

# How to succeed in agriculture in 2020

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The broader agricultural economic environment is changing, and this would require us to revisit how we determine our success as well.



Image source: [Gallo/Getty](#)

## The year that was

If 2019 was the only reference point to get a glimpse of Agriculture in 2020 then "tough" is probably an appropriate description.



### SA ag economy enters recession

5 Sep 2018



On the supply side, drought, high temperatures, animal disease and phytosanitary challenges were (and still are) some of the prominent underlying causes of the agricultural economy experiencing a recession. The latest statistics are not yet available but in the third quarter of 2019 agriculture contracted a further 3.6%, recording a third consecutive quarterly contraction. Keep in mind that 2018 also recorded a year of negative growth for South Africa agriculture.

In 2019 this also played itself out in agricultural exports contracting. There were positive exceptions such as citrus industry who recorded record exports.

At the same time, agriculture's debt steadily increased by a further 9% to R181bn according to the Department of Agriculture and Land Reform.

On the local demand side, the consumer felt the pressure too with pale real consumer consumption numbers combined with relatively high household debt levels. This pot was further stirred by a growing unemployment figure of 29.1%, the highest since 2008.

“ Given the challenging external environment, 2020 will be the year for continued scenario- and financial planning. ”

Centre stage in terms of policy uncertainty was the question of land, in specific the issue of expropriation without compensation. Progress with land reform, in general, hovered at the same levels if the flat budget allocation is used as a yardstick.

On the international trade front, the protectionist tendencies exacerbated by the trade war between the world's two powerhouses, the USA and China, caused more uncertainty and volatility; soya bean price volatility being a clear victim of this political tussle.

Indeed, a year on the agricultural calendar which will be remembered as "tough".

## The year ahead

South Africa does not function in isolation and is impacted by world trends and shifts. Therefore looking from a global perspective as per a report jointly published by the OECD/FAO the future of Agriculture highlights amongst other the following:

- Several years of strong supplies reduced the international prices of most agricultural commodities, with cereal, beef and sheep meat prices showing short-term rebounds. For nearly all commodities, real prices are projected to remain at or below current levels over the coming decade, as productivity improvements continue to outpace demand growth;
- A growing global population will continue to use increasing amounts of agricultural products as food, feed and for industrial purposes;
- Demand for higher-value products is projected to grow faster than for staples over the next decade;
- Robust demand for animal food products provides incentives to expand production through larger herds.
- Demand for animal feed will also be stimulated
- Markets face new uncertainties that add to the traditionally high risks facing agriculture.

On the supply side, the spread of diseases, growing resistance to antimicrobial substances, regulatory responses to new plant breeding techniques and responses to increasingly likely extreme climatic events.

On the demand side, evolving diets, reflecting perceptions with respect to health and sustainability issues, and policy responses to alarming trends in obesity.

## What are the high-level requirements for success?

Based on what we experienced in 2019 and taking into consideration views such as the OECD/FAO and other reports:

- Climate change is real, we need to adapt our traditional production patterns and processes;
- Phytosanitary focus will increase and amongst several other actions we need to work towards traceability – our pork industry is a good example. Namibia's meat industry is already working actively towards this goal.



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- Increased momentum (which means action) regarding market access. Such requires intensification of co-operation with government – getting protocols in place, maintaining an effective administrative system, expanding and maintenance of our port and transport infrastructure. Non- traditional players can add to the facilitation process.
- Forbes Magazine mentions 2020-2030 as the "decade of agri-tech". Significant progress is already evident and it is likely to continue. Some of the challenges we need to conquer is to better integrate these technologies, and to design and apply not just for top-end precision farming but also adopt for small scale systems. The interaction between technology and labour needs to drive the focus on training and people development.
- Technology and climate change needs to be underpinned with an increased focus on research.
- Focus on energy management. What can agricultural systems do in terms of additional power generation and contingency strategies
- Twenty-twenty should be the year to bed down the policy vacuum around Land and expropriation, including water.
- Continued natural disaster support and management require a much bigger focus and budget.
- Financier stakeholders need to continue to work towards fit for purpose funding models such as the blended finance model proposed by Agbiz/Basa.

## What should we do at farm gate level to achieve success?

Given the challenging external environment, 2020 will be the year for continued scenario- and financial planning.

- Give careful and informed consideration to projects. Test and stress your base case and plans. Do not limit yourself to production goals only. Add financial goals too.
- Make sure your balance sheet is structured correctly. In need, talk to your financiers regarding sensible debt restructuring.
- Is your product mix optimally aligned/adapted to the impact of climate change?



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- You need to be profitable to be sustainable, ensuring that the technology and/or the farming practices you apply adheres to this principle.
  - But also remember, profit is a number, cash pays the bills, understand your cash flow cycle.
  - Bigger is not always better. Be aware of where economies of scale will kick in if your business expands horizontally – stress test your assumptions.
  - Apply proper biosecurity measurements.
  - Is diversification an option? Is a joint venture an option to achieve this?
  - Consider consolidation and sale in the event of continued stress;
  - Have you considered alternative energy sources and the economics around that?
  - Is your labour force adequately equipped and trained?

## ABOUT NICO GROENEWALD

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- Wool outlook for 2018 - 24 Apr 2018
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