industry, mainly fresh produce market agents through the Institute of Market Agents of South Africa (IMASA) and producers through Potatoes South Africa (PSA) to eventually approach the DALRRD for immediate intervention and partnership to address the persistent challenges faced by the markets. This led to the evolution of a new initiative called “Project Rebirth” under the leadership of the DALRRD, which was aimed at improving the operations and service standards of the NFPMs and transforming the markets.

The Project Rebirth initiative has already concluded and adopted Codes of Best Practice (CoBPs) for NFPMs and has facilitated implementation of these codes in a collaborative effort with municipalities that own these markets. A mentorship programme under the leadership of the Joburg Market and Tshwane FPM was established to assist ailing markets in implementing the Standard Operating Procedures (SOPs) and some provisions of the CoBPs. The mentorship programme focuses on building the capacity of market management and its market staff on six key areas of Consignment (Stock) Control, Risk and Financial Management, Information Management, Stakeholder Management, Hygiene, Cold Rooms and Ripening Rooms as well as compliance to the Regulatory Environment. During the past few years, a team from Tshwane FPM assisted the Vereeniging FPM, Pietermaritzburg FPM, East

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London and Port Elizabeth FPM while a team from Joburg Market assisted the Sol Plaatjie FPM in remedying the current challenging situations in these markets with development and application of SOPs, by-laws and Service Level Agreements (SLAs).

In recent years, there have been concerns in respect of the conduct of some fresh produce market agents who operate on the NFPMs and who trade in fresh produce, which may be considered anti-competitive behaviour in terms of competition legislation. These concerns relate specifically to produce reservation, late sales, credit sales by agents, price discrimination based on identity of the buyers, cancellations and stock shortages. Subsequently, the DALRRD's request to the Competition Commission for an investigation into the ethical trading (business) conduct of fresh produce market agents was accepted and approved by the executive of the Competition Commission. The objective of this investigation is to enhance fair competition, improve fair access to produce by buyers and enhance development of statutory rules and regulations for market agents. The Competition Commission has conducted the investigation and stakeholders are currently awaiting the report.

In order to address the transformation pillar of the CoBPs, owing to the snail pace of transformation agenda, particularly transformation of market agent's landscape, the Project Rebirth Steering Committee (PRSC) has established a Transformation Sub-Committee to develop strategies and programmes aimed at ensuring that sector participants reflect the country's demographics. The Sub-committee has managed to draft a document titled "Empowering and Capacitating Black Market Agents" which details the challenges faced by black market agents; propose strategies and programmes aimed to promote development,

growth and competitiveness of black market agents as part of efforts to ensure inclusivity and drive transformation agenda in NFPMs; present financial plans aimed to support project implementation and action plan consisting of responsibilities, programmes and deadlines.

Given the gravity of the issues faced by several municipalities in addressing the challenges faced by various NFPMs, the DALRRD developed a draft Bill to authorise the establishment of a National Fresh Produce Market Council (NFPMC). The main objective of the Bill was to provide for the regulation of NFPMs through the creation of a centrally located and legally mandated entity (NFPMC) that would coordinate efforts to develop, manage and transform NFPMs. The DALRRD consulted various stakeholders on the Bill, including the Agricultural Economics Working Group (AEWG) as well as members of the Project Rebirth Steering Committee to solicit inputs towards the development of the draft Bill. The draft Bill was also submitted to the Office of the Chief State Law Adviser (OCSLA) for a legal opinion on the constitutionality, drafting style and form, and to scrutinise whether the provisions of the Bill do not violate any other pieces of legislations of the Republic of South Africa.

The OCSLA provided its legal opinion based on sections 44, 151 and 156 and schedule 5: Part B of the Constitution of the Republic of South Africa (Act No. 108 of 1996) and concluded that "markets" is a local government function. The State Law Adviser further highlighted that the Bill actually intends to regulate Markets across the country by placing NFPMs under the control of a national statutory council (the NFPMC). In light of this, the State Law Adviser concluded that the Bill is unconstitutional on the basis that FPMs are not a national legislative competence and therefore the Minister of DALRRD does not have the legislative mandate to enact legislation regulating markets.

The conclusions by the OCSLA regarding the draft Bill points to the need for a discussion between the DALRRD and the Department of Cooperative Governance and Traditional Affairs (DCOGTA). After all, markets (NFPMs) fall within the jurisdiction of the local sphere of government as per the Constitution. Moreover, the national oversight of municipalities falls within the DCOGTA. The key issues for discussion between the two departments (DALRRD and DCOGTA) must centre around the following key points:

- The possibility of standardizing and rationalizing FPM market by-laws so that the standard and quality of service across the markets is standardized and rationalized;
- The options and possibilities of gazetting the CoBPs as official national norms and standards for fresh produce markets by DCOGTA. The DALRRD does not have the mandate to execute this since it only regulates the trading aspects of markets and not the physical infrastructure (overall operations of the markets);
- Ring-fencing and reinvestment of a portion of the 5% (commission charged for utilising the market infrastructure) municipal revenue generated by fresh produce markets, into the operational expenditure for fresh produce markets;
- The use of the Municipal Infrastructure Grant (MIG) for infrastructure upgrades and expansion in the fresh produce markets; and
- Improvement in the operational efficiencies of fresh produce markets, in terms of converting fresh produce markets into municipal entities to provide markets with some degree of operational independence.

The above-mentioned key issues need to be addressed as a matter of urgency if the continuing decline in the service standards and significance of the NFPMs in the fresh produce marketing system in South Africa is to be halted and addressed effectively.

## 2.5 Conclusions

Despite the challenges within the system, the NFPMs present many opportunities for various stakeholders of South Africa's economy. For instance, NFPMs play a critical role in both national and household food security, job creation and inclusivity in the agricultural sector. Furthermore, these markets serve as: (i) suppliers of fresh produce to fresh produce marketers/hawkers/vendors/traders who sustain their families from them thus enhancing Local Economic Development (LED); (ii) Outlets where large buyers, mainly the large retail chain stores (such as Pick 'n Pay, Shoprite-Checkers, Spar, Fruit & Veg City, Fruit Stop etc.) procure fruits and vegetables; (iii) Trading facilities for fresh produce industry stakeholders (smallholder and commercial farmers, market agents, traders, etc.); (iv) Providers of employment opportunities (at the markets and market agencies); (v) Low-cost marketing channel for large scale/commercial and smallholder producers (producers pay 12.5% fee to sell their produce through this channel); and (vi) Price forming mechanism in that prices established at the NFPMs are used as national reference prices, mainly for fruits and vegetables.

This section set out to investigate the status of local market access with special focusing on NFPMs. It was shown that the traded volume grew from 3.03 million to 3.19 million tons with fluctuations observed during the reported period. The drought and Covid-19, respectively had negative impact on market access. Other

factors influencing market access in fresh produce market system were climate, seasonal production, perishability, prices, the substitution between products, consumer habits and per capita income.

The efficiency for marketing of agricultural products on NFPMs is constrained by declining market share evident from very limited growth in traded volumes; regulatory issues which include non-review market by-laws and poor compliance with other key legislations; dilapidating infrastructure leading to poor hygiene, cleanliness and food safety standards, and compromise of consignment control; poor safety and security measures; lack of human capital development and slow pace of transformation and constraining supply-chain processes.

The findings of the report in this section have a number of important policy implications for future operation of NFPMs. These include; (i) establishment of separate entity responsible for coordination of all activities for these markets

rather than leaving them under municipalities whose priorities are on social service delivery issues such as roads, housing and water and sanitation; (ii) establishment of traceability system in each FPM to guarantee food safety and track market access for all participants particularly the smallholder farmers; (iii) establishment of the national transformation committee responsible for implementation of the recommendations of Section 7 report and the notable aspirations of the Project Rebirth initiative. The challenges and issues identified above in the section discussing Project Rebirth need to be addressed as a matter of urgency by the relevant authorities (DALRRD and DCOGTA if the continuing decline in the service standards and significance of the NFPMs in the fresh produce marketing system in South Africa are to be addressed effectively.

The next section provides a descriptive analysis and trends for major input costs in the agricultural sector as well as food price trends. The section also assesses the drivers behind the fluctuations on these trends.



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## CHAPTER 3: MARKET TRENDS IN THE AGRICULTURAL SECTOR: INPUTS AND FOOD PRICES

### 3.1 Introduction

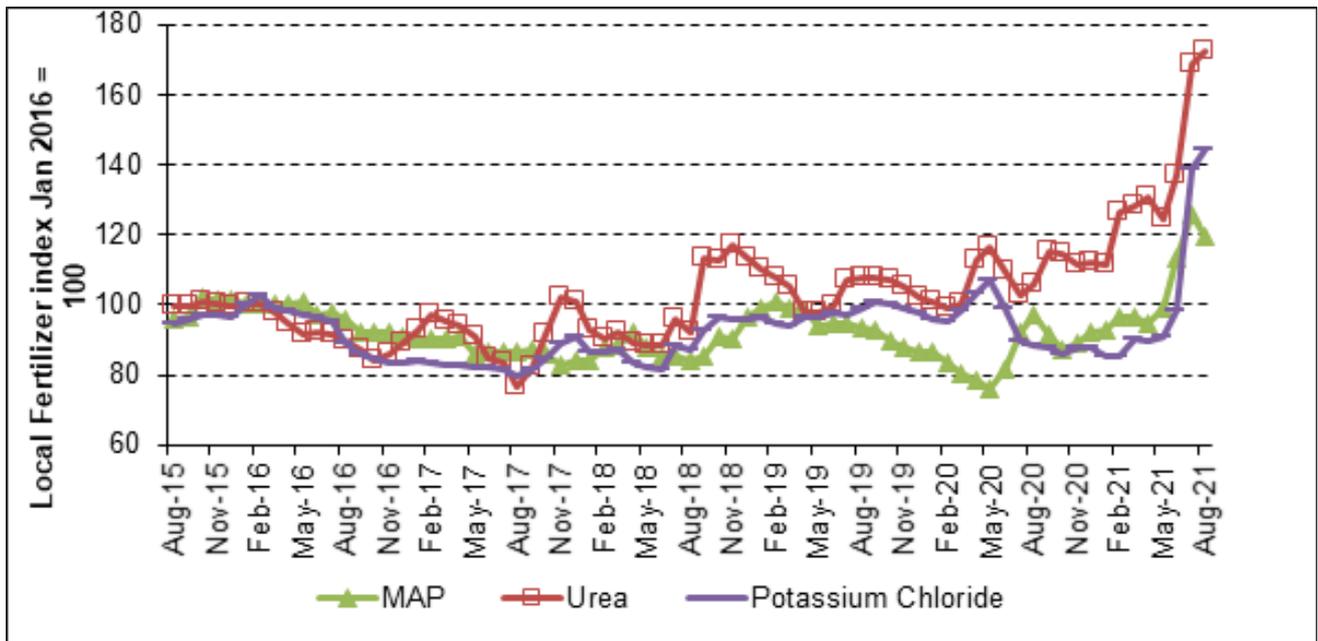
This section assesses the market trends of selected production input costs. Agricultural inputs provide potential to improve agricultural productivity and efficiency with the goal of optimising agricultural productivity. Agricultural inputs/intermediate products present an imperative determinant of yields in agricultural production. These inputs include amongst others fertilisers, fuel, diesel, packaging material, electricity and labour.

#### 3.1.1 Fertilizers

South Africa is a net importer of fertilizers and imports about 80% of its annual fertilizer consumption and accounts for a mere 0.5% of the global market. The South African fertilizer industry is fully exposed to world market forces and operates in a deregulated environment with no government sponsored support measures. Operating within the global and deregulated environment means that the local prices are subjected to the same supply and demand drivers as in the international industry. Local fertilizer prices are therefore also influenced by the shipping costs and the Rand/Dollar exchange rate. The NAMC has developed a fertilizer price index which provides information to enable producers to determine and compare the price of fertilizers with previous years.

Between 2015 and 2021, the local fertilizer prices for Urea, Mono-Ammonium Phosphate (MAP) and Potassium Chloride (KCL) increased by 72.5% (from R6 329/ton to R10 919/ton), 55.2% (from R9 987/ton to R15 498/ton) and 52.7% (from R7 134/ton to R10 897/ton), respectively, as illustrated in **Figure 7**.

Comparing the period between 2015 and 2021 against the base year period (2016) fertilizer is currently less affordable. Since the beginning of 2021, international fertilizer prices have been rising steeply, and thus, domestic fertilizer prices have followed the same trend. Local prices tend to be influenced by developments in the major producing and consuming countries, such as India, Russia, the United States of America (USA) and Canada. Much of the fertilizer imported by South Africa is used in maize production, accounting for 41% of total fertilizer consumption, followed by sugar cane consuming 18%. Furthermore, should crude oil prices increase, this would also have an impact on the transportation cost of fertilizer, pushing prices up even further.

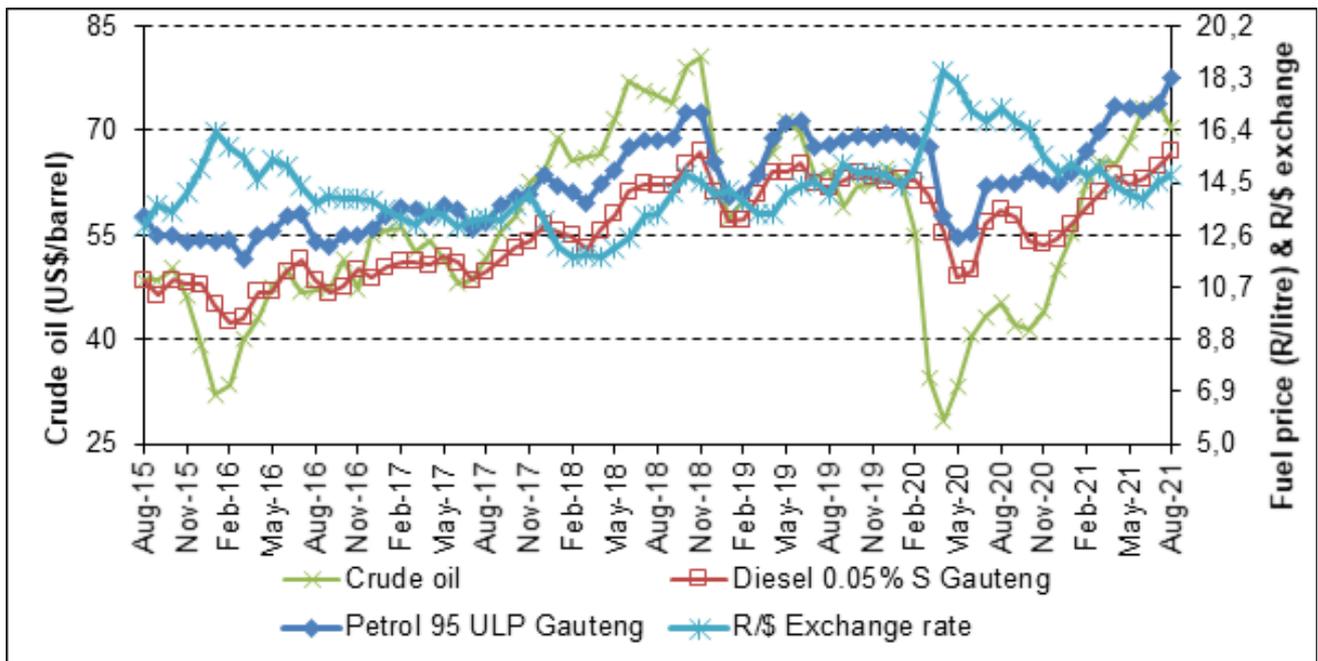


**Figure 7:** Domestic price trends for selected fertilizers

Source: Own calculations from price lists, 2021

### 3.1.2 Fuel and freight

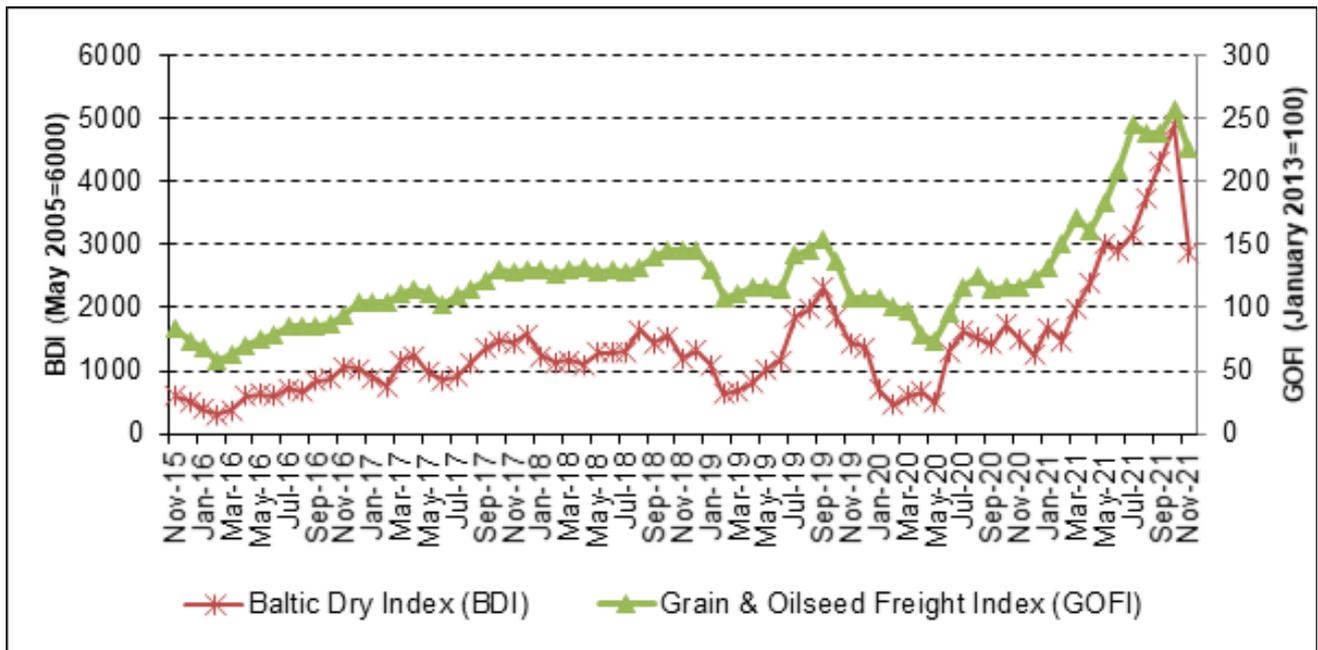
South Africa faced record fuel price increases on 03 November 2021, with both grades of petrol rising by R1.21/litre, diesel by R1.48/litre and illuminated paraffin by R1.45/litre. The primary pressure on local fuel prices is driven by international and local factors. International factors include the fact that South Africa imports both crude oil and finished products at a price set at the international level, including importation costs such as the shipping costs. These prices were driven up by natural gas shortages in Europe and Asia just as the northern hemisphere entered winter. The key driver is the higher global demand recovery amid a weaker supply response from non-Organization of the Petroleum Exporting Countries (OPEC) and other oil producers. The situation was also exacerbated by the impact of the current gas challenges experienced by European countries that are experiencing negative impact on the prices of energy commodities. In addition, fuel inflation is also influenced by weaker local currency.



**Figure 8:** Crude oil and fuel prices

Source: Grain SA and DoE, 2021

The Baltic Dry Index (BDI) is used as an economic indicator because it reflects the supply and demand for sea freight that translates into economic activity. The BDI provides a benchmark for the price of moving the major raw materials by sea. It takes into account 23 different shipping routes carrying coal, iron ore, grains and many other commodities. The Grain and Oilseeds Freight Index (GOFI) provides a measure of movements in ocean freight costs across key selected grains and oilseeds routes. It focuses on the grains and oilseeds carrying segments. GOFI covers around 300 routes for wheat, durum, soya beans, sorghum, maize, barley but excludes rice. During the period of November 2015 and November 2021, the BDI and GOFI increased by 383.5% and 169.2%, respectively attributed to changes in shipments times and demand across the world.



**Figure 9:** Baltic Dry Index versus Grain and Oilseeds Freight Index

Source: SAGIS, 2021

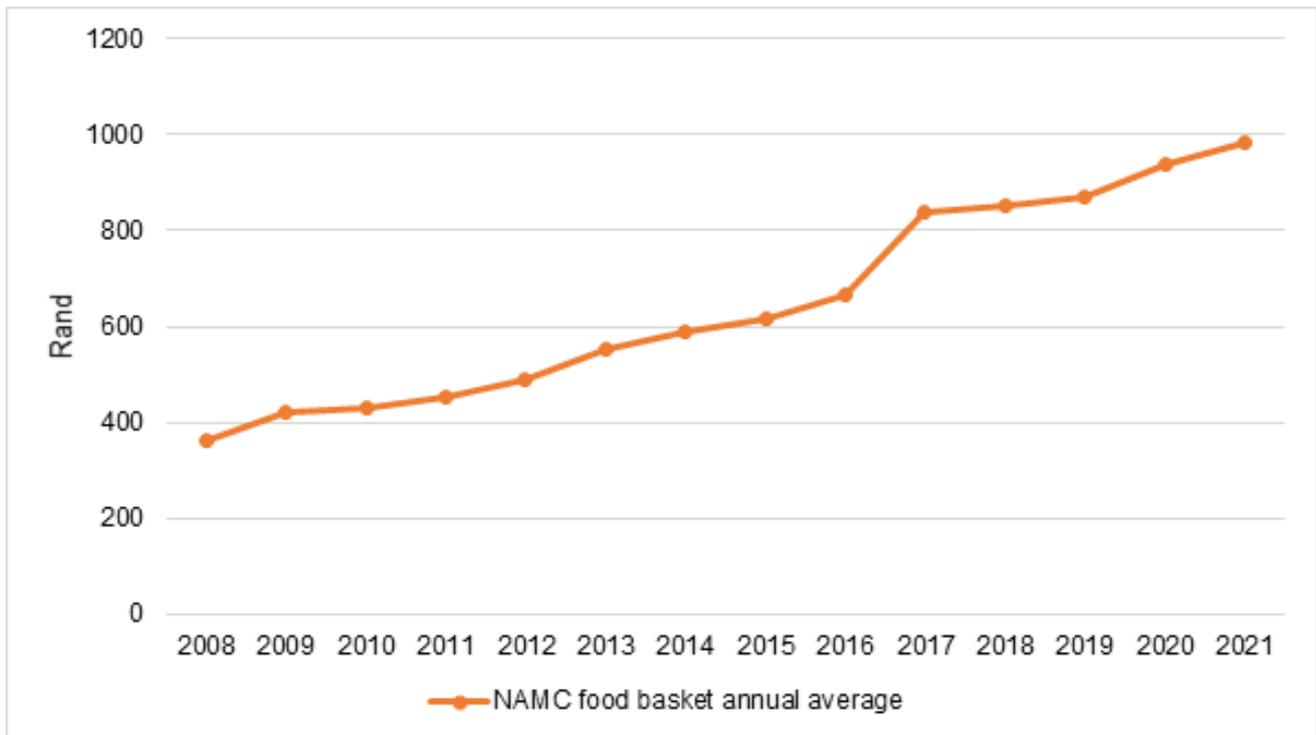
The above illustrations of South African selected production inputs follow a similar pattern with the international global markets. The local increase of production input costs will continue to add pressure on producers' profit margins as they are price takers. However, the current higher than usual commodity prices are likely to partly cushion commercial producers. Irrespective of this, these increases in input prices also lead to increased costs down the value chain which may have a trickle-down effect on the GDP.

### **3.2 Analysis of the market trends and drivers of food prices**

In general, local food price trends move comparable to the global market prices mainly because South Africa is well integrated into the world market since 1996. This follows the Marketing of Agricultural Products Act, No 47 of 1996 which transformed the agricultural sector, exposing it to the global market forces. When there are anomalies in the global market as observed on various occasions, prices respond accordingly. In recent times weather patterns are becoming a major contributing factor towards food shortages and subsequently increasing food prices. Drought, frost and excessive rain as observed both domestically and globally during 2020 - 2021 also affected food prices. Globally, cereals, vegetable oils and sugary foods remain high due to the above-mentioned factors (IGC, 2021a; FAO, 2021a). Meat and livestock products followed the same trend mainly due to high feed prices.

From March 2020, Covid-19 lockdown restrictions limited movements of people and reduced labour. As a result, food systems were partially disturbed (FAO, 2021B). During the second half of 2020, the world was hit by La Nina episodes where excessive rains in some parts of the world were experienced, drought or frost in others (USDA, 2021). These factors negatively affected yields globally. However, for South Africa, the La Nina episodes positively affected grains and oilseeds production with the country registering the second largest crop for maize while other commodities saw significant increases in yields. For vegetables such as potatoes, the country is still experiencing record high prices due to frost (Potato SA, 2021) which negatively affected other crops such as tomatoes and peppers which are sensitive to such conditions (AMT, 2021).

The NAMC have a monthly 28-food item food basket used to track food prices in South Africa. Figure 10 presents the 28-item food basket annual cost since 2008. Over the years food prices have increased in response to various factors from input cost to changing consumer demands. In 2008, an ordinary South African consumer paid R363.91 for the NAMC food basket when compared to R984.60 in October 2021. This represented an increase of 171% over this period. The most noticeable increase was observed from 2016 to 2017 after the drought and to an extent the revision of the basket content, with the recent being the rise during 2020. Since then, food prices remain elevated.

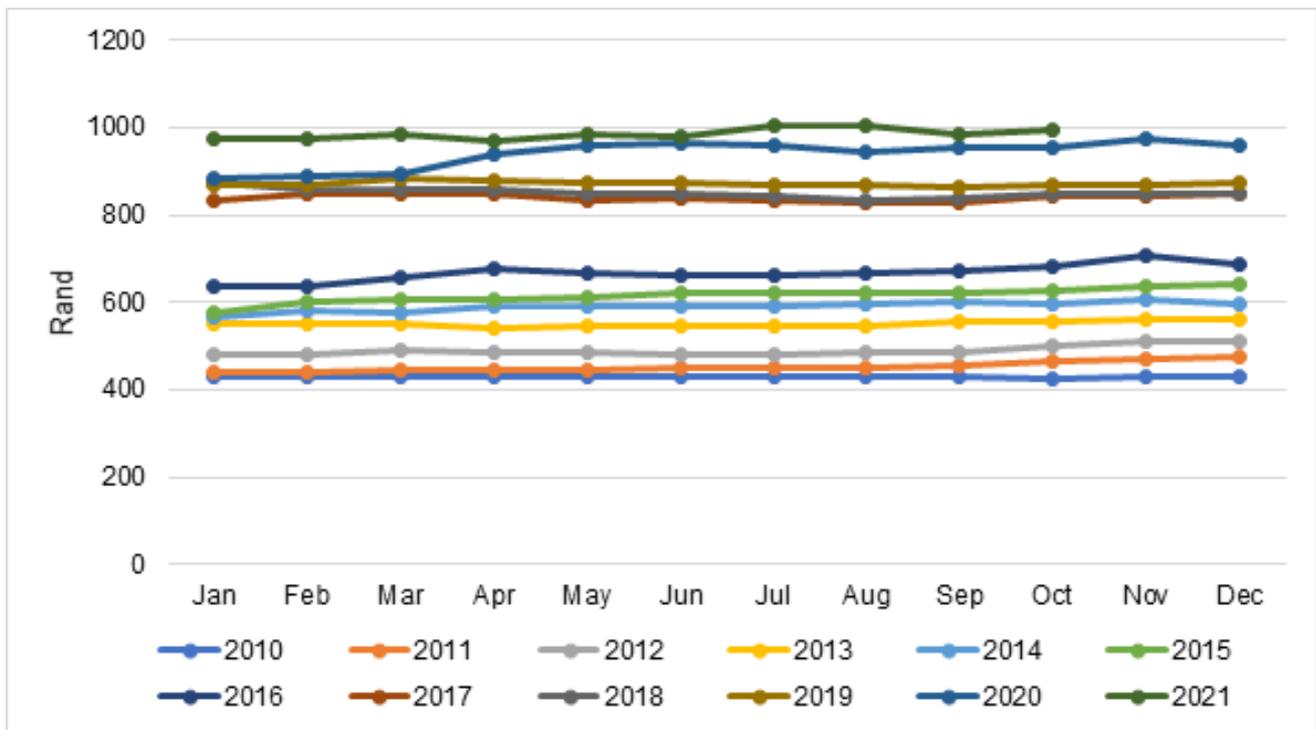


**Figure 10:** The NAMC’s average annual 28-food item basket  
 Source: Stats SA (2021)

**Figure 11** presents the NAMC’s 28-food items basket for the respective years from 2010 to October 2021. As it can be observed that over the years the food basket has been steadily rising with 2017 showing a noticeable jump from R667.88 in 2016 to R839.88 in 2017. This represented an increase of 26%.

Low carry overstocks from the previous season (2016), was the underpinning factor for this rise as well as the revision of the basket as mentioned previously. After this period the food basket remained almost similar until 2020 around March beginning of Covid-19. Lockdown restrictions reduced outputs across the world where labour couldn’t harvest major crops such as rice and palm oil, but the situation has drastically improved in terms of labour and for crops like rice.

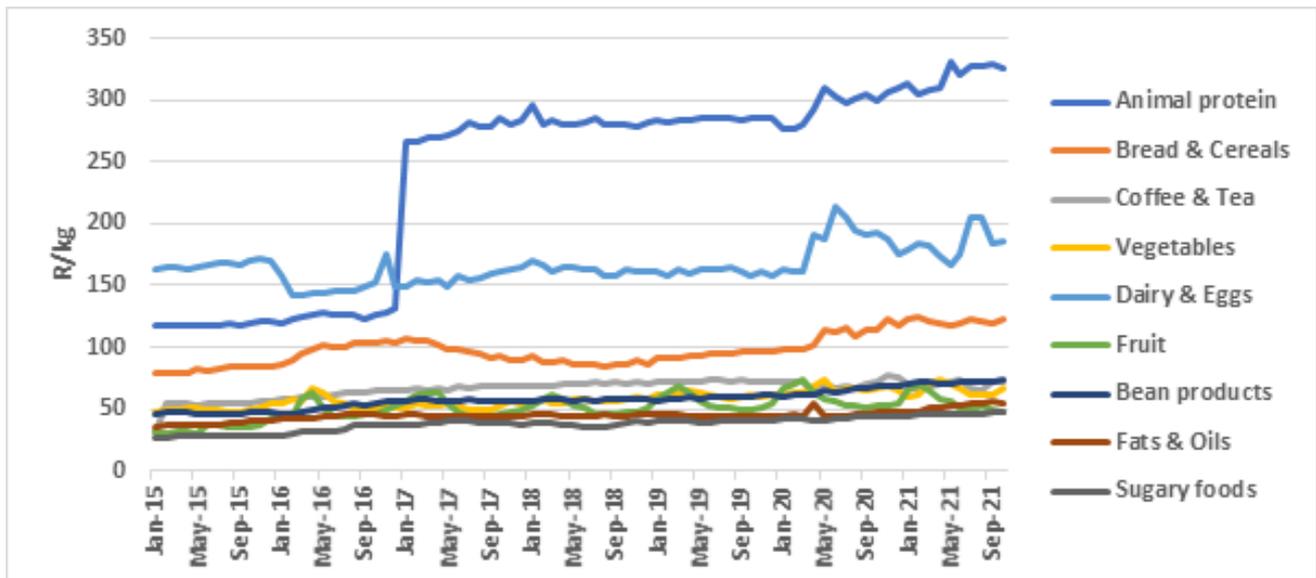
The logistic hiccups also added to this to a certain degree, but that had also recovered. 2021 started off with global food stocks at their lowest in five years (IGC, 2021b). The food basket averaged R984.60 as of October 2021, after reaching its peak in August. This can be linked to the unrest in Gauteng and Kwa-Zulu Natal as the major freight route along N3 was significantly disturbed.



**Figure 11:** The NAMC's average annual 28-food item basket for years 2010 to 2021\* (October)  
Source: Stats SA (2021)

**Figure 12** presents food groups used within the NAMC's 28-items of the food basket. Animal protein, dairy & eggs and bread & cereals are the food items with the highest price levels throughout the depicted period. Following the drought in 2016, livestock herds were significantly reduced across South Africa. Based on data from the Red Meat Abattoir Association (RMAA), commercial slaughter numbers have not reached the numbers prior to the drought except for pigs which have increased by 19%. During the 2015/16 season, 5.4 million sheep were slaughtered across South African commercial abattoirs and this number has since dropped to 4.5 million in the 2019/20 season representing a decline of 17%, while cattle slaughter numbers dropped from 3.0 million to 2.6 million for the same period, representing a decline of 13%. Noteworthy is that the country became a net exporter for beef and its exports have reached a new record as of August 2021. The poultry industry is also battling Avian Influenza in recent times with the latest outbreak in cormorants reported in the Western Cape end of October 2021. These factors, the escalating fuel prices and the rising feed costs are putting animal protein supply under pressure hence higher meat prices.

Sunflower oil, dried beans and bread & cereal prices remain high when compared to the previous years. Bread & cereals are being influenced by global market forces as already mentioned. A ton of yellow maize was over R3 000 at the end of October 2021 which is noticeably higher when compared to R1 500 to R1 800 based on historic data as observed in 2014, 2017, 2018, and other years prior 2010. As a result, grain products such as super maize meal, sunflower oil and bread remain high in recent times due to global market-related forces. The global soybean sub-index was 4% higher, supported by other vegetable oils such as crude palm oil and soybean demand, while wheat export prices are pressured by demand from the EU and the USA (AgriCensus, 2021). It should be noted that South Africa imports several important food commodities. Almost 100% of palm oil, rice, and a sizeable amount of ground nuts are imported and the exchange rates play a crucial role and affect local prices.



**Figure 12:** Food groups of the NAMC food basket  
Source: Stats SA (2021)

### 3.3 Conclusions

In broad terms, food prices are noticeably higher in South Africa for almost all food items. However, it should be noted that this is currently driven by the global market forces. The FAO of the United Nations’ food price index was recorded at 31% higher in October 2021 when compared to October 2020. This is the highest rise in the index since July 2011. Rice is currently the grain with a sub-index that is 12% lower year-on-year, and this is reflected by relatively lower prices for rice due to oversupply from key global rice supplying countries such as Thailand, India and others. Domestic bumper harvest for maize and the increasing production of soybean and other crops has little impact on the global market as South Africa is a small player with limited influence in the grain sector. Hence, domestic prices will always be subjected to the forces of demand and supply in the global market.

For animal protein, increases in feed, especially for the poultry industry as well as animal diseases outbreak such as the Avian Influenza (AI) are contributing factors towards high prices for poultry products. For beef and mutton, the imbalances in supply and demand as well as feed prices remain a challenge but the country’s increasing exports for beef and the potential for increase in live sheep exports may counteract these challenges.

For vegetables, the excessive moisture due to more than enough rains and frost across key producing provinces in South Africa especially during growing periods are currently proving problematic for consumers. Potatoes, peppers and tomatoes are amongst these crops where prices remain volatile as the year progresses. Also, demand for vegetables mainly from the neighboring countries is increasing to some extent thus the pressure on prices domestically as it was observed for tomatoes in April 2021.

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## **CHAPTER 4: ANALYSIS OF THE STATUS OF FOOD AVAILABILITY AND OUTLOOK IN SOUTH AFRICA FOR SELECTED COMMODITIES**

### **4.1 Introduction**

One of the most crucial aspects of every country's mandate is food security. Food security is now more than ever at the forefront of most policy deliberations, given expected population growth in the foreseeable future. While South Africa is food secure at a national level, it is food insecure at the household level since not all households have adequate food. The four pillars of food security are food affordability, food availability, nutrition and stability.

Changes in average food prices, the percentage of the population living in poverty and agricultural import tariffs are all factored into the affordability pillar. Meanwhile, the availability pillar comprises of agricultural production and supply sufficiency. One of the AAMP responsibilities is to ensure that agricultural producing regions are expanded in order to preserve food security. South Africa has benefited from favourable weather conditions, with maize harvests predicted to reach a record high of 16.8 million tons in 2021, enhancing food availability.

Furthermore, the wheat harvest for the 2020 production season surpassed 2 million tons, with a good crop forecast for the next season. Sunflower seed production has declined from levels achieved in 2020, despite being an ideal crop for growing in low-input and marginal conditions.

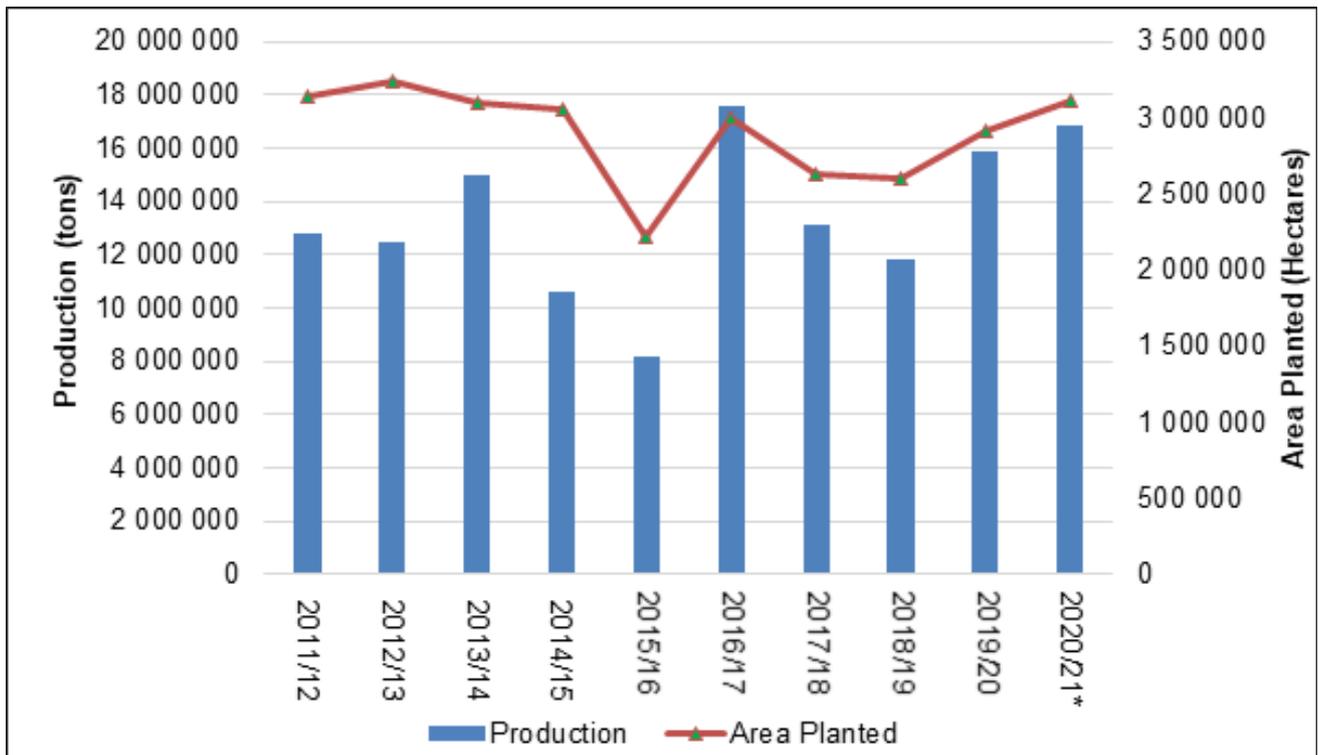
In the following section, the production, consumption and price trends for maize, wheat and sunflower seed will be discussed.

### **4.2 Maize**

#### **4.2.1 Maize Production**

Maize is South Africa's most important and commonly grown crop, consisting primarily of white maize for human consumption and yellow maize for animal consumption. The Free State, North West and Mpumalanga Provinces produce nearly all of the country's maize, accounting for about 80% of total production. Figure 13 illustrates the total maize production and area planted over a ten-year period. The projected 2020/21 maize production is up by 32% from 2011/12, favourable weather conditions, improved agronomical practices and higher yielding cultivars have all contributed to this growth.

Furthermore, maize production in 2020/21 is predicted to be the second highest on record, only 4% lower than the previous high of 2016/17. The amount of maize cultivated has fluctuated over time, which could be attributed to a shift to more profitable crops. Unlike the fluctuations seen in previous drought-stricken years, the past two seasons have benefited substantially from good weather conditions. Maize has a marketing year that runs from May 1 to April 30.

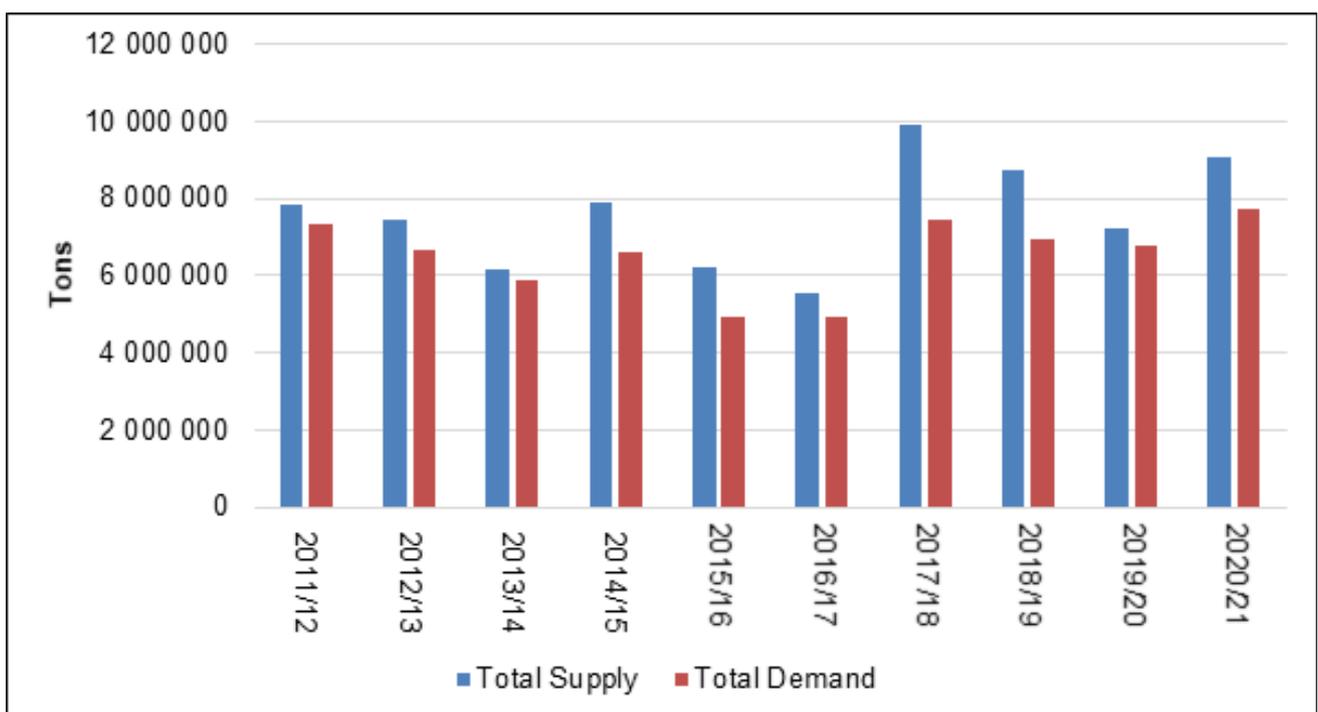


**Figure 13:** Maize production and area planted

Source: SAGIS (2021)

#### 4.2.2 White maize Total Supply and Demand

The overall supply and demand for white maize are depicted in **Figure 14**. Despite fluctuations in white maize supplies due to climatic conditions over time, overall demand has always been sustained. Overall supplies surged by 20% due to favourable weather conditions in 2020/21, while total demand increased by 12% due to considerable increases in human consumption as well as higher feed demand.

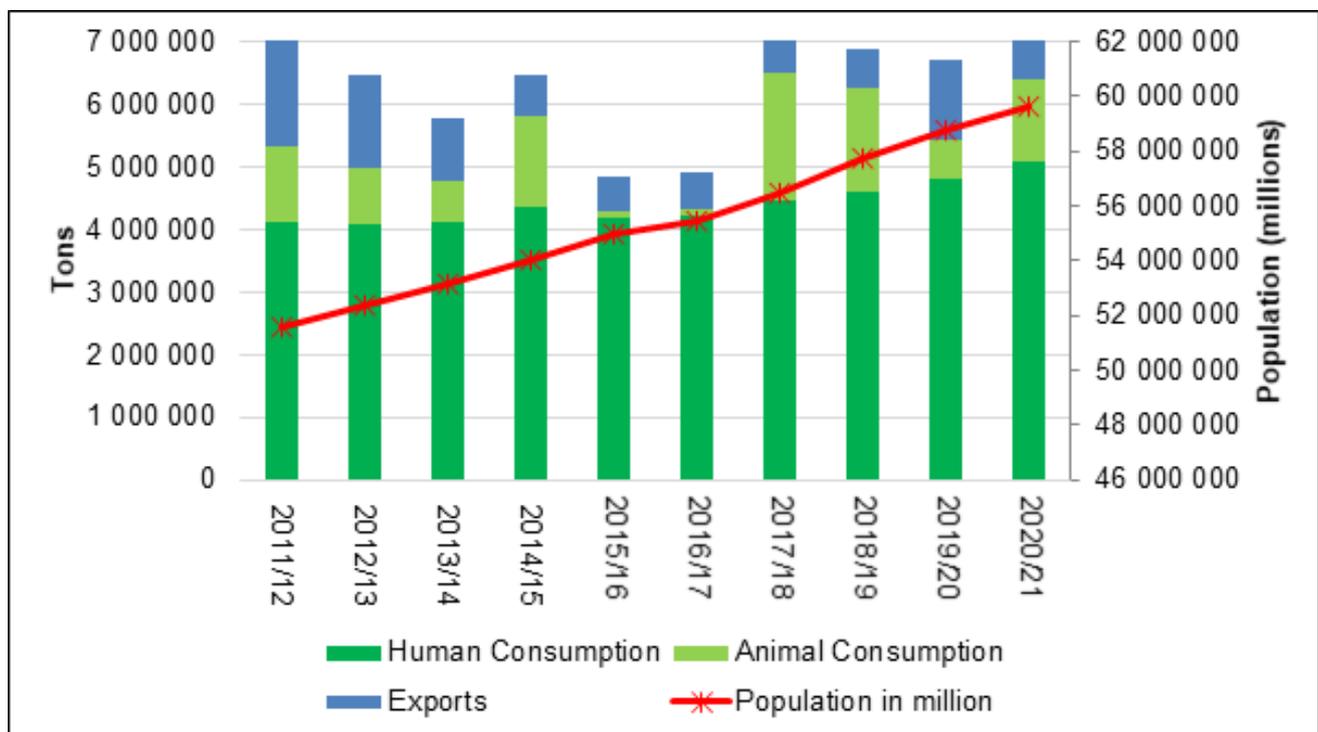


**Figure 14:** White maize total supply and demand

Source: SAGIS (2021)

### 4.2.3 White maize consumption, exports and population

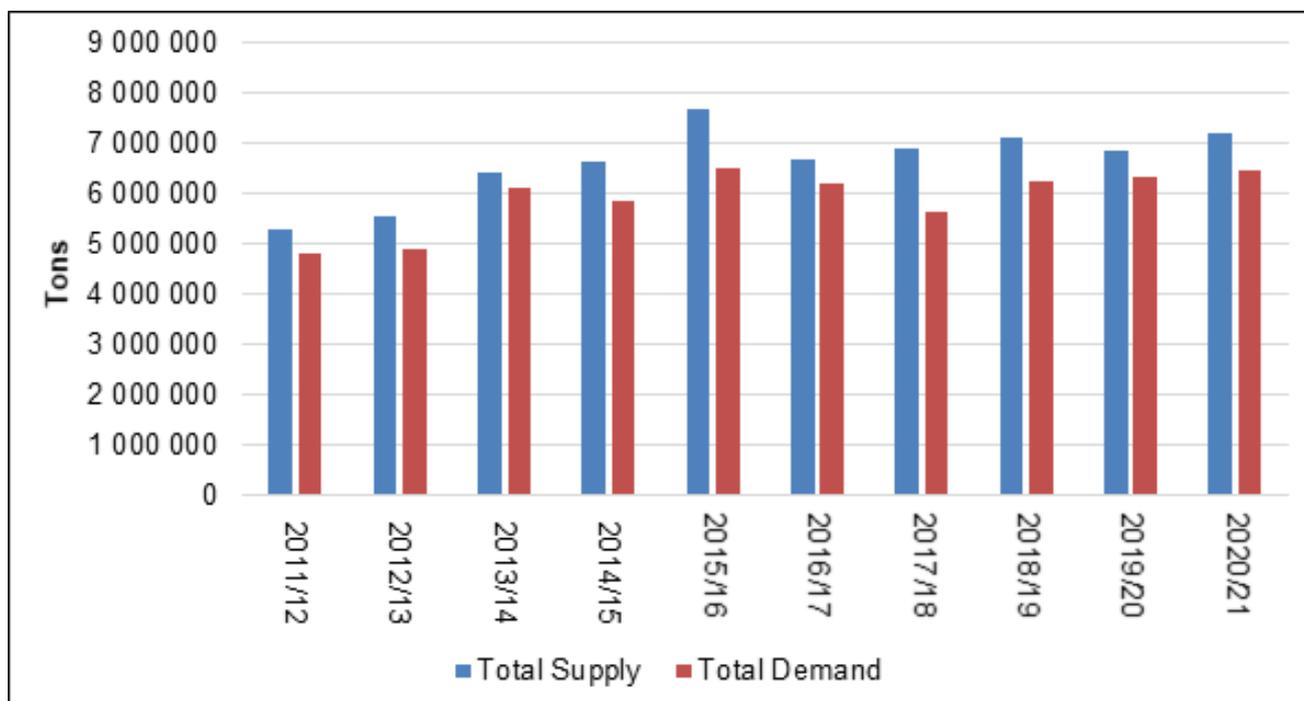
White maize is mostly utilized for human consumption; however, when white maize trades at a lower price than yellow maize, feed manufacturers will incorporate white maize in their feed rations. Approximately 80% of white maize production is processed in the form of maize meal. **Figure 15** depicts the composition of white maize consumption and population. Human consumption levels have increased significantly over the ten-year period, attributable to both population growth and budgetary restrictions. Over the last ten years, the population has increased significantly, rising from 51 553 479 in 2011/12 to 59 622 000 in 2020/21. Human consumption reached a new high of 5 073 886 tons in 2020/21, up 5.2% from the previous year, mainly to a financially challenging pandemic year that consumers opt for low-cost maize food products. However, in the marketing year 2021/22, human consumption is predicted to stabilize at roughly 4 800 000 tons. Due to limited market availability, tight supplies and a rebound in output for traditional African markets, export volumes fluctuated over the ten - year period.



**Figure 15:** White maize human consumption, animal consumption, exports and population  
Source: SAGIS (2021)

### 4.2.4 Yellow Maize Total Supply and Demand

The overall supply and demand for yellow maize is depicted in **Figure 16**. When comparing 2020/21 to 2019/20, overall yellow maize demand grew by 127 005 tons, which can be attributed to an increase in export levels and to a lesser extent human consumption.

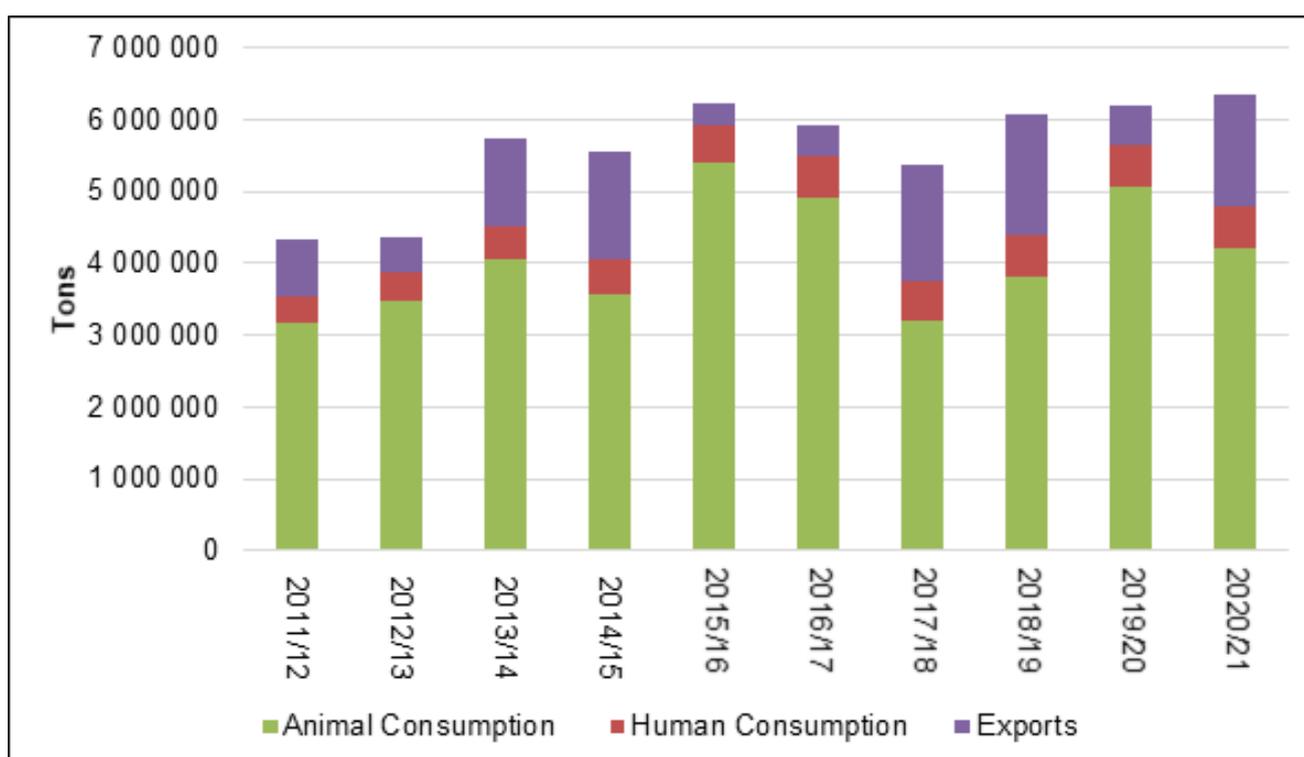


**Figure 16:** Yellow maize supply and demand

Source: SAGIS (2021)

#### 4.2.5 Yellow Maize consumption and Exports

Yellow maize is largely used in the animal feed industry, while an estimated 10% is used for human consumption. **Figure 17** shows that animal and industrial use of yellow maize increased to 4 201 690 tons in 2020/21 from 3 160 000 tons in 2011/12. Please keep in mind that price disparities between white and yellow maize could account for discrepancies in animal and industrial utilization. The main cause of export volatility is stock and market availability. Due to a rebound in production, export levels increased from 534 127 tons in 2019/20 to 1 563 315 tons in 2020/21.



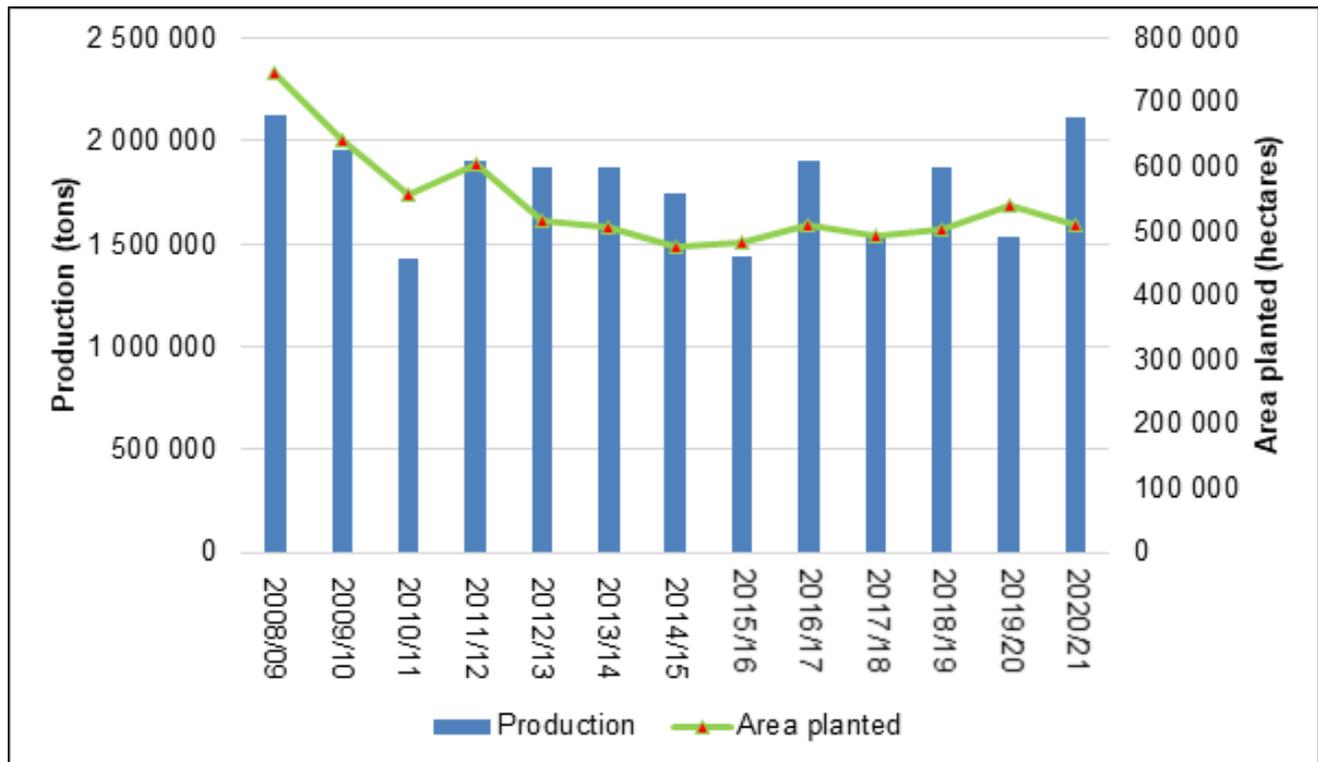
**Figure 17:** Yellow maize consumption and exports

Source: SAGIS (2021)

## 4.3 Wheat

### 4.3.1 Wheat Production

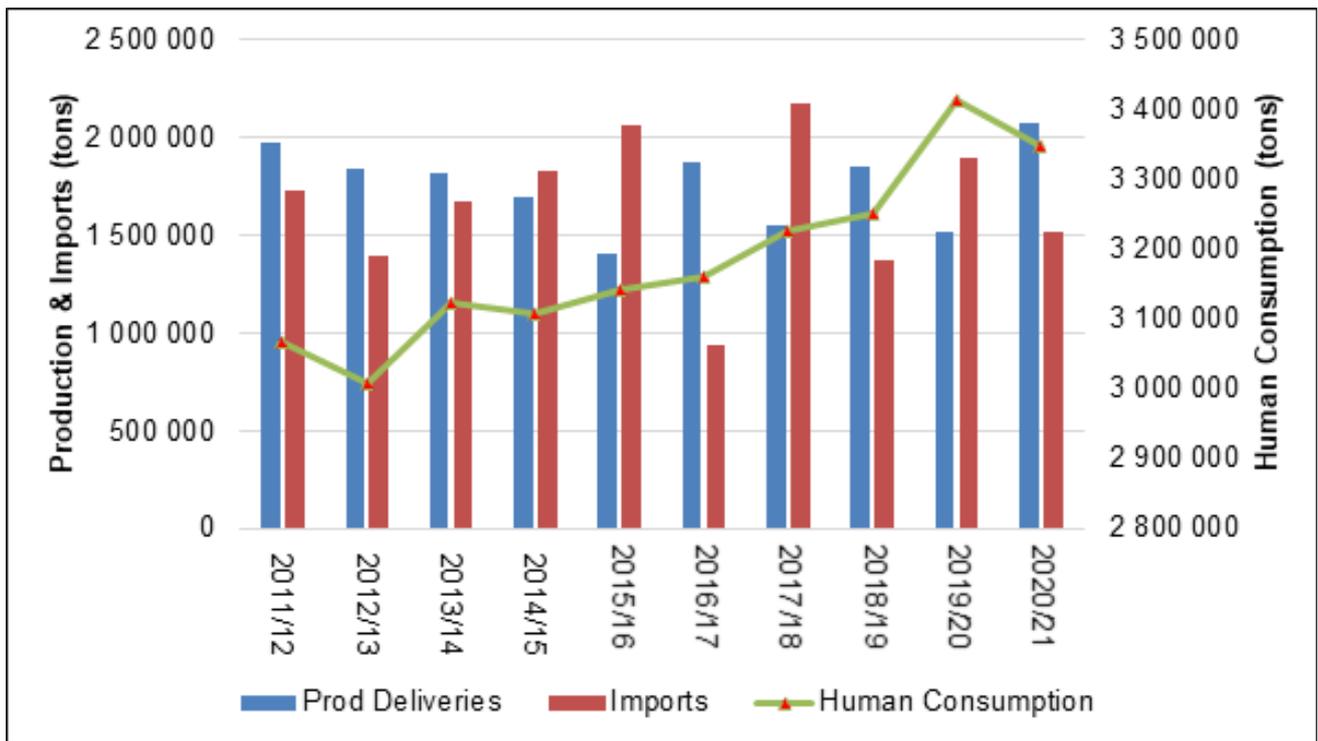
**Figure 18** depicts the long-term trends in wheat production. Wheat is the second most significant crop in South Africa. The Western Cape Province is South Africa's leading wheat-producing province, with an average crop production of 1 780 282 tons during the last ten years. A total of 2 120 000 tons were produced during the 2020/21 production season, breaking the 2-million-ton barrier for the first time since 2008, with a total area planted of 509 800 hectares compared to 748 000 hectares in 2008, which could be attributed to better yielding cultivars and good agronomical practices. Wheat has a marketing year that extends from October 1 to September 30.



**Figure 18:** Wheat production and area planted  
Source: SAGIS (2021)

### 4.3.2 Wheat producer deliveries, consumption and Imports

The vast majority of wheat produced in South Africa is for human use (bread, breakfast cereal, pasta, biscuits and so on), with only a small quantity used for animal feed. The average total wheat demand over the last ten years was 3 390 311 tons. Due to insufficient supply to fulfill local demand, South Africa is a net importer of wheat. Despite the recent increase in production, South Africa will still need to import wheat to meet commercial demand, albeit the numbers imported will be smaller than in previous years with lower harvests. On the back of a rebound in output, import volumes were 1 516 995 tons in 2020/21, down from 1 889 868 tons the previous year, as illustrated in **Figure 19**.

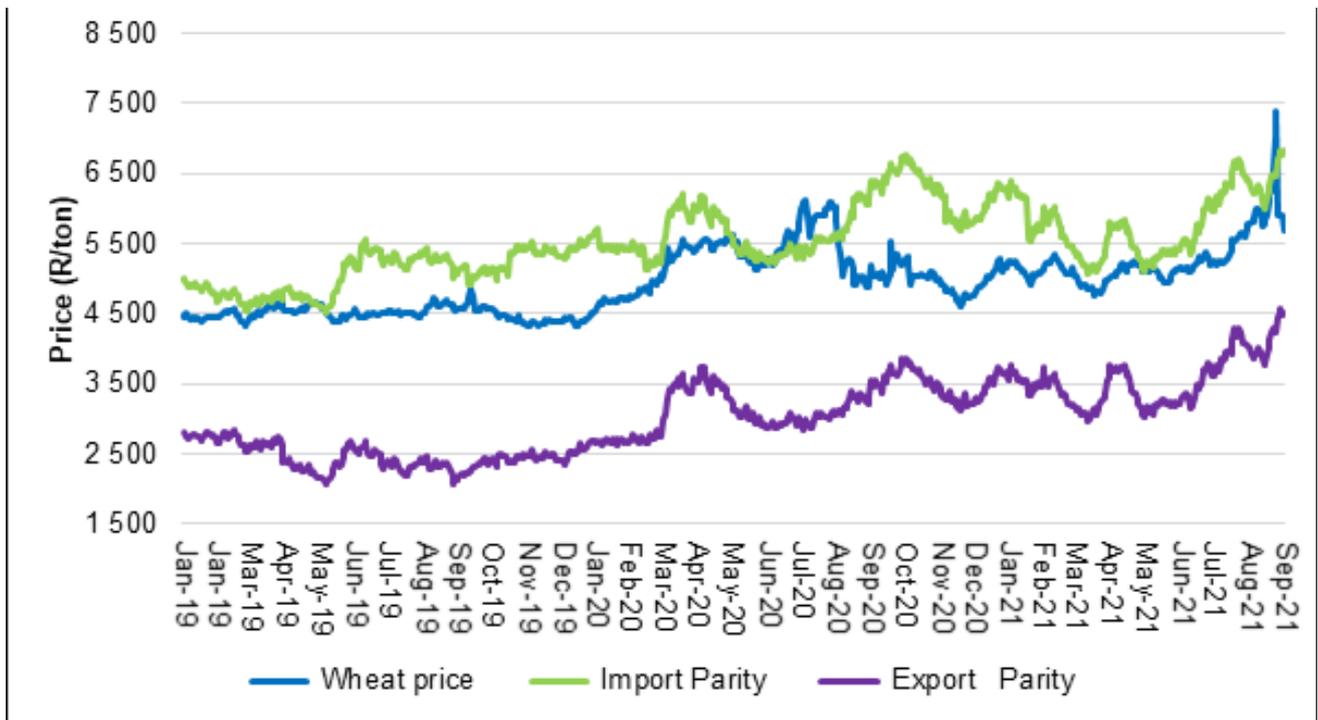


**Figure 19:** Wheat production, imports and human consumption

Source: SAGIS (2021)

#### 4.3.3 Price trends for Wheat

Domestic wheat prices with import and export parity prices are depicted in **Figure 20**. The domestic wheat price trades very close to import parity, implying that South Africa is a net importer of wheat since local production does not meet local demand, as shown in the graph below. As a result, changes in exchange rates and global wheat prices as a result of economic structural changes/ market forces will be reflected promptly in the domestic wheat price. During the 2020/21 marketing season (October 2020 to September 2021), the domestic wheat price averaged between R5 154/ton and R6 084/ton.

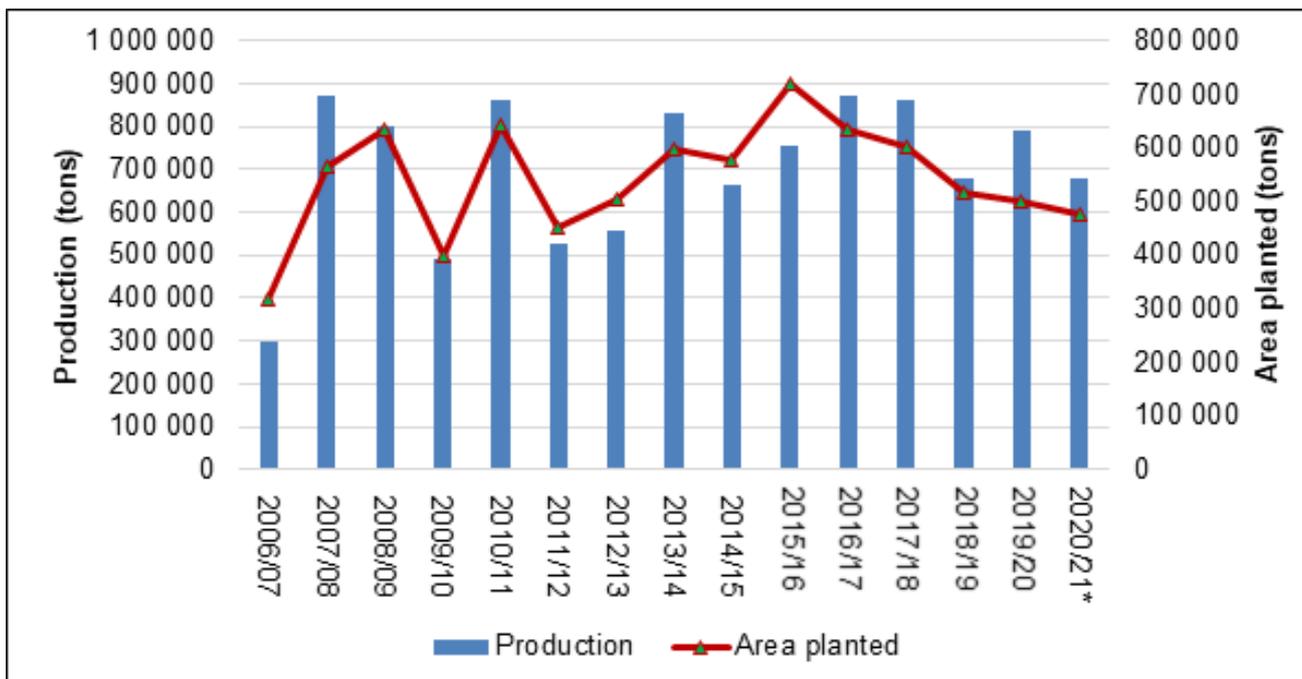


**Figure 20:** Import parity, export parity and SAFEX wheat price  
 Source: Grain SA (2021)

## 4.4 Sunflower seed

### 4.4.1 Sunflower seed Production

Sunflower seed is a summer crop that is typically planted between October and mid-January. Sunflower is mostly grown in the Free State and North West Provinces of South Africa. Sunflower seed accounts for around 5% of South Africa’s total grain production. Sunflower oil is one of the products made from sunflower seeds that have been processed. Sunflower oilcake is a by-product that is mostly used in the animal feed business. Production levels have varied over the years, owing to climatic conditions, as well as a shift to other crops. Sunflower seed producers continue to face a challenge from *Sclerotinia sclerotiorum* (a plant pathogenic fungus that forms white mould in favourable conditions). The 2020/21 sunflower production is projected at 677 240 up from 527 110 tons in 2011/12, as illustrated in **Figure 21**. Sunflower seed has a marketing year that extends from March 1 to February 28/29.

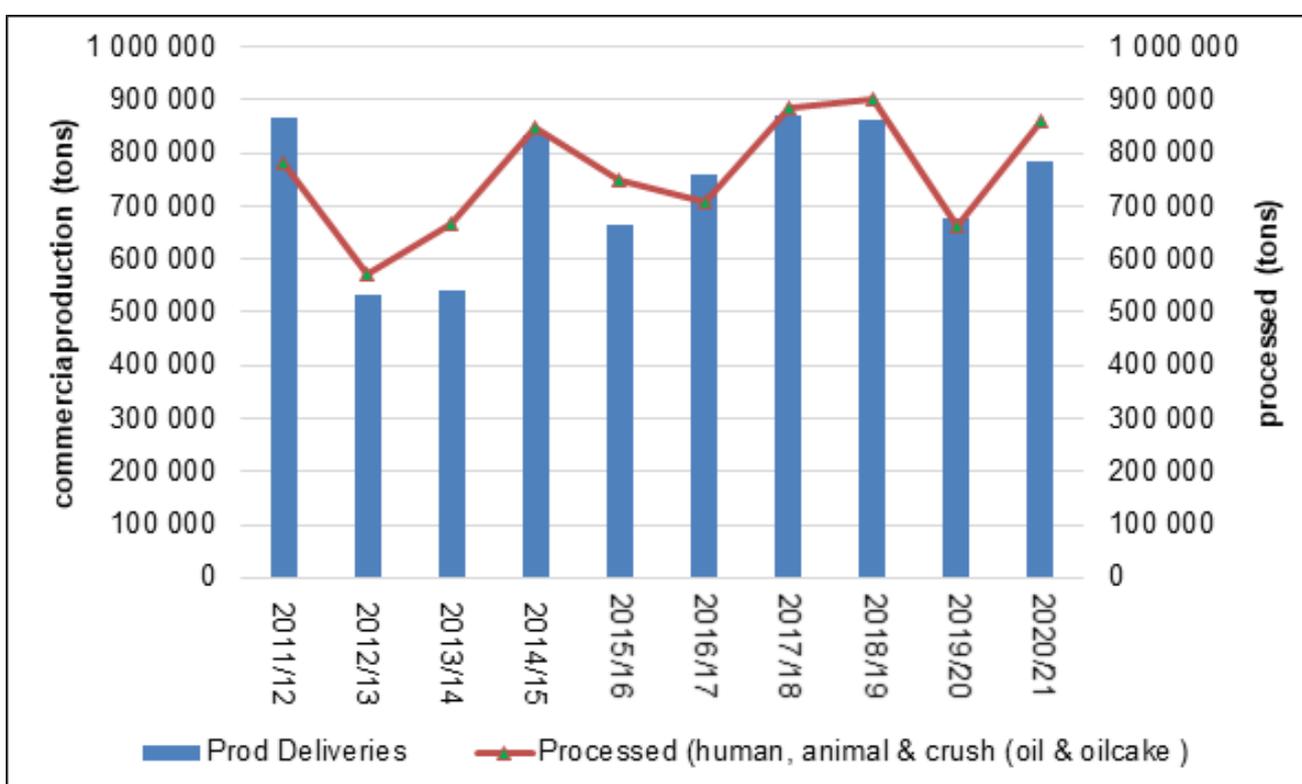


**Figure 21:** Sunflower production and area planted

Source: SAGIS (2021)

#### 4.4.2 Sunflower commercial production and consumption

**Figure 22** illustrates the commercial production and processed sunflower seed for consumption. Producer deliveries and processed sunflower seeds (for human and animal consumption and crushed for oil & oilcake) have been fluctuating over the ten-year period, especially during drought-stricken years. Due to a lack of supplies in 2013/14, imports totalled 94 475 tons.

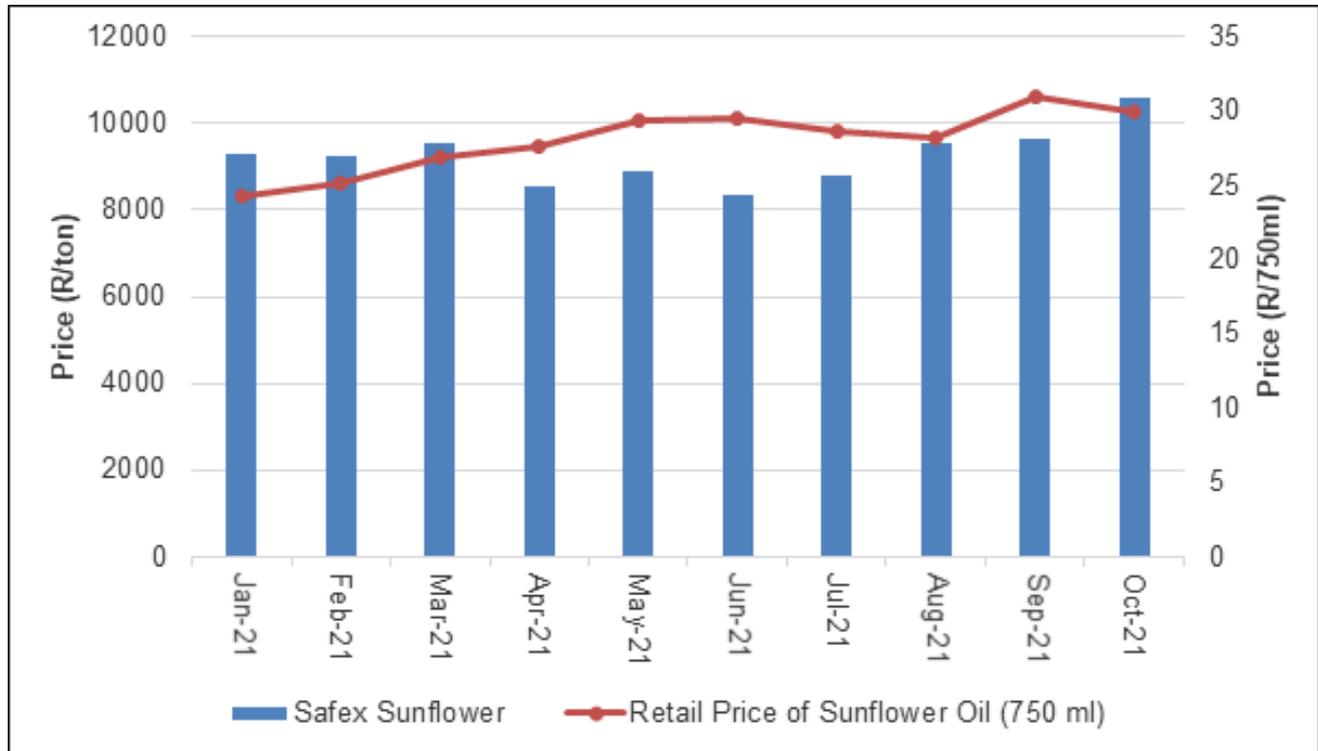


**Figure 22:** Commercial production and processed for human, animal, oil & oilcake

Source: SAGIS (2021)

### 4.4.3 Price trends for sunflower seed

**Figure 23** illustrates domestic SAFEX sunflower prices. The average domestic sunflower price increased by 12% from January 2021 (R9 272/ton) to October 2021 (R10 587/ton). This increase in sunflower seed's domestic price could be attributed to the increase in demand and a decline in local production. The retail price of sunflower oil (750ml) increased by 19% from January 2021 (R24.25/750ml) to October 2021 (R29.99/750ml) due to tight supplies.



**Figure 23:** Domestic sunflower seed and retail price of sunflower oil (750ml)

Source: SAGIS (2021), Stats SA (2021)

## 4.5 Conclusions and policy recommendations

Increases in maize and wheat production are largely seen as positive in terms of preserving food security in South Africa, with food availability being a high priority due to the country's growing population. The 2020 wheat production season was remarkable, surpassing 2 million tons and resulting in low import volumes. Due to the good weather conditions, additional gains in maize and wheat production are highly anticipated for the coming season. Improved cultivars and good agronomical practices also played a role in the significant improvements in harvest. Most summer crops have already started to be planted across the country, with harvest levels predicted to be at all-time highs.

Consumers were compelled to choose low-cost maize products due to budget restrictions during the financially difficult pandemic year (2020/21), resulting in record-high levels of human consumption of both white and yellow maize. In 2021/22, however, human consumption is expected to stabilize to levels of roughly 4 800 000 tons.

Sunflower seed is another crop that is expected to increase significantly, with a predicted planting area of 555 800 hectares in 2022, up from 477 800 hectares in 2021, owing to favorable prices. Imports of vegetable oil could be limited if production increases. This could assist to reduce the high price of sunflower oil.

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In order for South Africa to maintain food security, certain actions must be taken in relation to the numerous commodities that are crucial in this respect. The following recommendations are provided in order to unlock the industry's untapped potential.

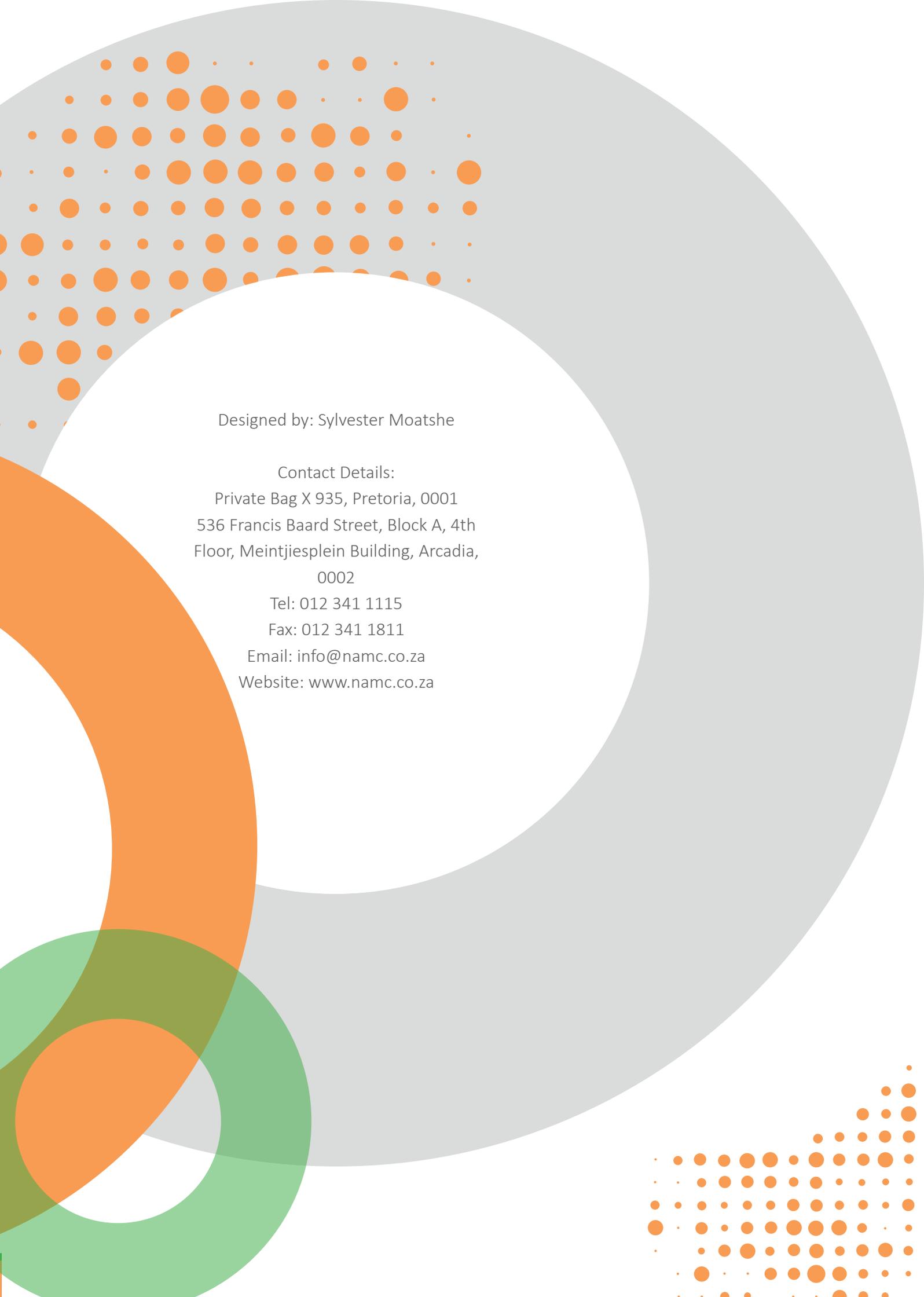
- Enhancing collaboration between social partners should be encouraged through sharing information such as to buy in bulk before prices go up, to change the production systems that are using less production input costs such as conservation agriculture.
- Strengthening effective government economic policy and management of South African fiscal affairs and government's constant desire to increase profitability in producers will benefit national food security.
- Revisit the calculation of the regulated fuel price to ensure that all the elements are still relevant.
- For grains and oilseeds, there seems to be room for production expansion, and the past two years have partly proved that. Expanding production particularly for soybeans and maize might cushion domestic prices, especially during similar times as we are experiencing. The poultry industry's master plan aspirations bode well with this. Moreover, the informal pork industry is rapidly growing according to numbers from Bureau for Food and Agricultural Policy (BFAP). Both these industries require soybean and maize hence the need for expansion.
- About 70% of South African beef is produced through the feedlot system. There is a need to support developing livestock production from the major producing provinces. This should not be limited to particular animals but all. Meat prices are influenced by the availability of other meats and South Africa has not reached the livestock slaughter numbers during the 2015/16 season. Commercialization programmes needs to be further explored.
- For vegetables, a more controlled environment for production for high-value crops should be explored given the changing climate conditions. Crops like tomatoes, peppers etc. are currently produced in particular areas and that was due to suitable temperatures, partly. However, recent experiences have shown that more advanced ways of production are needed both in the current dominantly producing areas and from other provinces or areas. This would help bring down pressure on prices during the off-season periods while continuing exporting.
- Adoption of new technology and advancing the conventional ways of practicing agriculture will be crucial for South Africa given the role it plays in terms of food supply domestically, regionally and globally. This would not only increase the food supply for local consumption and address the rising concerns around gas emission but will help in maintaining jobs across the country and earn foreign income for the economy.
- Sunflower Seed Industry: More resources should be invested to allow for higher production this can be done through industry collaboration, research into better yielding cultivars and an introduction of a levy.
- An integrated approach, particularly Public Private Partnerships (PPPs), will be crucial to assure growth and a sustainable agriculture sector, tackling issues such import replacement, crop insurance, production expansion etc.
- More research into potential markets, particularly for white maize, is critical; this will ensure that export levels are not constrained even in years when established markets have good crops.
- Infrastructure investments, such as silos, roads and markets, are required, particularly in the Eastern Cape and KwaZulu-Natal Provinces, which have been identified as key locations for maize expansion.

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