

NEDLAC EXECUTIVE COUNCIL MEETING WITH THE MINISTER OF AGRICULTURE, FORESTRY AND FISHERIES: DRAFT BUSINESS RESPONSE

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1. Introduction: the role of agriculture in the South African economy

- It is a general global trend that as a country's economy becomes more industrialised, the agricultural sectors relative contribution to GDP shrinks and South Africa has been no exception. In the context of a structural change in the South African economy as a result of industrialisation, agricultural production, whilst more than doubling since 1960, has declined in contribution to GDP. In 2015, the agricultural sector contributed 2.4% to GDP, down from c.15% in 1950.
- The sector nevertheless plays an important role in terms of job creation, especially in rural and peri-urban areas, employing approximately 30% of the working population in these areas. National Treasury notes that for every R1m of extra output in the agriculture sector, the economy creates 3.9 unskilled jobs. This is the highest sectoral employment multiplier effect in the country.
- Agriculture is important to poverty reduction for unskilled workers, with the sector employing approximately 919 000 semi-skilled and unskilled workers, according to the latest figures from the fourth quarter of 2016. By contrast, a critical sector in terms of job creation such as mining employs 447 000 people. Crucially, key sub-sectors such as citrus and table grapes (among others) are labour-intensive, thereby playing an essential role in employment creation and poverty alleviation.
- Agriculture is 3.2 times better at reducing poverty than secondary or tertiary sectors. For every 1% increase in GDP due to agriculture, the incomes of the poorest increase by 6%.
- There is also a wide variety of agricultural output that is exported resulting in the sector being one of the foremost foreign exchange earners, exporting almost R90bn or c.7% of total exports (2015). This is in spite of competing against subsidised competitors, with little local support. Agriculture also plays a prominent

indirect role in the economy as a result of linkages with other sectors in the value chain. The primary beneficiaries are the machinery, petroleum and chemical industries which receive an annual aggregated spend of c. R70bn.

- It is also worth noting that South African agriculture is globally competitive, outperforming such noteworthy competitors as China, Mexico and Russia.
- There are significant opportunities in the agricultural sector driven by various factors not least of which is the global mega trend of food security. BMI forecasts corn production to rebound by 64% in 2017 albeit off of a low base, wheat production to grow by 13.3%, poultry production to grow by 3.7% and pork production to rise by 2%. All these increases will be consumed locally except for corn which is forecast to have a long run export potential. Beef, although to a lesser extent, also has a long run forecast export profile.
- The above points demonstrate the transformative role that agriculture has to play in the broad South African Society and economy and identify how the sector can directly stimulate employment, education and skills development and enterprise development.

2. B-BBEE

- It is acknowledged by business that the pace and depth of transformation has been insufficient and more needs to be done to systemically address the impact of the apartheid system and put the agricultural sector onto a higher, inclusive growth trajectory.
- While there have been pockets of significant progress, business collectively can do more, together with social partners to secure significantly higher levels of economic inclusion, growth and employment. In this regard, business welcomes the announcements made in the Minister's budget speech on Wednesday this week insofar as transformation is concerned and we look forward to playing a constructive role in this process. Indeed, BUSA places transformation at the very top of its agenda and views this as a necessary condition for the success of our nation.
- Evolution of the agricultural sector's transformation legislation
 - The agricultural sector came together and formulated the AgriBEE Sector Code which was gazetted in December 2012. Following the gazetting of the AgriBEE Sector Code, the revised Codes were promulgated in October 2013 and the BEE Amendment Bill was passed in January

2014 rendering the AgriBEE Sector Code outdated. The agricultural sector once again came together and developed the revised AgriBEE Sector Code which was issued in draft in November 2015. Until gazetted, the industry will remain subject to the December 2012 gazetted AgriBEE Sector Code.

- Consistent with the NDP and the ANC's Economic Transformation policy discussion document, it is clear that the agricultural sector has a critical role to play in facilitating meaningful and sustainable transformation.
- Extent of the agricultural sector's transformation
 - In the context of the Department of Agriculture, Forestry and Fisheries' objectives, there is a generally regarded view that there is inadequate transformation of the agricultural sector. An authoritative and comprehensive survey is required to for social partners to form a common understanding of the current status, and the shifts required to achieve inclusive growth, employment and a thriving agricultural sector,
 - The agricultural sector has achieved a number of transformation successes in the past. These successes have not necessarily been sufficiently promoted and leveraged so as to be used as an opportunity to create momentum and increase the speed of transformation within the sector. Whilst acknowledging the considerable on-going work necessary to further transformation, business would like to engage further with the DAFF, and our social partners, in order to absorb the lessons of examples of successful transformation and create a more nuanced view of the state of transformation in the sector. In our view this should focus on scalable, innovative and sustainable interventions pertaining to enterprise development, skills and education and employment creation in the sector.
 - In this regard, we specifically welcome the Minister's announcement in the budget vote targeting 450 large scale black commercial farmers and express our commitment to contributing to the success thereof. This is the type of intervention that requires all our support to ensure that it succeeds.

3. Challenges facing the sector

- Notwithstanding the opportunities presented by the sector, we recognise that there are also significant challenges that the agricultural sector faces that are beyond its control, including unpredictable weather patterns, as evidenced by the recent El Nino induced drought, as well as those challenges as a result of increased competition from imports and impending trade agreements.
- Given the high risk involved, generally farmers cannot afford to insure against weather and climate related damages, which has a significant impact on the viability of a farm, regardless of whether it is small or large, established or not. The risk is proportionately higher for emerging and smaller farmers that do not have the financial reserves to sustain the risk. In this regard, we note the progress made with a number of Government Departments, including National Treasury, together with the sector and SAIA (Short term insurance industry), to explore ways to secure affordable short term insurance for farmers.
- One of the key differentiators of the sector is that it is inextricably linked to land and therefore land reform. Land reform in South Africa finds its origins in the freedom charter which states that, “the land shall be shared among those who work it” and remains an ever-present issue for all stakeholders in the sector and government. The manner in which land reform is implemented continues to be significant, although it is an issue that is not easily solved. It finds itself in the crosscut of substantial historical legacy issues, the strategic imperative of the transformation of the economy, and the imperative to ensure efficiency and effectiveness of the agricultural sector in South Africa. Of critical importance to all of us is to find a solution that enables the sector to rapidly expand so as to secure future sustainability and inclusiveness, at the same time as ensuring that we continue to optimise current production and efficiencies in the sector so as to meet the country’s food security and other needs A number of important issues need to be carefully considered in solving the issue in a consistent and reasonable manner:
 - The identification of the land to be transferred
 - The pricing of any transaction
 - The funding required in order to acquire the land
 - The transfer of the land to ensure that it continues to produce on a sustainable basis
 - Beneficiary selection criteria

- Speeding up of the Restitution process
- The integrity of the land market must be maintained, as indicated in the NDP.
- What is clearly evident from the national discourse is that the land reform issue has not, and is not likely to go away. The issue is directly linked to transformation and therefore the agricultural sector. In February 2017 President Zuma noted that, “Land reform is a central pillar of the radical economic transformation programme. Let me reiterate what I said in the SONA: true reconciliation will be impossible to achieve if the land question is not addressed”.
- The land reform programme has not achieved the required objectives thereof. For too long, progress has been slow and unproductive. The legislative environment has become increasingly complicated and crowded in an endeavour to address the challenge. This is not good for those, predominantly black, farmers, that should be entering into the sector and building sustainable businesses. It is also not good for investment in established farming given the insecurity in the sector. This unsatisfactory state of affairs has gone on too long. It requires business, labour and government to reach out to each other and find systemic solutions that all parties can put their ‘shoulder’s behind’ so that the sector can achieve its full potential and contribute to inclusive growth and employment in the country.

4. Policy requirements and interventions to create a conducive environment for investment in Agriculture

- Trade promotion and market access
 - In the short term, and considering the international context within which the sector contributes, more awareness needs to be raised in key export markets of South African agricultural products. In this regard, the work of the dti is well noted and should be expanded wherever possible.
 - Over the medium- to long-term, improved market access with key trading partners should be negotiated. An example of this is the recently negotiated EPA with the European Union, which improved market access for local products to the EU. However, in key export markets, South African products are at a disadvantage. An example of this is a 19% import tariff for macadamia nuts to China, whereas Australia (our largest competitor) has an FTA which guarantees tariff-free access. There are regrettably many other examples which serve to undermine our economic and industrial policies.
- Policy and regulatory certainty
 - In order to unlock avenues for further expansion of the sector, policy and regulatory certainty is required to reduce risk and encourage investment. Unfortunately, there is a lack of alignment

across numerous policies which fall under several departments and consequent uncertainty around the status and progress of policies.

- While the sector is robust and resilient, policy uncertainty (particularly around land and water reform) and perceived erosion of individual ownership and property rights is deterring investment in the sector. What is of particular concern are recent Bills/Regulations which have the potential to have far reaching ramifications for the sustainability of the sector, including the erosion of food security. We are of the view that high level dialogue between the private sector and the State is urgently required to chart and agree a path which will result in orderly land reform, but which will ensure transformation of the agricultural sector, as envisaged within both the National Development Plan and Operation Phakisa.
- The uncertain and changing land reform landscape in South Africa means that South Africa is unable at present to make the necessary and important structural adjustments to high value and labour intensive export crops to take advantage of international markets and remain competitive.
- One example of a well-intentioned and inter-departmental policy intervention from government that could have a potentially devastating impact on an agricultural sub-sector is the proposed tax on sugar-sweetened beverages proposed by Treasury and before the Standing Committee on Finance. A likely effect of the proposed tax is a severe contraction of demand for sugar cane, with predictable results for the sector and employment in key sugar-growing regions. It is without exaggeration to say that the impact on rural towns in sugar-growing regions is potentially disastrous in terms of the local economy and employment.

5. Conclusion

- Minister, as business we are grateful for this opportunity to engage at a senior level with you and our social partners. We are committed as business to playing a constructive role in finding solutions to the challenges experienced by the agricultural sector and growing its contribution to economic, employment and revenue growth.
- With a view to this, business has engaged in a dedicated workstream on agriculture in the CEO Initiative, which importantly includes implementable proposals and actions to support emerging farmers. We have also engaged in Operation Phakisa as well as number of Nedlac task teams of importance to the sector. We are also committed to playing a constructive role in and proposing workable solutions to further land reform. In this regard, we have fully participated in the public participation process on recent land reform legislation.



- We propose further high-level engagements between yourself and business to discuss the various initiatives and challenges holistically with a view to unlocking the potential of the sector.