The New Growth Path: what is expected from the agricultural sector, address by Minister Ebrahim Patel to the AgriSA Conference, 22 February 2011

DRAFT – CHECK AGAINST DELIVERY.

President of AgriSA, Mr Johannes Möller

Leaders of the provincial affiliates and commodity organisations

Farmers, suppliers and friends

I am pleased to address your Conference.

You have put together an impressive programme and I hope your deliberations since yesterday have been fruitful and productive.

Agriculture plays key roles in our economy and our society: as a source of food, a major export industry, and as an important component in our strategies to improve rural livelihoods and employment.

The central challenge for all of us is to balance these imperatives, so that our efforts to ensure a more inclusive sector go hand in hand with measures to support growth and investment.

As for South Africa as a whole, so for the agricultural sector: we cannot expect sustained growth and development in the long run if we do not ensure a more inclusive and equitable economy, and to achieve a more inclusive economy requires also that the state support growth more systematically and consistently.

Let me begin by briefly outlining to you Government's work and thinking on the New Growth Path, which deals precisely with this. Specifically, it sets a fundamental challenge: how to create 5 million new jobs by 2020.

The New Growth has placed employment at the centre of the economic framework because it has an absolutely important role to play in addressing a number of social challenges.

We have very high levels of unemployment, with 6.3 million South Africans able and willing to work, but unable to find a job; deep levels of poverty, particularly among African South Africans, with much of that poverty concentrated in rural areas; and very high levels of income inequality by global standards.

Ladies and gentlemen

All three of these challenges can best be addressed by rising employment numbers, and by improving the quality of employment.

We have looked carefully at the South African economy over the last thirty years in order to identify both fundamental weaknesses that need to be addressed and also to see what successes we can build on.

The economy grew at under 1,5% a year from 1980 to 1994. The exclusion of large numbers of South Africans from economic activity proved a fundamental constraint to growth as did the cost of maintaining the apartheid system.

From 1994, the economy recovered with one of the longest unbroken periods of economic expansion, with growth at around 3,5%, which was equal to the norm for middle-income economies.

However, the benefits of that growth were not shared equitably and the drivers of that growth were not sustainable.

Much of the growth prior to the economic recession of 2009 was generated by rising commodity prices, particularly for key minerals, and easy credit that fuelled consumption, especially by the richest 10% of households.

The foundations of sustainable economic performance, namely the strength of the productive sector – agriculture, mining and manufacturing – were not as solid as they needed to be. These sectors did not see substantial diversification or employment creation. Growth was concentrated in the financial sector, telecommunications, metals refining, construction and retail.

Given this structure of growth, employment grew rapidly, but not in the core industries of the economy. Instead, it expanded mostly in lower level services like security and cleaning and in trade – sectors that downsized rapidly when demand fell in the global downturn of the late ‘00s.

Delegates, ladies and gentlemen

Our work on the New Growth Path responds to these domestic developments but also involved an analysis of the external environment for South Africa.

The global economic crisis associated with the Wall Street meltdown in September 2008 rapidly spread to the real economy and affected South Africa’s economic performance.

At the same time, the crisis underlined the emergence of new economic powers such as China, India and Brazil, whose economies grew fast during a period when most developed economies went into recession.

Accompanying this major shift in economic power was the renewed recognition globally of the importance of climate change to our collective futures and of the urgent need for countries to reduce carbon emissions.

We recognised too from our survey of global developments that technological innovation, concentrated in the last two decades in the information and communication technologies, was now rapidly expanding in areas such as bio-technology and nano-technology, and that these developments would be critical to the creation of jobs in future.

Based on these developments, and the work done across government, we identified areas where jobs could be created on scale.

These areas, which we call jobs drivers, consist of infrastructure development; the agricultural value-chain; mining and beneficiation; the manufacturing sector; productive services such as tourism, the creative industries and business services; and the green economy. They also include opportunities in the knowledge-based sectors, the social economy (by which we refer to cooperatives and other not-for-profit economic institutions), the public sector and opportunities created by economic growth on the African continent.

In the New Growth Path, we set out a range of what we call ‘policy drivers’, namely macro-economic and micro-economic measures which, in combination, could significantly lift the job creation potential of the economy.

These include monetary policy and fiscal measures, as well as a competitiveness package that draws on industrial policies, skills development, rural policies, enterprise development including small business and entrepreneurship, competition policy, a review of broad based black economic empowerment, focused technology policies, labour market policies that address both productivity and standards, and developmental trade policies that situate South Africa in the new global environment. Accompanying this package, we identified the need for a more competitive exchange rate, an issue that I know is important to the agricultural sector.

Ladies and gentlemen

We recognise that the State, important as its role is, will not be able to achieve a stretch target of 5 million new jobs by 2020 without strong partnerships, particularly with the private sector and with organised labour.

We therefore propose a package of social partner commitments that address, among others, remuneration policies, a new savings framework for the country as well as productivity pacts at workplace and sector level.

It is of course institutions and resources that turn policy and opportunity into reality.

We place great emphasis on improving the functioning of the state, and identified weaknesses in service delivery and in the operations of a number of economic institutions and agencies and are committed to address these.

Together with a programme to refocus the state towards stronger impact and outcomes, we also identified a number of resources that could be tapped.

Some of these resources are in the public sector but are not fully utilised currently, while other resources are available in the private sector and need to be unlocked through appropriate partnerships.

Colleagues and friends,

Agriculture is a particularly important sector for the New Growth Path.

It is our most labour-intensive export sector; it has vast potential for growth; it provides a critical wage good in the form of food; and it has huge potential for helping to overcome inequalities and the legacy of apartheid by generating livelihoods and supporting more equitable access to productive assets.

For these reasons, we have elevated the agricultural value-chain to one of the key jobs drivers of the New Growth Path. That value-chain comprises farming, fishing, forestry as well as agro-processing and rural development.

This prioritisation follows years during which we have to admit that government paid neither sufficient nor sufficiently consistent attention to agricultural issues.

Today, agriculture accounts for just under 3% of the GDP, down from over 4% in 1990. It provides between 5% and 10% of employment, depending on how we count self-employed subsistence farmers.

Agriculture is a large employer of labour in most developing countries. In China, in the mid-‘00s it accounted for around two fifths of employment, while in India it was half and in Brazil a fifth of the workforce.

Our concern is that South African agriculture is growing relatively slowly overall, and that it is not providing decent livelihoods for enough people.

The Census of Agricultural Production suggests that commercial farms lost 300 000 workers, or over a quarter of total employment, between 1993 and 2007. Obviously, in a country with deep rural poverty and very high levels of joblessness, these are devastating trends. Yet incomes and conditions for farmworkers continue to lag those of other formal workers. The median pay for farmworkers in 2010 was R1213 a month, compared to R3683 in the rest of the formal sector.

The loss of employment in commercial agriculture was associated mostly with the consolidation of farms and a reduction in planting area for grain crops after 1994, as reflected in the agricultural census data and the Abstract of Agricultural Statistics.

The number of commercial farms dropped from almost 60 000 to just under 40 000. Moreover, the quantity of land under maize and wheat – our two staple foods – has tended to decline since 1994. In maize, the fall in hectares has been offset by higher productivity. But in wheat, we have seen lower production and rising imports, even as bread becomes increasingly important for poor households.

In real terms, gross farming income climbed from R33 billion to R57 billion between 1993 and 2007, which means that it almost tripled per commercial farm.

While staple crops have tended to stagnate, wine and fruit have grown quite significantly, driven in part by strong export performance, even during the global economic downturn. We need to understand the success of these industries and how we can learn from it. But we also need to analyse the likely impact of climate change, which may well lead to dryer conditions precisely in the areas of the country where agriculture has prospered most.

Despite success in some subsectors, the value of capital in the sector as a whole has declined in the past 20 years. The Reserve Bank reports that the value of capital stock in the sector dropped from around R120 billion in the early 1990s to R110 billion in 2009. The share of agriculture in annual investment fell from 4% to 2% in the same period. These figures are obviously a source of concern.

I recently looked at a database of the Food and Agriculture Organisation which indicates that in 2007 South Africa had, on average, 43 tractors per 100 square kilometres of arable land.

A number of countries had a much larger ratio of tractors to arable land, , including Argentina, Australia, Botswana, Brazil, Chile, China, Egypt, France, Germany, India, Mexico, Pakistan, Sri Lanka, Thailand, Turkey, Venezuela and Vietnam. If this is indeed the case, it is not inconsistent with trends showing a declining capital stock in the sector.

In addition, estimates suggest that there are around a million people living in the former Bantustans with some access to land for agriculture. But most do not have enough land, water, labour, access to inputs or extension services to support themselves from agriculture. Virtually all purchases by the formal retail chains and agro-processing industries come from the commercial farms.

Ladies and gentlemen

These figures explain why land reform is seen as critical if the industry is to provide livelihoods for more people.

It is vital to all our long term future that we de-racialise the rural economy and build a stronger stake for black South Africans in productive farming. In two years time we will mark the 100th anniversary of the 1913 Land Act: it formalised the legal dispossession of black farmers and it has resulted in at least four generations of black South Africans being excluded from running commercial farming operations.

It is time that we addressed the consequences of that legislation and do so using the preferred tools of a democracy - dialogue, partnership and cooperation between government and organised agriculture - and in a practical and constructive manner secure the imperative of wider ownership. The outcome must not be in doubt but the means to get there is one where we have an open mind.

The challenge is to balance land reform with the need to maintain production of food and export crops. We need to develop a more inclusive production process by building on the strengths in the industry, not by undermining them.

Our key challenges are to improve the performance of commercial agriculture, and at the same time expand the number of small holder farmers and increase total employment in the agricultural value-chain.

We believe that there are opportunities to bring up to 300 000 additional households into viable small holder schemes by 2020, create up 145 000 additional agro-processing jobs over the next decade and upgrade employment on commercial farms.

Critical challenges include increasing the intensive use of land and water, particularly in high rainfall areas; finding ways to reduce costs where possible; developing mechanisms to moderate the extreme price fluctuations faced especially by staple foods; supporting exporters as they find new markets notably in the fast-growing Asian markets; and encouraging agro-processing to enhance demand and ensure greater value locally for our products.

Dames en here

Ons besef om hierdie doelwitte te bereik vereis ‘n realistise balansering van ons doelwitte.

Aan die een kant, word dit vereis dat ons grond hervorming modelle ontwikkel wat sal verseker dat kleinboere inderdaad hul produkte mededingend kan bemark. Ons moet ook die omstandighede vir plaaswerkers verbeter.

Op die ander kant is ons gretig om met kommersiele boere te werk om die onnodige koste as gevolg van transformasie te verminder, en dit sluit in die vertragings in lisensiering van water en grondeise.

Ons ondersteun ook hoër produktiwiteit, deur die verbetering van infrastruktuur, finansiering en bemarking.

Maar ons kan nie net die een of die ander doen nie, ons het ‘n kombinasie van altwee nodig wat groei steun in landbou belegging, produksie en uitvoere, terwyl ons voortdurend die lewensbestaan verbeter van die oorgrote meerderheid betrokke in die bedryf.

Ladies and gentlemen

We will also need finance, competitive market conditions and focussed support if we are to become a larger food producer.

This support package coordinated by Minister Tina Joemat-Pettersen will include help with seeds, tractors, storage facilities such as silos, setting up rural coops and identifying access to water.

A starting point in efforts to improve agricultural performance is to look at market structure and cartel-behaviour, particularly in parts of the supply-chain with a small number of dominant players.

Currently there are competition probes in a number of areas in the food supply chain, including:

- Bread, flour and mealie meal
- Fertilisers
- Poultry
- Animal feed
- Fish
- Vegetable oils and margarine
- Silos
- Tinplate used for tinned foods and
- Supermarkets

The importance of competition policy is to ensure that price fixing and collusion are actively combated so that we are able to achieve greater agricultural output and create conditions for new entrants in the market.

The story of fertilizer is an example of determined and successful government action to bring down input costs.

Fertiliser is one of the single largest costs of agricultural production, particularly for grains such as maize and wheat. It has however been subject to anti-competitive conduct over the past decade at least, driving up its price to the detriment of farmers.

Lower returns to farming because of higher fertiliser prices impact both on the intensity with which agricultural land is farmed and on the decisions over land use (for example, whether agricultural land is converted into game farms). Our economists have described fertiliser prices as one of the biggest factors impacting on food output and affecting the movement in South Africa's food balance from surplus to deficit.

Following extensive investigations, we found evidence of price-fixing and collusive behaviour by the dominant market players.

These have resulted in firm action, including a R250 million fine paid by SASOL and an agreement to divest the bulk of its operations in the downstream industry, selling five of its fertilizer blending facilities and exiting from the retail of fertiliser products. This was one of the more important structural remedies negotiated by the Competition Commission and was followed a few months later by the Pioneer Foods settlement that contained commitments on a reduction in the selling price of bread.

We have also secured binding commitments from FOSKOR to discontinue price-fixing practices and as a result of the settlement it reduced prices and agreed to sell directly to farmers.

We will also place more emphasis on agro-processing to strengthen its role as a magnet to pull greater volumes of agricultural production from South Africa's farms.

The Industrial Development Corporation has been given a mandate to expand its agro-processing foothold. It has set a target of R5 billion that will be available over the next five-year period for loans and equity in new ventures and expansion of existing agri-businesses.

We want to bring more enterprises and investors into agro-processing in order to stimulate competition and demand for agricultural products for the domestic and export markets. We will be making further announcements on the details of the new investment packages that we are introducing through the IDC.

We are pleased that Nestle is building factories for the manufacture of cereal, noodles and specialised proteins, in a half-a-billion rand investment that will create hundreds of new jobs. Pioneer Foods is increasing its investment by R2 billion over the next two years. These are encouraging signs of the investment appetite that exists and the opportunities that the private sector is identifying in the South African economy.

There are many opportunities to combine investment with development if we plan carefully. For example, we will consider using the committed funds to promote agro-processing activities in rural areas as well as commit equity to projects as a means of improving the bankability of agricultural ventures. To be successful, we need the energy and initiative of private entrepreneurs working with public institutions to identify viable projects that meet these broader goals.

We will also focus strongly on expanding infrastructure in rural areas, in order to bring smaller farmers into the national agricultural market and to reduce the costs of logistics for all farmers.

The challenge of expanding the total quantity of water available for agriculture, ensuring that that water is available on a fair and equitable basis and promoting technologies for the efficient usage of water will all be a critical part of the infrastructure programme. This means a focus on speeding up the building of new dams, irrigation systems and allocation of water rights.

The New Growth Path identifies large opportunities in the green economy. South Africa has committed to reducing the carbon-intensity of the economy but at the same time to seize the jobs and growth opportunities in solar, wind, small-scale hydro and bio-fuel energy-generation, as well as in better waste-management, eco-tourism and clean manufacturing technologies.

For agriculture, bio-fuels are particularly important. The potential to grow employment in the labour-absorbing farming sector, producing feedstock for the bio-fuels industry, is clear. At the same time, we have to be mindful of food security concerns and the impact on food prices if large tracts of existing agricultural land were turned to the production of bio-fuel feedstock.

Can these two imperatives be reconciled? Potentially yes, if we are able to expand the net agricultural output, through more land under cultivation or productivity increases, or both.

We are undertaking small-scale pilot projects now with products such as sugar beet and grain sorghum that are not significant sources of food. We are also considering the long-term potential for cane-sugar as a feedstock, using production that is currently exported. This will require an adjustment of existing policy if our investigations show this to be a viable option.

Finally, we need to engage on African regional integration around agriculture. In some cases, South Africa should support production in the region where conditions are more favourable. In others, we need to explore how we can increase our export markets. In either case, the aim must be broad-based development that increases incomes and food security across the region. Africa's growth in the next decade will be based on four key sectors: consumer goods, infrastructure, minerals and agriculture. It is estimated that by 2020, the size of African agriculture will be R3,5 trillion. This is an important production capacity to be part of and to actively shape.

Having shared with you what we as government are doing, I now return to the questions: What does government expect from organised agriculture?

First, we need additional investment.

This investment is critical to driving the development of modern agriculture, improve yield and expand South Africa's capacity both to supply the domestic market and utilise the opportunities in global markets.

The rapid expansion of the Chinese and Indian economies is one important driver of rising food prices and it is projected that demand for food will grow significantly over the next few decades.

We recognise that investment is influenced by the long-run rate of return and security of investment. We will assist in improving the investment climate, including by ensuring that land reform – while necessary – is carried out in an orderly, systematic fashion that adheres to the rule of law, supports growth in agriculture overall, and ensures appropriate compensation where changes in ownership are required.

Issues of land ownership are sensitive on both sides of the equation: among those are the current owners of land as well as those who through the policies of the past were not entitled to be owners of productive and fertile land. My colleague, Minister Gugile Nkwinti, has been applying his mind to these challenging issues and he is committed to an extensive process of consultation with the farming community on the proposals that will emanate from the work of his department and that of government.

Specific issues also remain around land claims and water licensing. Cabinet has resolved that these issues must be resolved as soon as possible. That will require support from organised agriculture to find innovative solutions. In the case of land claims in particular, however, we cannot simply short-circuit procedures laid out in the law. It follows that the only way to fast-track the resolution of complex claims is to increase our capacity for formal dispute settlement or to use faster, more flexible alternate dispute-resolution methods. In both cases, it would help to have support from organised business.

Ultimately, we are concerned about food security and food prices – a democracy must be able to ensure that every citizen has access to affordable food. Unless we are able to expand output and reduce the cost of producing and distributing food, our capacity to meet this very basic, but very important, requirement is compromised.

Second, we need commercial farmers to build strong partnerships with emerging farmers.

A big part of the success of agricultural policies in the pre-1994 period was based on high levels of cooperation within the then white established farming community. This took the form of various agricultural marketing boards but also the self-organisation of farmers into cooperatives, for example in dairy, wine and wool sectors.

The last number of years has seen a sharp decline in cooperatives as a means of providing the necessary support for farmers, and their increasing corporatisation. There may well be clear commercial reasons for this, but the timing deprives emerging black farmers from the opportunity to tap into networks of support that have been available in the past in a range of agricultural sub-sectors.

A particular area of collaboration is through AgriBEE and the provision of extension services and mentoring for new farmers. We would like to see this developed strongly on a sectoral basis, so that expertise is shared and enhanced across the industry.

If you do this – if you partner emerging black farmers, help them to become successful, draw them into your marketing and support networks - you are making one of the best long-term investments for yourself and your children in a shared prosperity in agriculture.

Third, we need closer cooperation between farmers and their customers in agro-processing industries and agri-businesses.

The challenge for South Africa is not only to expand farming output but also to add more value to South African grown products through greater processing of raw materials into consumer goods.

We need to consider how South Africa fruit juices for example can expand their global footprint rapidly and significantly and how we can use our clear advantages in particular horticultural products to create more jobs across the value-chain. The role of branding, agricultural and new market research and new product development is critical.

We are now targeting new, fast-growing markets for sustainable exports in future. These markets include China and the Middle-East. We need organised agriculture to drive the entry into these new markets in partnership with government. It is time to ‘look east’ for new opportunities to complement our traditional export markets where growth projections are modest.

Fourth, we want industry to work with government and organised labour to improve the conditions of farm workers and labour tenants.

Government is committed to find constructive and practical ways in which a large number of fellow South Africans who work in farming can enjoy better security of employment and housing, improved access to education and health care and better training.

Our motive is clearly social – to improve the quality of life of our people. But there are also compelling commercial arguments for upgrading labour standards and creating the basis for improved know-how, skills and productivity on farms, and securing a long-term supply of workers who are prepared to work in the agricultural sector.

Delegates, ladies and gentlemen

Government extends a hand of partnership to you.

That partnership must be founded on the recognition that we need policies that can combine growth imperatives such as expanding output and bringing more land under cultivation, with equity considerations such as reducing the price of food, bringing more small holder farmers into the agricultural mainstream, and improving the conditions of those who work the land..

Over the next few months we will be sitting down with the leadership of AgriSA to consider practical ways in which this partnership can be promoted. Minister Tina Joemat Pettersen will be initiating these talks on our behalf.

One of the important slogans that defined your industry and your members is "'n boer maak 'n plan".

Ons wil graag hê dat Suid Afrikaanse boere – wit en swart – nou regtig 'n plan maak, 'n plan om meer werksgeleenthede te skep, om saam met die regering te werk in 'n nuwe venootskap en om 'n toekoms te bou vir jul en ons kinders deur ontwikkeling van hierdie land, en sy mense.

Baie Dankie.