Agricultural Outlook
Summer Edition 2019
Africans are remarkable. The distinctly African ability to always find ways to get things done.
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Foreword

Jacobus Wells, head of Absa AgriBusiness Africa

The 2019 Absa Agribusiness Summer Edition Outlook focuses on the latest agricultural economic trends and developments impacting the future economics of certain permanent crops.

Contributors

In addition to his economic analysis and overview of international trade developments, Wessel Lemmer, head of the Centre of Excellence at Absa AgriBusiness, also investigates the potential impact that the Fourth Industrial Revolution will have on permanent crop production in South Africa.

Johan van den Berg, specialised crop insurance manager at Santam, discusses the weather outlook for permanent crop production, while Wandile Sihlobo, head of agribusiness and economic intelligence at Agbiz, and Theo Boshoff, manager of legal intelligence at Agbiz, provide a snapshot of future agricultural policies and regulations important to agriculture.

Adri Esterhuysen, agricultural economist at Absa AgriBusiness, examines the global apple trends. He also provides an analysis of wine production. Moreover, he provides an analysis of the lemon and soft citrus industries.

Barbara Willemse and Conce Moraba share their views on the future of the pecan nut industry, while Johan Coetzee, agri specialist in the Lowveld, argues in favour of expansion in macadamia nut production.

Erik van Papendorp, agri specialist in Tzaneen, reviews the increase in avocado production, and the attempts made to access new markets.

The outlook shows that the adoption of best practices, the latest affordable technologies and conservation agriculture principles to optimise the productivity of scarce resources is crucial for sustainable agricultural production.

Thank you to all the contributors for their work in compiling this outlook, as well as Paige Bowen for her research.
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Economic overview

Wessel Lemmer

Advanced technologies brought about by the Fourth Industrial Revolution (4IR) will enable developed countries to become more productive by lowering labour and production costs. As population growth in developed countries is lower than in developing countries, the former has often depended on migrant labour. Globalisation resulted in multi-national companies in developed countries expanding to capitalise on the competitive advantage of less expensive labour and weaker currencies in developing countries. However, the recent change in policy direction, as evidenced by political developments in the US, indicates that the focus of developed countries is shifting from globalisation to regionalisation.

Since US President Donald Trump took office, developed countries’ focus has moved inwards, with many beginning to favour investment and manufacturing in their own respective economies. The result of this is evident in the economic growth and decline in unemployment in the US. Upcoming 4IR technologies will thus benefit developed countries as they will be able to produce goods and services at lower labour and production costs than ever before. This will further boost productivity and economic growth in these countries.

Credit rating
So, how will developing countries, such as South Africa, respond to improve their own productivity? South Africans have a habit of not paying for services rendered by government. This includes municipal rates and taxes. A current example of this is the many neighbourhoods in Johannesburg that have outstanding electricity bills that reach into billions of rand. President Cyril Ramaphosa recently called on the country’s citizens to start paying their bills. Unfortunately, corruption, crime and a general lack of accountability continue to limit economic growth. Citizens are
increasingly demanding that
government respond to corruption
to ensure that the guilty are
prosecuted and held accountable.

In a bid to fight corruption,
Ramaphosa has made it clear that
independent institutions, such as
the National Prosecuting Agency,
the Office of the Public Protector,
the South African Revenue
Service, National Treasury, the
media, and the legal institutional
framework, need to be empowered
to do their work properly. The
restoration of these independent
institutions is very important to
ensure democracy and economic
growth. Fortunately, a lot has
already been done to restore the
leadership of these institutions.

Moody’s Investor Service
(Moody’s) is the only credit ratings
agency that has not downgraded
South Africa to sub-investment
grade (‘junk’). If Moody’s
downgrades South Africa to junk,
as was done by Fitch Ratings and
Standard and Poor’s Financial
Services, it will be a major blow
to the country and economy.

Bondholders will have to
disinvest and the rand will weaken.
The South African Reserve
Bank (SARB) has a mandate to
protect the rand to foster trade,
and a weaker rand will lead to the
higher cost of imported goods
and service. This will thus lead
to an increase in inflation, and
the SARB will have to increase
interest rates in order to prevent
the further outflow of capital.

Disinflation
The world economy is
characterised by disinflation.
This poses challenges for central
banks and monetary policy.
A policy of targeted inflation
and a floating exchange rate
were increasingly introduced
by developed and developing
economies over the years.
The impact of these monetary
policy changes by governments
and central banks resulted in
countries being able to manage
inflation fairly efficiently, and it
seldom happens these days that
a country’s inflation escalates out
of control, with the exception of
countries such as Zimbabwe and
Venezuela in which independent
institutions built to ensure
democracy are failing. Thus,
targeted inflation has contributed
to worldwide disinflation.

Another factor that allows for
disinflation is globalisation. Firms
worldwide were able to shift
production and manufacturing to
countries in which people work
harder at lower costs, and in which
natural resources can be exploited.

SA labour and education
South African labour laws do
not allow for the optimisation
of the country’s labour force
potential. New entrants on the
labour market find it difficult
to replace less productive, and
thus more expensive, labour.
Thus, labour policies need
reform to allow for competition
in the workplace. In support of
this, the country’s education
system needs to be reformed.
Countries in which policy
certainty prevail are preferred
for investment; South Africa is not currently amongst the top countries on that list. Government’s push for land expropriation without compensation adds to uncertainty, and stalls investment, economic growth and employment.

As a consequence of this policy, as well as poor education and stringent labour policies, South Africa does not fully benefit from globalisation.

**Investing in growth**
Since Ramaphosa took office, interest in investment and credit growth has started to increase.

South Africa’s inflation rate has also been more stable, and now relates more to global disinflation. However, this is not yet evident in South Africa’s macroeconomic indicators, such as year-on-year GDP growth.

The unemployment rate is now at 29%. While Finance Minister Tito Mboweni’s economic proposals to increase economic growth to between 4,5% and 5% per annum are fully endorsed by Ramaphosa, the proposed policies have yet to be implemented. This must be done without delay.

**Producing electricity**
The agriculture sector increased its dominance in the South African economy as other sectors, such as mining and manufacturing, saw a sharp downturn. The GDP growth of the sector, however, increasingly correlates more closely with rainfall, as agricultural output is directly impacted by rainfall and new technology that improves water-use efficiency. GDP growth also correlates directly with the availability of surplus electricity. As soon as surplus electricity is available, participants in the economy are able to produce goods and provide services.

As such, urgent reforms in the energy sector are immediately necessary. This includes allowing the solar energy sector to develop without limitations, and with supportive regulations. Energy producers should be able to supply electricity to the national grid and be remunerated. South Africa has the third best source of radiation worldwide, which can be used for electricity production. The efficiency of supply and services by state-owned enterprises (SOEs) should be improved as a matter of urgency. This can be accomplished by prioritising the privatisation of SOEs.

With credible institutions such as the SARB and a flexible inflation targeting policy, inflation can be managed, and unemployment can be prioritised.

**Central banks**
In 1963, the American economist, Milton Friedman, said that inflation is a monetary phenomenon. Ten years of below-target inflation in developed countries suggests that inflation as a macroeconomic indicator to inform monetary policy decisions is becoming less effective. Trump believes the Federal Reserve Bank of America should stop worrying about inflation, and focus on growth.
Trump wants the Federal Reserve to cut interest rates in order to grow the US economy. Some modern monetary theorists say that as long as inflation remains contained, the government can borrow as much as it likes, and that fiscal policy should manage the economic lifecycle. However, it is wrong to assume that periods of low inflation are there to be exploited to boost economic growth or fund more government spending. Moreover, reforms to central banks should not be welcomed.

Around the world, central banks are searching for ways to:

- Fight periods of negative growth or recessions. For example, rich countries in general target an average inflation rate of 2% over the economic lifecycle. Instead, central banks should allow inflation rates to increase above this 2% in order to support economic growth.
- Steer the economy, despite the fact that unemployment increases during periods of low inflation. In order to target prices, central banks need to know if inflation was driven by costs in the labour market or by supply-side factors such as technological change, lack of productivity or global shocks. The current trade environment means that the trade war between the US and China impacts on other countries as well. As tariffs rise, or Brent Crude oil prices increase, it pushes inflation up, and dampens economic growth in developing countries. This forces central banks to follow tighter monetary policy by increasing interest rates, which is necessary to get prices back in line, despite economic growth suffering.
- Figure out how to manage economic conditions when economic growth declines and inflation falls, and interest rates can no longer be further reduced. Fiscal policy such as quantitative easing or buying of short-term bonds by governments must be a last resort to stimulate the economy. These policies can impact on business confidence, and the future cost of capital.

Given that inflation may not be the important economic indicator it was previously, central banks may need to adjust and target a simpler indicator such as GDP growth plus inflation. Such a target would incorporate the central banks’ underlying goals of stable inflation, as well as its focus on economic growth. Thus, it is only when economic growth and inflation increase at the same time beyond a certain target that central banks should consider raising interest rates. Currently, South Africa’s low economic growth, coupled with low inflation, cannot bear increases in interest rates.

Inflation

But, how secure are emerging markets’ low inflation rates? Emerging markets with independent central banks and floating exchange rates appear to be at the mercy of international financial conditions. These central banks are following the Federal Reserve Bank’s interest rate fluctuations. Three factors
may be a threat to South Africa’s low inflation: the strength of institutions; fiscal policy; and the global environment.

In some countries, runaway inflation has coincided with a rise in populism. The institutional weakness of central banks in Argentina and Turkey has led to runaway prices.

For this reason, the SARB should remain independent.

Not all populist governments have laid siege on their central banks. The Mexican government has promised not to interfere with its central bank, while the Brazilian minister of economy defended the independence of the country’s central bank. However, emerging market institutions remain more vulnerable to populist approaches than those in developed countries.

Budget balancing plays an important role in emerging market economies’ battle against inflation. The debt in advanced economies peaked at 70% of GDP in the mid-1990s. Due to the commodity boom, this number was halved in the years just before the financial crisis in 2007. Since then, government debt in emerging market economies has started to increase again.

South Africa’s current debt is 60% of GDP. The average level of debt amongst emerging economies is at 53%, and it is expected to increase to 60% of GDP by 2024. When the currency weakens and inflation increases, it becomes increasingly difficult to repay foreign debt. While advanced economies can bear more debt in a world of low interest rates, the same is not true for emerging economies such as South Africa. Interest rates are higher in South Africa, and investors are flightier.

The external environment has a considerable impact on low inflation in emerging market economies. Inflation-targeting leads to disinflation in emerging markets, but the impact of external factors cannot be down-played. Inflation expectations are less anchored in emerging markets. Bond yields over the short term are also higher than that of long-term bond yields. The result is that corporates cannot carry their debt forward, and as a result, reduce their cost to wages and disinvest. This consequently impacts economic growth, and fuels a self-fulfilling prophecy of imminent recession.

Global recession

However, current global conditions do not indicate that a global recession is likely, as developed economies are strong and employment has improved; however, the fear of recession is ever present. This increases uncertainty amongst investors and impacts negatively on business confidence. As a result, investment stalls and economic growth is limited.

If global inflation were to rise in future, developed countries, such as the US, would breathe a sigh of relief. However, this would not benefit South Africa. A higher inflation rate in the US will mean higher interest rates in that country, and disruptive
capital flight from South Africa. This can result in the weakening of the rand against the dollar. If this were coupled with a downgrade by Moody’s, it would bode ill for the future of South Africa.

**Food prices**

Despite all this, the majority of primary producers are hedged against a downturn in South Africa’s economic conditions, which would coincide with a weaker currency. South Africa exports about half of all of its agricultural produce. As such, primary producers would benefit more from a weaker, rather than stronger, exchange rate.

However, South Africa must remain wary of inflation in developed countries, as it cannot currently afford an increase in inflation.

Idiosyncratic price changes can play havoc with a country’s inflation estimates. In the US, overall core inflation dropped 0.2% after a cell phone company offered mobile-phone connections with no limit on data. In India, the price of onions, which is an important staple, increased 370% in 2013, which caused inflation to spike. This led to export controls on onions the following year. In China, the 47% spike in pork price inflation in August contributed nearly half a percentage point to headline inflation. In South Africa, the prolonged drought, high maize and flour prices, and biosecurity issues render food inflation sensitive to year-on-year price swings.

The way in which business confidence is measured locally and abroad may not sufficiently take global disinflation into consideration, and the way in which economic growth is measured, excluding current developments, may be somewhat inaccurate.

Compared with the recent growth in credit at financial institutions, and renewed interest in investment after the election of Ramaphosa, economists may be underestimating the potential upturn in economic growth and employment, and, as such, it may not be as bad as forecasts predict.

At Absa AgriBusiness, it has been noted that investment by large producers has increased, while investment by smaller producers have declined.

Moreover, the number of smaller producers has declined, while the number of larger producers, as well as the level of sophistication of production, has increased. This is why agriculture, despite the drought and lack of sufficient electricity supply, continues to grow in gross producer value terms, and even outperforms other industries. The sector also continues to contribute to the overall economic growth of the country.

However, investment is needed to sustain productivity. An industry and country that is efficient enough to compete abroad with developed countries must produce good-quality, safe food that is affordable to its citizens.
Policy direction: What to expect on the SA agriculture policy front

Wandile Sihlobo & Theo Boshoff

Agricultural policy has been central to the development of South Africa’s agriculture sector since the early 1900s. Back then, extension services and scientific research were key government priorities. From the 1930s until 1994, government’s focus was on providing technical and financial support services to farmers and strengthening its agricultural regulatory framework.

After the 1994 general election, South Africa’s first democratically elected government began the process to redress past injustices with regard to land ownership through a three-pronged land reform policy.

At the same time, agricultural markets were deregulated, and trade policy became central to the development of South Africa’s export-orientated agriculture sector. Currently, South Africa exports nearly half of its total agricultural products in value terms every year.

According to the current administration, government’s primary objective in agriculture is to achieve inclusive growth and job creation by pursuing various policies, including land reform, animal health, agricultural finance and water regulation.

Land reform
The land reform programme has been poorly managed in the past. The Proactive Land Acquisition Strategy (PLAS) steadily acquired land for redistribution year-on-year from 2000, until it reached a peak in 2009. However, since then, policy paralysis, and the reallocation of funds destined for land acquisition, resulted in a steep decline.

A Parliamentary panel report in 2017 highlighted the shortcomings in implementing land reform as the primary concern. Despite the state never using its powers of expropriation for land reform in 25 years, public pressure resulted in a political decision to review Section 25 of the Constitution to allow for the expropriation of land without compensation (EWC).

A series of consultations in Parliament and across South Africa resulted in the decision to amend the Constitution.

An ad-hoc committee is now drafting the specific wording for a Constitutional amendment. The committee will report back to Parliament on 31 March 2020. MPs will then vote on whether Section 25 should be amended.

No political party has enough seats in Parliament to singularly amend the Constitution, as any amendment requires at least 66% of the votes.

Thus, for the amendment to be implemented, it would require that either the EFF or the DA votes with the ANC.

In 2018, President Cyril Ramaphosa appointed a Presidential Advisory Panel on Land Reform and Agriculture to formulate proposals to accelerate land reform and to stimulate agricultural development. The panel’s final report contained recommendations from various experts in the agriculture sphere.
However, this report has no formal standing in official government policy, and the President is entitled to exercise discretion as to which recommendations, if any, are adopted as policy.

While not all proposals in the report require legal amendments, those that do will have to follow the usual route of public consultation, in which case-affected stakeholders can provide commentary.

Proposals

The following recommendations contained in the panel report do not require legal amendments, but merely political will and stakeholder commitment:

- Create innovative financing mechanisms;
- Create a ‘land register’ to house donations;
- Identify and release state land;
- Conduct a land audit;
- Subdivide land already acquired by the state;
- Provide tenure grants for certain occupiers;
- Root out corruption;
- Reallocate water rights in conjunction with land allocation;
- Finalise outstanding restitution and labour tenant claims; and
- Split the budget between reforming the commercial farming sector vis-à-vis land reform for social considerations.

In theory, these proposals, if accepted by government, can immediately be implemented. They will, however, require substantial political will, as existing business processes will need to be adjusted.

Other recommendations require amendments to the legal framework. These include:

- Create a land reform ombudsman;
- Create legally enforceable rights for the holders of off-register tenure rights;
- Amend the municipal property rates regime;
- Alter the legal framework regulating land rights on farms (Extension of Security of Tenure Act);
- Clarify the role of traditional councils and communities in natural resource governance in communal areas;
- Expand the capacity and mandate of the Land Claims Court; and
- Create a compensation policy for expropriation.

These legal amendments cannot be undertaken without substantive public consultation, which is characterised by the following processes:

- Gazetting for public comments;
- The Nedlac process; and
- Public hearings in the Portfolio Committee and Select Committee of the National Council of Provinces (NCOP) where applicable.

Stakeholders need to make sure that they are well positioned and represented by their respective organisations to participate on each platform, and should submit thorough comments on each proposal should public comment become necessary.
**Contentious proposals**

On face value, the report contains a mixed-bag of proposals that are enabling, as well as those that are contentious. The contentious proposals include potential amendments to the Extension of Security of Tenure Act, which would make it more difficult to evict occupiers on commercial land; increased taxes on unused land; and the recommendation to amend the Constitution to allow for EWC. However, the Parliamentary process has largely overtaken the panel’s process with regards to EWC. The enabling recommendations include blended finance mechanisms; a land register; tenure grants; a division of the budget; an ombudsman; and strengthening the legal rights for off-register tenants on communal land.

**Animal Health**

Policy areas that could restrict the ease of exports need to be a key focus area and must be continuously monitored. This includes the recent outbreaks of foot-and-mouth disease and African swine fever. The FMD outbreak had serious financial implications for the wool and meat industries, as the outbreak led to a ban on the export of these products. Minister of the Department of Agriculture, Land Reform and Rural Development, Thoko Didiza, said in her budget vote speech that “… focus will be to prioritise biosecurity in order to mitigate risks of animal and plant disease. The national department will ensure that budget support goes towards stepping up the surveillance of FMD red line zones. This is mainly Limpopo, Mpumalanga and KwaZulu-Natal”. This should be a key focus area of government, as FMD and other animal diseases have a direct impact on trade, which has been a catalyst for economic growth.

**Finance**

There is general consensus that South Africa needs innovative financial instruments in order to drive development in the agriculture sector. In its recent economic policy working paper, National Treasury argues that “access to finance is essential for the implementation and long-term sustainability of agrarian transformation”. The paper proposes a joint finance venture, which leverages on private and public sector funds. Government has already started working on various master plans that will include this development finance angle.

This process will build on the presidential advisory panel report, which proposes the creation of a Land Reform Fund to enhance access to developmental finance in the agriculture sector.

**How the fund works**

In brief, the panel recommended a fund housed at the Land Bank and managed jointly with the private sector. The fund could be capitalised through land reform bonds that would ideally be issued
by the Land Bank, foreign donor funds and incentivised individual contributions from wealthy South Africans. All will be merged into one fund, which should be easily accessible by implementing agents and beneficiaries of land reform. By combining the various sources of capital in one fund, the cost of capital is reduced, which should allow the fund to on-lend to smallholder farmers and new entrants at well below market interest rates.

Water use
South Africa is regarded as the 30th driest country in the world, and the impact of climate change is likely to place even more pressure on the country’s available water resources as mean temperatures and extreme weather conditions, such as periodic droughts, are set to increase.

This will naturally place agriculture’s share of South Africa’s water use under considerable pressure. In addition to availability constraints, the institutional arrangements for water management is in dire need of rationalisation as the current capacity is inadequate to enforce licensing conditions and police unlawful use of water.

Transformation is also likely to play an increasingly large role in water management as agricultural water use is regarded as untransformed.

Interventions
The Water and Sanitation Master Plan, developed by the Department of Water and Sanitation, proposes three radical interventions:
• A prohibition on the trading of water-use entitlements;
• The elimination of existing lawful use; and
• A use-it or lose-it policy applicable to under-used water entitlements.

While there is an urgent need to address the challenges in the sector, especially those related to a lack of transformation, there are concerns regarding the legality and capacity of the current institutions to implement these changes. Moreover, there is the risk that such a process, if not well managed, can lead to interruptions in supply that will have a knock-on effect on productivity, foreign earnings and jobs in the sector.

A strong focus on dialogue and policy proposals around water, in an attempt to resolve the current challenges with minimal interruptions to bona fide enterprises, is very likely.

However, these discussions will need to be carefully managed, as the water sector is complex and affects a variety of stakeholders.

That being said, there is a vital need to address the challenges in the sector as water is absolutely key to agricultural production.

The desired outcome is a water sector social compact, which will apportion the responsibility to deal with the myriad of challenges across stakeholders.
Climate outlook for 2019/20

Johan van den Berg

Most of South Africa’s summer rainfall region has been experiencing a ‘drying’ cycle since the 2011/12 season.

The cumulative effect of below average rainfall and/or poorly distributed rainfall (spatial and over time) has been responsible for the very low soil water recharge levels of recent seasons.

Heavy rainfall in April resulted in some recharge of soil water in the rooting zone of the summer grains area, but it is still far from safe levels for the 2019/20 summer production season.

High temperatures resulted in a very high evaporative demand that resulted in lower rainfall effectiveness and increased water use.

Extreme drought conditions continue over most of the western half of the country, with soil and surface water nearly non-existent.

Availability of water is the most important factor for agricultural production in South Africa, especially for high-value and permanent crops, such as fruit and other perennial crops.

There is also an increasing demand for water for human consumption, with the availability and quality of water becoming an increasing production risk.

Periods of below-average rainfall are part of the natural climate of Southern Africa, and periods of below-average rainfall that extend for more than five seasons at a time are now common.

Consecutive years of above-average rainfall are also part of the natural climate of Southern Africa.

However, climate change has an add-on effect and increases climate extremes, and causes secondary effects such as higher evaporative demand and less rainfall.

The good and the bad

The current prolonged drought begs the question: how long are the current unfavourable conditions going to last? Are these poor conditions going to change in future, or is this the new normal?

Looking at long-term trends, there are indications that the current dry spell may be nearing its end. It is still very uncertain if this is going to happen this season, and if so, in which part of the season.

On the positive side, there are indications that the El Niño Southern Oscillation (ENSO) is currently moving into a neutral phase, with sea surface temperatures in the ENSO areas expected to remain within 0.5˚C of the long-term average for the summer season. A neutral phase is often associated with at least average rainfall over the central to eastern parts of the country, but not necessarily towards the western parts of the country. The sunspot cycle, which is now in the upward trend of the five- to six-year part of the cycle, is also often associated with increased probabilities for rainfall.

On the negative side, the Indian Ocean is in the ‘wrong’ phase with warmer water more concentrated towards the African coastline, and cooler water towards North-Western Australia, increasing the risk for tropical depressions.
and cyclones in the western Indian Ocean, and decreasing rainfall probabilities over the Southern African sub-continent.

It is likely to remain in this state until about December 2019.

The warming of the western Indian Ocean was the main cause for severe drought conditions in Australia in 2019, and, because of the high correlation between the climate of Australia and South Africa, a concern for Southern Africa.

The neutral phase of ENSO may soften the expected negative impact of the Indian Ocean on rainfall, but it is uncertain to what extent.

Expected rainfall
The current situation with regards to the status of the Indian Ocean and the ENSO is not as negative as it was in 2015/16, when both indicators were severely negative on rainfall expectations, and resulted in a disastrously low rainfall season. Sufficient rainfall to break the drought is not expected before later in summer.

If the Indian Ocean moves towards more neutral conditions and the ENSO remains neutral or moves towards La Niña conditions, the second part of the season may see the beginning of a wetter cycle for the summer rainfall region.

Long-term planning must, however, be implemented with regard to the better management of favourable rainfall conditions to help farmers and stakeholders mitigate the effects of future droughts.

(This report was compiled in September 2019.)
Horticulture

Pecan nuts

Conce Moraba & Barbara Willemse

In 2018/19, global pecan production is estimated to reach over 140 200t (kernel basis). Mexico and the US remain the world’s largest producers, accounting for 52% and 40% of global production respectively. South Africa is the world’s third largest producer accounting for 7% of global production, and it is expected that local production will continue to increase as new trees reach bearing age. In 2018, the US was hit by Hurricane Michael before the main harvest in the largest growing state, Georgia. This resulted in an overall 27% drop in production in the US. As a result, Mexico became the global leader in pecan nut production for the 2018/19 season. Mexico is expected to maintain its number one ranking in global production for the 2019/20 production season as production is expanding across the country.

International
The 2018/19 US pecan prices were lower even though the crop size was smaller. The record influx of imports into the US and abundant beginning stocks kept supplies steady. In addition, slower exports (driven by trade conflicts) pushed prices lower. The US pecan industry has shown strong growth over the past 10 years, and US consumption continues to increase rapidly. US imports, mainly from Mexico, continue to rise year-on-year to keep up with US domestic needs. China is the largest export market for US pecan nuts. The advantage of access to other trade markets and regions has proved to be of great benefit to US producers with the onset of the trade war between the US and China. The US pecan production forecast for the 2019/20 season is estimated to be 15.7% higher.

Domestic
Despite rapid expansion in the area planted to pecan nuts, the 2019 year was not a good harvest for the South African pecan nut industry, with a crop of 15 500t.
This was due to severe cold in early September 2018, which caused the drop of flowers. Hail in the Hartswater district also resulted in quality issues with this season’s harvest. South Africa exports about 90% of its pecan nuts to China, 8% to the EU and 2% is used on the domestic market. The local pecan industry is currently benefitting from the US-China trade war. South African pecan nuts are attractive to Chinese buyers as a tariff of 7% applies to pecan nuts imported from South Africa, whereas US pecan nuts are subject to an import tariff of 47%. This makes South African pecan nuts a cheaper alternative for Chinese buyers.

The current price for oversized pecan nuts is $6.50/kg (about R97.20/kg), while the price for small pecan nuts is $3/kg (about R44.86/kg).

Depending on the outcome of the trade war, as well as the exchange rate, a long-term price of R65/kg is realistic.
Macadamia nuts

Johann Coetzee

Macadamia nuts are still a small sub-sector on the world nut market, with only 1.28% of the total market share. Almonds and walnuts continue to dominate with market shares of 30.51% and 20.77% respectively. In many regions, macadamias are still considered a luxury product. Globally, about 70% of macadamias are used for snacking purposes, while 30% is used as an ingredient in a final product.

International

The 2019 macadamia crop in Australia is likely to reach 49 500t (nut-in-shell at 3.5% moisture), with Bundaberg set to become the largest macadamia growing region in Australia by the end of the year.

South Africa and Australia remain the world’s largest producers and processors of macadamias, but Kenya is also an important player in the industry.

Domestic

Mpumalanga is South Africa’s primary macadamia producing region, with 46% of the total area planted to macadamias in this province. Over the past five years, local plantings have increased, and there are thus many trees that still need to come into production or reach their full potential.

As such, it is expected that production will double over the next five years.

In order to satisfy processing needs, and also to take full advantage of the different export markets, South Africa needs more cracking facilities.

Outlook

The macadamia industry still looks very promising for South Africa as export prices will be supported by the weakening exchange rate.

Investments into the industry are expected to continue as margins remain lucrative.

However, more emphasis needs to be placed on research and increased consumer education regarding the health aspects of macadamias, in order for the industry to take advantage of growth opportunities.
In 2016, global apple production was 89.329 million tons, with an average yield of 16.9t/ha. China, with 44.4 million tons, was the world's biggest producer, followed by the US at 4.6 million tons, Poland at 3.6 million tons and Turkey at 2.9 million tons. The top 10 apple producing countries are responsible for 77.4% of world production. Between 2006 and 2016, global production increased 41.2%. As a result of more intensive production practices, production is expected to further increase, and is estimated to reach 100 million tons by 2025.

**International**

Between 2006 and 2016, China's contribution to global apple production increased 9%, from 41% to 50%. Over this period, Chinese producers improved their average yields from 13.8t/ha to 18.6 t/ha. The increase in production was absorbed by increased demand on the local market. From 2001, fresh apple consumption in China increased from 12.66kg/capita to reach 27.37kg/capita in 2016.

**Consumption**

World consumption was around 18kg/capita in 2016. China, Russia and other Eastern European countries have seen substantial growth in consumption. However, as population growth in China is on the decline, it is expected that further growth in consumption will be limited.

**Trade**

China is the world's biggest exporter of fresh apples, despite the fact that export volumes only represent 3% of the country's total production. More than 80% of China's exports were to other Asian countries. Poland, Italy, the US and Chile follow China as the world's largest exporters of fresh apples. South Africa is ranked seventh.

Four Southern Hemisphere countries, namely Chile, South Africa, New Zealand and Argentina, are included in the world's top 10. Russia is the world's biggest importer of apples. However, import volumes fell significantly after Russia banned the import of a wide range of perishable products from the EU, including fresh apples, in 2014. Poland, the EU's largest fresh apple exporter, was hardest hit by the ban. The ban resulted in apple-producing countries in the EU looking for alternative markets, especially in Africa and Asia. Italy, the second largest EU producer and exporter, focused on targeting other European markets. Germany is the world's second biggest importer.

The UK is the world's third largest importer, and imports most of its fresh apples from other European countries. The final impact of Brexit on trade is yet unknown. The primary export markets for the US are North and Central America. The US is also strong on Asian markets, while Europe is strong on the Middle East and North African export markets.
Domestic

The severe drought in the Western Cape in 2017 resulted in a 12% decline in production in 2018. Despite the smaller harvest, apples for fresh consumption as a percentage of the harvest increased to 70% compared with 66% the previous year. While export volumes were down 7.4%, they are expected to increase 6% in 2019.

Over the past 10 years, the area planted to apples increased 14.6% to 24 176ha. There has also been an improvement in the age distribution of trees, with trees younger than 16 years old occupying 8 651ha in 2009, compared with the current 11 130ha. Moreover, trees older than 16 years declined from 12 449ha in 2009 to 10 339ha in 2018. Currently, 12% of apple trees are not in production, and a gradual increase in production can thus be expected.

From 2014 to 2018, 69% of the crop was marketed as fresh fruit, with 45% exported, 24% sold on the local market and 31% used for processing. The total value of the crop in 2018 was R6.03 billion, of which fresh apples was worth R5.65 billion.

Market preferences

Over the past 10 years, there has been a clear shift in export market destinations. In 2009, only 14% of exports went to Africa, compared with 29% in 2018. Over this period, exports to the UK decreased from 37% in 2009 to 22% in 2018.

There is good demand for green apples in Africa, especially the Golden Delicious variety. In 2018, green apple exports to Africa accounted for 43% of total green apple exports. In 2018, 43% of red apples were exported to the Far East and Asia.

Consumption in developed countries is becoming stagnant, and opportunities on these markets are limited to specific cultivars based on preference.

Asia, the Middle East and Africa are the markets earmarked for growth. In South Africa, expansion is expected to be limited due to water concerns.

However, total crop production is expected to reach around one million tons in 2023.

South Africa, like other exporters, will continue to shift its export focus to Africa and the Far East.
Avocados

Erik van Papendorp

The global avocado industry has seen impressive growth over the past couple of years, with production reaching its highest recorded level of 6.6 million tons in 2018. Of this, around 2.4 million tons were traded between countries. Europe, South Africa’s largest export destination, also broke through the 1kg/capita avocado consumption mark, and increased consumption 6% year-on-year during 2018. It is expected that this will increase to 15% during the 2019 season.

International

Increased demand in Europe can mainly be attributed to consumers’ change in attitude towards avocados, with many viewing the fruit as less of a luxury, and more as a staple. It is estimated that the global demand for avocados is increasing 11% per annum.

Mexico, Columbia and Peru remain the world’s largest producers. Growers in Spain are also in the process of replacing citrus orchards with avocado, and thus it remains to be seen if this country gradually becomes an important player on the world market.

Domestic

The avocado industry in South Africa entered a ‘boom’ phase over the last couple of years, with more producers beginning to plant avocado trees. It is estimated that a total of 17 500ha are planted to avocado with an average expansion of 1 000ha/annum.

Farmers in the conventional avocado producing regions, which include Limpopo, Mpumalanga and KwaZulu-Natal, are increasingly expanding the area planted to avocados, while also replacing old trees with new cultivars.

Unconventional avocado planting regions, such as the Western Cape, has seen the introduction of avocado orchards over the past four years. This is due to better rootstock development and a marketing window that favours the area.

Commercial avocado tree sales increased over the past decade, and it is expected that the total sales of avocado trees will increase exponentially in 2019 and 2020. With the introduction of the ready-to-eat avocado trend, it is expected that there will be a further increase in the sale of Hass-type avocado trees.

Consumption

Local consumption has mostly stayed the same over the past decade. On average, 43% of South Africa’s crop is exported, while 17% goes to informal direct markets, 21% to the fresh produce markets and 9% directly to retailers. On average, 10% of South Africa’s avocado crop is processed for oil or guacamole.

Exports

Exports increased in the 2018 season to 22.6 million standard cartons. This was, however, measured against the lower 2016/17 season benchmark, which was marked by an industry-wide drought.
Exports for the 2019/20 season are estimated at 14 million standard cartons. The expected lower production is largely due to trees being in the off phase of the alternate bearing cycle.

**Outlook**

Given that exports increase 10% per annum on average, it is likely that there will be pressure on exports and price in the future.

The local industry is actively involved in new market development, specifically targeting the Chinese, Indian and US markets. Local marketing campaigns and awareness programmes also aim to increase local consumption.

South Africa has to differentiate its product from others by ensuring good-quality fruit and focusing on brand development.
Table grapes

Napier de Kock

Global production of table grapes is currently estimated at 22.1 million tons, which is 5% down from the 23.36 million tons produced in the 2017/18 season. The decline is largely a result of the one million ton drop in production in China, due to severe frost, as well as a 220 000t decline in production in Turkey due to heavy rain in August 2018.

International
China remains the world’s largest producer with around 10 million tons per annum, followed by India and Turkey. South Africa is ranked tenth, with an annual average crop of 315 000t. On the global market, South Africa mainly competes with Brazil, which produces an average of 984 500t, Chile, which produces 874 600t, Peru, which produces 658 000t, and Australia, which produces 200 000t.

Production in Peru increased 6% year-on-year (y/y); however, compared with production in the 2010/11 season, the country increased its yield 122%.

Brazil’s annual production remains consistent, while Chile saw a decline in production of 4% from the previous season. When compared with 2010/11, production in Brazil and Chile declined 34% and 28% respectively. While production in India decreased 4% y/y to 2.7 million tons, due to late rain and delayed pruning, the country, together with Peru, established a much greater presence on South Africa’s top table grape markets over the past season.

Production in the EU rose 7% after a decade of decline, with Italy experiencing a rebound in its output as vineyards recovered from the previous season’s rain damage. To make up import losses from Turkey, due to rain damage in the Aegean Region, and Egypt, the EU imported a larger quantity of table grapes from Peru. The US-China trade war also resulted in fewer exports from Peru to the US, which led to a 103% y/y increase in Peru’s exports to the EU.

Consumption
To meet consumer demand, and in view of newly established vines and cultivar development, it is expected that the average global growth rate of 3% will be maintained over the next few years.

China remains the world’s biggest consumer of table grapes at 9.43 million tons. This accounts for 43% of total world consumption of 21.86 million tons. Most of China’s production is destined for its local market.

India has a consumption of around 2.28 million tons. The country is also increasingly exporting to markets in the EU and Russia, with exports reaching a record 205 000t in the past season.

The EU is a nett importer of table grapes, and consumes around 2.17 million tons/annum. Consumption is driven by the health benefits of table grapes, but consumers’ wants and needs are changing as the global population continues to expand.
Trade
During the 2018/19 season, imports decreased 3% y/y to 3.14 million tons. This followed a 5% drop in production.

Despite the decrease, the EU increased its imports to 690 000t, which was up 1% y/y, to remain the world’s largest importer of table grapes. The US, the world’s second-largest importer, imported 570 825t, which was a decrease of 8% y/y. This was attributed to lower shipment volumes from Mexico, which had suffered weather damage to the crop.

Russia’s imports declined 23% y/y, as a result of lower supplies from Turkey, which suffered a rain-damaged crop.

China’s imports increased 10% to 265 000t, and the country imported significantly higher volumes from Peru.

Global exports decreased 2% to reach 3.07 million tons. Chile remains the world’s biggest exporter of table grapes, but only exported 660 000t in 2018/19, which was 10% less y/y, and its lowest since the 2001/02 season. Chile faces increasingly strong headwinds to maintain its US market share as the industry works to transition vineyards to new customer-preferred varieties, and to adjust to the early and significant market presence of Peru.

About 50% of Chile’s crop is imported by the US, but over the last five years, its market share dropped from 65% to 51%.

Peru is now the world’s second biggest exporter, with a 37% increase y/y. Peru exported 380 000t in the past season.

Peru’s market share in the US has increased from 16% to 37% over the past five years. Its market share in the EU and China has also improved.

The US ranked third, followed by China and South Africa to finish off the world’s top five exporters. India also improved its exports 14% y/y to almost 180 000t.

Domestic
The effects of the severe drought in the Western Cape, unforeseen rain in the harvesting season, and a heatwave in October last year, caused a 1.6% decline in the 2018/19 harvest, to reach an intake volume (produce inspected and passed for export) of 275 099t. This is 9.5% lower than the record intake in 2016/17.

According to the latest available vine census, 21 798ha were planted to table grapes over the past season, which was only 3% higher y/y. Since 2012, the area planted to table grapes has increased by an average rate of 7% per annum.

As global consumer demand for seedless grape varieties are increasing, producers are following strict replacement policies; in 2018/19, 91% of South Africa’s grapes were seedless, compared with 80% in 2014/15. Red seedless grapes are the most popular, followed by white seedless varieties.

Consumption & exports
Local fresh grape consumption was estimated at 37 000t in
2018/19, which was 3% higher y/y. South Africa remains a nett exporter of table grapes, exporting on average about 90% of intake, with 10% consumed locally.

The EU and UK remain the country’s main export destinations. Over the past season, 51% of the country’s export table grapes were shipped to the EU, while 24% went to the UK.

For two consecutive years, exports to African countries have declined. In 2018/19, this decline was at 21%, and at 25% the year before. South Africa exported more grapes to Canada, the Far East, Indian Ocean islands, the Middle East and Southeast Asia over the past season y/y, while fewer were exported to Russia and the US.

Outlook
Over the past few years, the industry has been characterised by the introduction of new varieties and the replacement of older cultivars. The new varieties, coupled with new production regions entering markets, are helping close the supply gaps, especially in the US and Europe. This means that the market window that created opportunities in the past due to a lack of competition may come to an end and could have an effect on prices. Producers will need to be more efficient and produce more at a lower price.

Peru is set to further increase its production; producers in this country are also rapidly removing seeded varieties and replacing them with seedless varieties. The global grape industry will have to position grapes as the fruit of choice. Consumer education will likely ensure the product’s sustainability going forward.

From a South African perspective, producers need to make sure they deliver a constant high-quality product to the market. With more and more competition on the country’s traditional markets, preferential trade agreements and access to new markets need to increase.
Wine grapes

Adri Esterhuysen

Global harvests over the past three seasons have had a huge impact on the local wine industry. In 2017, the smallest international harvest in 50 years was recorded, which led to an increase in global wine prices. This was followed by the smallest harvest in 10 years in South Africa, when local production dropped 13% due to severe drought. The after-effects of the drought resulted in another smaller harvest in 2019, which was only 2% smaller than the harvest in 2018 at 1.219 million tons, but 17% smaller than the five-year average before 2018.

The smaller 2018 harvest, together with better international prices, resulted in a 24% increase in the bulk wine price from R5.54/l in 2017 to R6.86/l in 2018. However, due to increased local prices, total wine consumption in 2018 in South Africa declined 4.1% from 450 million litres in 2017 to 431 million litres.

International

In a relatively saturated market, inconsistent weather patterns continue to influence international stock and price movement. Production fluctuations have been more regular and more intense over the past seven years compared with the previous seven years. Average world production over the past 10 years was 270 million hectolitres, with international wine consumption fluctuating between 240 and 244 million hectolitres. The wine not used for consumption was utilised for industrial purposes, such as in the distillation of spirits. In 2016, 13% of all world production was used for industrial purposes (almost 34 million hectolitres).

In 2019, wine yields in Europe were down on the 2018 bumper crops, due to winter frost and two severe heat waves in June and July, which led to record-breaking temperatures. In France, Spain and Italy, the countries responsible for around 50% of world production, yield is respectively expected to drop 15% to 41.9 million hectolitres; 24% to 34.3 million hectolitres; and 15% to 46.6 million hectolitres.

In the Southern Hemisphere, Chile and Argentina are in their second consecutive year of drought, and smaller harvests are expected for the 2020 season. Due to good harvests in 2018 in the Northern Hemisphere, which resulted in an increase in carry-over stocks, global stock levels for 2019 are sufficient. This means that bulk wine prices will likely remain stable. However, prices may increase for certain varietal wines.

With the weakening of the Argentinian and Chilean peso, imports from these countries are likely to attract the attention of international buyers, especially from Argentina, which is currently sitting with high stock volumes.

Domestic

Since 2007, there has been a constant decline in hectares planted to wine grapes. This decline has accelerated over the past five years. In 2018, the area under wine grapes was estimated at 93 021ha, which
was down from 101 957ha in 2007. Moreover, only 6% of South Africa’s vineyards are currently younger than four years old; to maintain the current hectares under production, this percentage should be at around 15%.

Around 50% of current vineyards is 16 years or older; 60% of red grape vineyards is 16 years and older.

The lack of water and competition with other profitable irrigation crops will likely result in the continued reduction of the area planted to wine grapes, which is estimated to reduce a further 8 000ha to 85 000ha by 2023. In 2014, a record-high of 1.519 million tons was harvested. From 2014 to 2016, there was a slight decline in production, until the 2017 drought, when production dropped to 1.243 million tons. The areas most impacted were the Olifants River, the Klein Karoo and the Northern Cape, which resulted in severe cash flow constraints for producers.

With the area planted to wine grapes continuing to decline, and the skewed age distribution of vines, it is expected that production will continue to decline over the next five years. However, there may be a slight increase in production in 2020, due to greater water availability.

By 2023, production is estimated to drop to 1.060 million tons, which is a decline of 13%, or 160 000t.

Sales & price
In 2018, export wine sales declined 11% from 451 million litres to 400 million litres, while domestic wine sales declined 5% from 407 million litres to 387 million litres. If total wine sales stabilise at around 760 million litres, taking into account smaller harvest volumes, accumulated wine stocks over the next five years should decrease. Assuming that average global production will stay at around 270 million hectolitres, smaller local stock volumes will support prices.

At an average price increase of 6%, the average bulk wine price may reach R9.70/l in 2023. The price of red wine is estimated to reach R11/l in 2023.

Local consumption is unlikely to increase substantially over the next five years. However, wine moving into higher price brackets is a positive indication for the industry. Prospects for South African wine producers improved substantially over the past two years due to better prices. However, ensuring water availability and the discontinuation of cultivation on marginal lands remains critical.
Oranges

Adri Esterhuyse & Erik van Papendorp

At around 2.4 million tons/annum, the EU remains the world’s biggest importer of citrus. Other major importers include the US at 1.1 million tons, Russia at 1.5 million tons, China at 1.1 million tons and the Gulf countries, including Saudi Arabia, Iran, Iraq, the UAE, Kuwait and Oman, at 1.7 million tons.

General citrus overview

Over the past 10 years, the largest growth in import volumes was in the US, China and Russia; however, after the Russian embargo, volumes in this country have declined over the past few years. Spain remains the largest exporter in the world, followed by South Africa, Turkey and Egypt.

The traditional marketing window for Southern Hemisphere exporters is under pressure due to an increasing volume of late-season fruit produced by Northern Hemisphere countries being marketed during this period, as well as the production of earlier varieties. In South Africa, the citrus industry increased export volumes to Asia due to the stagnant nature of the EU markets, and since 2009, export volumes to Asia have more than doubled. However, the EU remains South Africa’s dominant export market. The area planted to citrus has increased over the past five years, from 60 487ha planted in 2013 to 80 805ha planted in 2018. Over this period, export volumes increased from 113 million 15kg-cartons to 136 million 15kg-cartons.

It is expected that exports will continue to increase over the next six years, due to 25% of all trees in production not yet being at bearing age (three years old and younger). As such, South Africa’s export volume is expected to increase to around 160 million 15kg-cartons by 2023/24.

Oranges

Global production is around 50 million tons/annum, with Brazil still the world’s largest producer of oranges. However, a significant increase in production is expected over the next few years.
International

Due to high temperatures in Brazil in October 2017, citrus trees have been under considerable stress, which had a negative impact on yield in 2018.

California, in the US, recorded a 15% drop in yield of Valencias for the 2019 season, compared year-on-year.

Brazil, China and the EU produced 63% of the world’s oranges in 2018. South Africa currently only contributes 3% to the world’s oranges, but is the second largest exporter of oranges in the world.

Domestic

The area planted to Valencia oranges, measured in budwood sales, is not necessarily increasing because of rapid demand, but rather at the expense of navel oranges, as farmers are finding it more lucrative and effective to produce Valencias.

Producers are also planting fewer early-season Valencia oranges, and rather focusing on late-season varieties.
This is because the country’s biggest export rival, Egypt, is increasing its Valencia production, and thus moving onto South Africa’s early-season Valencia export market.

**Consumption**

The export market is the main offset point for South Africa’s oranges. Around 7% of the country’s total production is consumed locally as fresh produce, 21% is processed, and the rest is exported. South Africa’s main exporting regions, accounting for around 70% of the country’s total export crop, are the EU, the Middle East and Southeast Asia. There is a major drive to access new markets; negotiations with the Philippines have been in process for almost a decade, with finalisation likely before 2020.

In addition, there is also a drive for Eastern Cape citrus to access markets in North America. Due to the presence of blackspot in northern South Africa, the North American market is currently only open for citrus from the Western Cape.

**Outlook**

The Citrus Growers’ Association of Southern Africa (CGA) has set its growth trajectory for Valencia oranges to increase to 54 million (equivalent) cartons by 2022. This is roughly a 15% increase from the 2019 forecast, but equal to 2018, which was an outlier compared with previous seasons. This shows that the CGA is optimistic about Valencia production. The export of navel oranges is expected to reach 25 million (equivalent) cartons by 2022. This is not a significant increase on the past three seasons, which resulted in an average of 24 million (equivalent) cartons.

Production of Valencias in Brazil could pose a danger to South Africa’s exports, if that country decides to export more fresh oranges. Currently, most of the country’s produce is used for juice concentrate.

Globally, farmers in the EU, the US and countries such as Chile and Argentina in the Southern Hemisphere, produced a good yield in the 2018/19 season due to favourable production conditions.

Continued diversification of varieties is expected over the next few years. However, climatic conditions will have an effect on production and consumption.

Due to an unsettled environment on European markets, there may be pressure on imports from Southern Hemisphere countries.
In 2017, Argentina planted 50 300ha to lemons, making it the biggest producer of lemons in the Southern Hemisphere, and the third largest producer worldwide. India and Mexico remain the world’s largest producers.

**International**

In 2018, Argentina exported 272 263t of lemons, while South Africa exported 299 380t. Moreover, 65% of Argentina’s lemon crop is processed, compared with 28% of South Africa’s crop.

Argentina’s fresh lemon exports compete with South Africa’s exports from March to October. Argentina’s main export destinations are the EU and Russia.

South Africa’s main export market is the Middle East, followed by the EU and Russia. These regions account for 70% of South Africa’s total lemon exports.

In the early and late periods of the South African marketing season, the country’s two main Northern Hemisphere competitors are Turkey and Spain.

The world’s largest importers of lemons are the US, the EU and Russia.

**Domestic**

From 2013 to 2018, the area planted to lemons increased from 5 457ha to 14 616ha. Of the total hectares planted, 6 650ha consists of trees aged three years and younger (non-bearing). As such, 45% of current plantings is not yet in production. Budwood sales peaked in 2016 with 2.29 million sales, but have since declined to 0.62 million in 2018. This indicates that the growth in plantings will likely begin to slow down substantially. The increase in plantings was mostly a result of the export price increasing from R5 426/t in 2012 to R16 483/t in 2016. Since then, however, the price has dropped to R11 151/t.

From 2013 to 2018, exports increased from 10.6 million cartons to 35 000 million cartons. It is expected that exports will increase to 22 million cartons in 2019, and to 40 million cartons by 2028.
Grapefruit
Erik van Papendorp

Global production of grapefruit over the past six years averaged 6.4 million tons. China remains the world’s largest consumer of the fruit, with South Africa the world’s largest exporter.

International
A decline in production over the next few years is expected, due to citrus greening and unfavourable weather conditions. Over the past season, production in Spain, the world’s largest producer, was 20% lower year-on-year, due to a lack of rain.

Domestic
Annual production in South Africa declined 28% from 2013 to 2016. However, production has gradually increased over the past two seasons.
On average, 63% of South Africa’s grapefruit is exported, while 36% is processed. Only 1% is consumed locally.
Grapefruit sales have declined in industrialised countries such as Japan, Germany and France over the past decade. However, grapefruit sales are still improving in emerging and developing economies, such as Russia, the Philippines, Malaysia, Vietnam, Indonesia and Colombia.
South Africa’s main export destinations are Europe, with 36%, Russia, with 28%, and Southeast Asia, with 21%, of the country’s total export crop.

Outlook
Over the past few years, grapefruit’s market share of citrus has dropped from 12% to 7% globally, with consumers increasingly favouring lemons and soft citrus.
The decline of production in the US and the shrinking EU market poses a risk for the future of grapefruit production. However, Asian markets remain lucrative, with South Africa the undisputed largest exporter in the world with 30% of world trade. Consumer education and rebranding will have a significant effect on demand over the long term.
Soft citrus
Adri Esterhuyse

From 2012 to 2018, the area planted to soft citrus in South Africa increased by 232% to 16.234ha. Over this period, exports increased from 6.9 million 15kg-cartons to 16.2 million cartons. Of the area planted, 7,050ha consist of trees aged four years and younger. As such, it is expected that export volumes will continue to increase over the next five years.

The Western Cape accounts for 39% of the area planted to soft citrus, with 6,336ha planted in 2018. This makes it South Africa’s largest production region. From 2012 to 2018, plantings in the Western Cape expanded by 3,900ha, while plantings in Limpopo increased by 3,700ha, and farmers in the Eastern Cape planted an additional 2,700ha. In 2012, Limpopo contributed only 11% to total plantings, but now accounts for 23% of the total area planted.

Budwood sales for soft citrus continues to increase, and accounted for 54% of the 7.39 million budwood sales in the citrus industry in 2018. It is thus expected that exports will reach 26 million cartons by 2022.

Over the past five years, 74% of the country’s total soft citrus crop has been exported, with Europe and the UK accounting for 50% to 60% of total exports.

From 2009, the average income generated per ton exported increased 191% at an average of 19% per year. Export prices reached a peak in 2016, but growth in prices has since gradually declined, with the price in 2018 5% lower than the average price of 2016. It is expected that price pressure will continue as global export volumes increase.

South Africa needs to gain access to other markets to ensure the growth of the industry. In the Southern Hemisphere, Chile and Peru are the other main players. In 2018, Chile exported 171 000t of soft citrus, while Peru exported 145 000t. South Africa exported 242 123t. Peru exported more than 50% of its soft citrus to the UK and Europe. The US is Chile’s primary export market.
### Table 1: SA supply & demand forecast for apples (t)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Consumption</th>
<th>Exports</th>
<th>Price (R/t)</th>
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* Market sales and direct sales of fresh apples;
Source: Hortgro; Absa AgriBusiness

### Table 2: SA supply & demand forecast for avocados (t)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Imports</th>
<th>Consumption</th>
<th>Exports</th>
<th>Average fresh produce market price (R/kg)</th>
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<tbody>
<tr>
<td>2013</td>
<td>103 657</td>
<td>2 262</td>
<td>57 975</td>
<td>45 682</td>
<td>7.70</td>
</tr>
<tr>
<td>2014</td>
<td>135 262</td>
<td>1 940</td>
<td>76 227</td>
<td>59 035</td>
<td>7.39</td>
</tr>
<tr>
<td>2015</td>
<td>114 112</td>
<td>1 929</td>
<td>63 371</td>
<td>50 741</td>
<td>9.01</td>
</tr>
<tr>
<td>2016</td>
<td>122 043</td>
<td>2 401</td>
<td>67 719</td>
<td>54 324</td>
<td>11.54</td>
</tr>
<tr>
<td>2017</td>
<td>101 377</td>
<td>2 729</td>
<td>59 962</td>
<td>41 415</td>
<td>13.04</td>
</tr>
<tr>
<td>2018</td>
<td>169 243</td>
<td>2 633</td>
<td>85 302</td>
<td>83 941</td>
<td>10.13</td>
</tr>
<tr>
<td>2019</td>
<td>136 488</td>
<td>2 320</td>
<td>74 315</td>
<td>67 695</td>
<td>11.34</td>
</tr>
<tr>
<td>2020</td>
<td>166 422</td>
<td>2 829</td>
<td>89 737</td>
<td>82 542</td>
<td>11.74</td>
</tr>
<tr>
<td>2021</td>
<td>128 673</td>
<td>2 187</td>
<td>83 441</td>
<td>63 819</td>
<td>12.25</td>
</tr>
<tr>
<td>2022</td>
<td>203 149</td>
<td>3 454</td>
<td>117 119</td>
<td>100 758</td>
<td>12.95</td>
</tr>
<tr>
<td>2023</td>
<td>199 241</td>
<td>3 387</td>
<td>121 682</td>
<td>98 819</td>
<td>13.40</td>
</tr>
</tbody>
</table>

Source: USDA; FSA; Absa AgriBusiness

### Table 3: SA supply & demand forecast for table grapes (t)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Consumption</th>
<th>Imports</th>
<th>Exports</th>
<th>Price (R/t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>251 477</td>
<td>29 800</td>
<td>4 700</td>
<td>226 401</td>
<td>17 538</td>
</tr>
<tr>
<td>2015</td>
<td>291 442</td>
<td>33 542</td>
<td>5 600</td>
<td>263 452</td>
<td>18 062</td>
</tr>
<tr>
<td>2016</td>
<td>284 739</td>
<td>36 039</td>
<td>6 300</td>
<td>254 969</td>
<td>21 888</td>
</tr>
<tr>
<td>2017</td>
<td>334 284</td>
<td>37 284</td>
<td>7 300</td>
<td>304 300</td>
<td>20 240</td>
</tr>
<tr>
<td>2018</td>
<td>307 541</td>
<td>36 041</td>
<td>7 900</td>
<td>279 400</td>
<td>22 258</td>
</tr>
<tr>
<td>2019</td>
<td>315 000</td>
<td>37 000</td>
<td>7 000</td>
<td>285 000</td>
<td>22 968</td>
</tr>
<tr>
<td>2020</td>
<td>327 600</td>
<td>37 370</td>
<td>7 210</td>
<td>296 400</td>
<td>23 427</td>
</tr>
<tr>
<td>2021</td>
<td>340 704</td>
<td>37 744</td>
<td>7 426</td>
<td>308 256</td>
<td>23 896</td>
</tr>
<tr>
<td>2022</td>
<td>354 332</td>
<td>38 121</td>
<td>7 649</td>
<td>320 586</td>
<td>24 374</td>
</tr>
<tr>
<td>2023</td>
<td>367 184</td>
<td>38 493</td>
<td>7 862</td>
<td>332 214</td>
<td>24 838</td>
</tr>
</tbody>
</table>

Source: USDA; Absa AgriBusiness
### Table 4: SA supply & demand forecast for oranges (t)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Sales on markets</th>
<th>Exports</th>
<th>Processing</th>
<th>Average fresh produce market price (R/t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>1 808 142</td>
<td>126 370</td>
<td>1 134 243</td>
<td>421 474</td>
<td>2 075</td>
</tr>
<tr>
<td>2014/15</td>
<td>1 797 476</td>
<td>120 310</td>
<td>1 117 230</td>
<td>439 590</td>
<td>2 233</td>
</tr>
<tr>
<td>2015/16</td>
<td>1 761 173</td>
<td>114 140</td>
<td>1 130 414</td>
<td>402 088</td>
<td>2 549</td>
</tr>
<tr>
<td>2016/17</td>
<td>1 366 083</td>
<td>89 113</td>
<td>990 580</td>
<td>195 436</td>
<td>3 650</td>
</tr>
<tr>
<td>2017/18</td>
<td>1 454 841</td>
<td>88 350</td>
<td>1 085 903</td>
<td>190 354</td>
<td>3 607</td>
</tr>
<tr>
<td>2018/19</td>
<td>1 860 288</td>
<td>97 185</td>
<td>1 388 532</td>
<td>465 072</td>
<td>3 426</td>
</tr>
<tr>
<td>2019/20</td>
<td>1 764 889</td>
<td>106 904</td>
<td>1 317 325</td>
<td>441 222</td>
<td>3 261</td>
</tr>
<tr>
<td>2020/21</td>
<td>1 812 589</td>
<td>117 594</td>
<td>1 352 928</td>
<td>453 147</td>
<td>3 381</td>
</tr>
<tr>
<td>2021/22</td>
<td>1 884 138</td>
<td>129 353</td>
<td>1 406 333</td>
<td>471 035</td>
<td>3 525</td>
</tr>
<tr>
<td>2022/23</td>
<td>1 907 988</td>
<td>142 289</td>
<td>1 424 135</td>
<td>476 997</td>
<td>3 803</td>
</tr>
</tbody>
</table>

### Table 5: SA supply & demand forecast for lemons (t)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Sales on markets</th>
<th>Exports</th>
<th>Processing</th>
<th>Average fresh produce market price (R/t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>257 819</td>
<td>13 270</td>
<td>159 943</td>
<td>72 015</td>
<td>5 550</td>
</tr>
<tr>
<td>2014/15</td>
<td>329 095</td>
<td>14 934</td>
<td>198 340</td>
<td>101 662</td>
<td>6 771</td>
</tr>
<tr>
<td>2015/16</td>
<td>353 057</td>
<td>14 911</td>
<td>226 439</td>
<td>97 570</td>
<td>7 236</td>
</tr>
<tr>
<td>2016/17</td>
<td>323 063</td>
<td>15 999</td>
<td>225 622</td>
<td>66 278</td>
<td>8 378</td>
</tr>
<tr>
<td>2017/18</td>
<td>447 643</td>
<td>17 454</td>
<td>286 941</td>
<td>126 714</td>
<td>7 655</td>
</tr>
<tr>
<td>2018/19</td>
<td>567 014</td>
<td>17 160</td>
<td>363 459</td>
<td>139 431</td>
<td>7 198</td>
</tr>
<tr>
<td>2019/20</td>
<td>567 014</td>
<td>18 705</td>
<td>363 459</td>
<td>156 299</td>
<td>7 198</td>
</tr>
<tr>
<td>2020/21</td>
<td>686 386</td>
<td>19 988</td>
<td>439 976</td>
<td>189 204</td>
<td>6 068</td>
</tr>
<tr>
<td>2021/22</td>
<td>775 915</td>
<td>19 824</td>
<td>497 364</td>
<td>213 883</td>
<td>5 653</td>
</tr>
<tr>
<td>2022/23</td>
<td>865 443</td>
<td>20 379</td>
<td>554 753</td>
<td>238 562</td>
<td>5 330</td>
</tr>
</tbody>
</table>

### Table 6: SA supply & demand forecast for grapefruit

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Sales on markets</th>
<th>Exports</th>
<th>Processing</th>
<th>Average fresh produce market price (R/t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>443 066</td>
<td>6 017</td>
<td>252 959</td>
<td>178 331</td>
<td>2 336</td>
</tr>
<tr>
<td>2014/15</td>
<td>417 421</td>
<td>4 428</td>
<td>217 595</td>
<td>191 138</td>
<td>3 113</td>
</tr>
<tr>
<td>2015/16</td>
<td>390 899</td>
<td>3 918</td>
<td>229 388</td>
<td>153 801</td>
<td>3 960</td>
</tr>
<tr>
<td>2016/17</td>
<td>318 264</td>
<td>3 538</td>
<td>209 913</td>
<td>101 303</td>
<td>5 240</td>
</tr>
<tr>
<td>2017/18</td>
<td>325 470</td>
<td>8 401</td>
<td>228 522</td>
<td>80 543</td>
<td>2 490</td>
</tr>
<tr>
<td>2018/19</td>
<td>445 351</td>
<td>3 868</td>
<td>253 850</td>
<td>178 140</td>
<td>5 255</td>
</tr>
<tr>
<td>2019/20</td>
<td>363 571</td>
<td>5 824</td>
<td>207 235</td>
<td>145 428</td>
<td>5 001</td>
</tr>
<tr>
<td>2020/21</td>
<td>424 231</td>
<td>5 213</td>
<td>241 812</td>
<td>169 692</td>
<td>5 186</td>
</tr>
<tr>
<td>2021/22</td>
<td>358 338</td>
<td>5 671</td>
<td>204 253</td>
<td>143 335</td>
<td>5 406</td>
</tr>
<tr>
<td>2022/23</td>
<td>418 270</td>
<td>6 169</td>
<td>238 414</td>
<td>167 308</td>
<td>5 833</td>
</tr>
</tbody>
</table>

### Table 7: SA supply & demand forecast for soft citrus

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Sales on markets</th>
<th>Exports</th>
<th>Processing</th>
<th>Average fresh produce market price (R/t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>157 361</td>
<td>10 139</td>
<td>121 444</td>
<td>16 292</td>
<td>4 368</td>
</tr>
<tr>
<td>2014/15</td>
<td>184 105</td>
<td>11 500</td>
<td>149 398</td>
<td>12 293</td>
<td>4 717</td>
</tr>
<tr>
<td>2015/16</td>
<td>183 670</td>
<td>12 289</td>
<td>150 003</td>
<td>9 739</td>
<td>5 019</td>
</tr>
<tr>
<td>2016/17</td>
<td>215 272</td>
<td>11 541</td>
<td>182 834</td>
<td>9 905</td>
<td>6 212</td>
</tr>
<tr>
<td>2017/18</td>
<td>249 991</td>
<td>16 403</td>
<td>201 501</td>
<td>16 575</td>
<td>5 496</td>
</tr>
<tr>
<td>2018/19</td>
<td>285 499</td>
<td>12 945</td>
<td>242 123</td>
<td>13 157</td>
<td>5 386</td>
</tr>
<tr>
<td>2019/20</td>
<td>267 655</td>
<td>18 713</td>
<td>226 990</td>
<td>27 443</td>
<td>5 278</td>
</tr>
<tr>
<td>2020/21</td>
<td>303 343</td>
<td>17 980</td>
<td>257 256</td>
<td>31 769</td>
<td>5 249</td>
</tr>
<tr>
<td>2021/22</td>
<td>339 030</td>
<td>19 150</td>
<td>287 521</td>
<td>36 095</td>
<td>5 293</td>
</tr>
<tr>
<td>2022/23</td>
<td>392 561</td>
<td>20 624</td>
<td>332 919</td>
<td>42 584</td>
<td>5 527</td>
</tr>
</tbody>
</table>

Sources for tables 4 to 7: Citrus Growers’ Association of Southern Africa; Absa AgriBusiness
The future of South African agriculture and the Fourth Industrial Revolution

Wessel Lemmer

There are eight essential technologies that will change the South African agricultural landscape by 2030. While there are 250 new emerging technologies, these eight will have the greatest impact over the next five years.

The first of these is artificial intelligence, in which algorithms mimic human thought processes and senses that allow computers to learn, understand, reason, plan and act when given sufficient data.

The second of these is augmented reality. For example, ‘smart’ glasses can be used by feedlot producers to remotely attend livestock auctions.

Third is blockchain, which has the potential to usher in an era of autonomous digital commerce.

Fourth are drones, which can be widely used for surveillance, and the application of fertilisers and pesticides.

Fifth is the Internet of Things (IoT), which is a network of physical things, such as farm machinery, equipped with sensors, software, network connectivity and computing capability that enables them to collect, exchange and act on data without human interference.

Sixth is robotics, which are machines with enhanced sensing used to assist with human activities, especially in manufacturing or planting and weeding.

The penultimate of these eight technologies is virtual reality. This includes computer-simulated images or environments. This can be useful in the training of farmworkers, for example.

Lastly is 3D printing, which would allow farmers to print replacement parts for machinery and implements on-farm, and has the potential to turn small sheds into on-farm factories.

Questions to ask yourself
Imagine a world in which you can capture data about your livestock, such as weight, by simply speaking into your smartphone, and then sharing this information with feed suppliers. Imagine a world in which a group of robots you control using your tablet plant the next crop using precision technology, with the help of cloud-based software and satellites. Can you imagine using less fertiliser and chemicals because IoT sensors, high resolution 3D aerial imagery from drones and artificial intelligence (AI) powered analytics analyse the soil and behaviour of crops in minute detail?

Will you be amongst those farmers that collect data remotely from their farm equipment, see and analyse this data on dashboards, and share this information with their partners? Will you use virtual intelligence hardware to buy and sell livestock on auctions while travelling abroad?

Can you imagine autonomous super farms providing the majority of humanity’s food? Do you understand your place in the future value chain during a time in which food and fibre will be produced by autonomous super farms, and replace the farmer as we know him/her today?
Will you be buying machinery and implements or only a software license from technologically advanced companies?

Can you imagine a world in which you will know exactly what the average purchase price for inputs are, and if you have paid above average prices compared with your neighbours?

Will South Africa become part of a farming community that utilises an open source blockchain solution to effectively manage food safety and traceability to overcome biosecurity concerns in the production of livestock?

Preparing for the future
In future, farms will be managed with more precision to conserve soil moisture and to produce food with a reduced carbon footprint.

To stay competitive in this environment, farmers will have to identify the area in which they will best be able to compete as individuals, or as a group, against large corporate supply chains worldwide.

To be successful, farmers need to know how to analyse their captured data to operate equipment more efficiently, livestock more humanely and to determine feed formulations more accurately.

They also need to understand their core strengths in the agricultural value chain, and who to partner with up or downstream in order to strengthen deals.

They need to identify the future business models of their farming operations based on these core strengths.

Becoming aware
The Department of Agriculture, Land Reform and Rural Development must embark on a project to make farmers more aware of upcoming technologies that will change how food is produced.

Agricultural companies that supply inputs and services to producers will need to have procedures in place to systematically screen, evaluate and prioritise emerging technologies.

Farmers will need to know how to monetise business opportunities that arise from these technologies.

While the Fourth Industrial Revolution technologies hold great promise for farmers, they can also become threatening if South Africa fails to innovate and adapt to the changing global environment, in which disinflation has become a new macroeconomic trend.

Sources: 'The Fourth Industrial Revolution in agriculture' (strategy-business.com); 'Rapid urbanisation (pwc.co.uk); 'The essential eight' (pwc.com).
South Africa's international competitiveness

Wessel Lemmer

South Africa is one of the Southern Hemisphere's leading agricultural export countries, and until now, local farmers producing for the export market have managed to stay competitive despite pressure from their main rivals in the Southern Hemisphere.

However, the country cannot take its position for granted. Increasing production in countries such as Peru and Chile, and the unfavourable tariff regime that many of South Africa’s agricultural exports are subject to, must be addressed in order to retain the country’s advantage.

South Africa’s agricultural value-added output is comparable with those of other Southern Hemisphere countries, such as Argentina and Brazil. But, while the average growth in value-added output from 2019 to 2023 is expected to be 5.9% per year for the nine Southern Hemisphere countries surveyed, South Africa’s growth is expected to rise slightly to 6.2% per year. Growth in Australia is expected to be the lowest at 5% per annum, but growth in Uruguay could reach 9.2% per annum. Peru and Chile, both known for their competitive fruit exports, are expected to grow annually by 7.5%.

Remaining competitive

While South Africa’s overall economic growth prospects and business confidence look dire, this is not necessarily true for agriculture. Measured against 2015 as the base year, and comparing South Africa’s growth since 2015 with that of its Southern Hemisphere competitors, South Africa out-performed Peru, New Zealand, Guatemala, Brazil, Chile, Australia, Uruguay and Argentina.

Business Monitor International expects South Africa to stay abreast of its competitors, but the country will need to keep a close eye on agricultural developments in countries such as Peru, Chile and Guatemala. For example, Peru’s increase in table grape production has already affected the export price of this commodity.

To remain competitive, South Africa must improve its preferential market access to countries in the Far East such as China and Japan. South Africa’s main competitors in the Southern Hemisphere have already negotiated preferential market access at far better rates.

Investing in infrastructure

South Africa also has to invest in its export infrastructure to prevent logistical bottlenecks during the import and export of fruit. Farmers also need to invest in their operations to remain globally competitive.

Innovation will be one of the crucial factors affecting profitability in the future. Businesses that lack crucial, up-to-date information may be forced to leave the industry within the next 10 years.
Table 8: Import tariffs/most favoured nation duties applied on imports from SA US (AGOA %) China EU and UK

<table>
<thead>
<tr>
<th>Item</th>
<th>US (AGOA %)</th>
<th>China</th>
<th>EU and UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macadamias (in shell)</td>
<td>0.31%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Macadamias (shelled)</td>
<td>0.37%</td>
<td>24%</td>
<td>2%</td>
</tr>
<tr>
<td>Oranges</td>
<td>1.69%</td>
<td>11%</td>
<td>16%</td>
</tr>
<tr>
<td>Lemons</td>
<td>1.67%</td>
<td>11%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Grapefruit</td>
<td>10.31%</td>
<td>12%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Soft citrus</td>
<td>1.28%</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>Table grapes</td>
<td>0.11%</td>
<td>13%</td>
<td>n/a</td>
</tr>
<tr>
<td>Avocados</td>
<td>4.97%</td>
<td>25%</td>
<td>4%</td>
</tr>
<tr>
<td>Apples</td>
<td>0%</td>
<td>10%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Graph 23: Comparison of the gross value-added growth for agriculture for selected countries: 2019-2023

Source: Business Monitor International
Source: Trademap
At Absa AgriBusiness, we know that the soil connects us. It is the lifeblood that surges through our communities, opening doors to a journey with endless possibilities for shared economic growth. From feeding to breeding, we have learnt to understand agriculture business and all its challenges as if it were our own. That’s why we can offer banking products and services we know clients need.

As a partner in the agricultural environment for over 100 years, Absa has cultivated a wealth of experience and knowledge in developing tailored, world-class business solutions for all commodities in the sector. Farmers rely on us for strategic planning and the empowerment of farming communities, irrespective of the size. Our commitment to this crucial sector is clear. Whether we are stimulating the advancement of our country’s flourishing wine industry or nurturing the crops that help feed millions, we make administering and managing your business easier.

When we make things easier for our farming communities, we invest in our own livelihoods and allow our economy to grow.

For more detailed information, please visit our website at www.absa.co.za