

SA AGRICULTURE AT CROSSROADS?

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AGRICULTURE is in trouble. Under normal farming conditions the vast amount of capital invested in an operation yields a lower than average return on investment. At the moment agriculture is not an attractive investment because, apart from a few exceptions, few agricultural products earn above-average prices. Most goods are now trading at their lowest price since the inception of a completely free market in SA. The most important problems facing agriculture at an economic level are:

- Since 2004 there has been a maize carryover stock in excess of three million tons in SA.
- This year's maize harvest, estimated at 11,5 million tons, is expected to be one of the biggest ever, while local consumption is a mere seven million tons.
- Changing from maize to any other summer crop will create an over supply of that crop as well.
- Due to the strong rand, agricultural products such as wheat, meat and animal feeds can be imported for less than what they can be produced in SA.
- At current levels the rand discourages the export of capital-intensive products such as fruit and flowers, making it difficult for the producers of such crops to service their huge capital investment.

Several political factors are also taking their toll on local agriculture. These problems include:

- Local labour laws hamper SA's international competitiveness, enabling Asia and South America to penetrate the European markets with their cheap labour and lower prices.
- Black economic empowerment is creating uncertainty in agriculture and is likely to exert huge financial pressure on farmers.
- Land taxes on farms will become a reality, and many producers fear that these will subsidise bankrupt municipalities instead of paying for necessary services.
- There is a perception that white farmers were supported financially by the apartheid state, so there is little sympathy from the present government when the two parties negotiate.

The problems with SA agriculture are reflected in the low farmgate prices. The key question is whether agricultural prices are at the bottom end of an economic cycle, and will automatically recover in time, or whether farmers are at crossroads where a drastic change of direction is the only way to even the balance.

Economy of scale

The last 10 years have seen the adoption of a range of new technologies in agriculture. New and more effective farming implements, pesticides, cultivars, precision instruments, marketing channels, weather forecasts and communication equipment have been developed. The result has been:

- Yields per hectare and harvests increasing substantially, despite unfavourable climatic conditions.
- Expensive machinery which increases production costs.
- The push for agricultural land to be as productive as possible, which has given rise to cultivation and fertilisation practices that have recently come under severe criticism.

World production and consumption

The table indicates the estimated world production and consumption of wheat and coarse grains, such as maize, from 2002/03 to 2005/06.

TABLE: ESTIMATED WORLD SUPPLY LEVELS (MILLION TONS)

WHEAT				
	02/03	03/04	04/05	05/06
Opening stock	198	164	125	137
Production	566	555	625	602
Consumption	-600	-594	-613	-605
Carry-over stock	164	125	137	134
Carry-over stock as % of consumption	27%	21%	22%	22%
COARSE GRAINS				
	02/03	03/04	04/05	05/06
Opening stock	191	166	135	178
Production	882	913	1010	954
Consumption	-907	-944	-967	-961
Carry-over stock	166	135	178	171
Carry-over stock as % of consumption	18%	14%	18%	18%

The wheat carry-over stock during this period averages about 22% of annual consumption. The carry-over stock of coarse grains is about 18% of consumption. Historically the wheat price only shows an upward trend when the carry-over stock drops to under 20%, while with " maize - which accounts for about 65% of coarse grains ~ prices only start~creasing when the carry-over stock falls to below 12%. There is, therefore, no prospect of an increase in agricultural prices in the near future.

The dilemma of high stock levels is exacerbated by the fact that regions and countries using sophisticated technology, such as Europe, North America, Australia and SA, are coming under increasing pressure from countries such as China and Argentina where farmland and labour is cheap. This enables these nations to produce profitably even under the current trend of low prices.

Family farms a thing of the past

In a cycle of low prices, prices normally remain low long enough to force weaker farmers out and give bigger farmers the opportunity to use new technology on a larger scale. Industrial farms that are managed like corporates are gradually replacing traditional family farming enterprises.

Every technological adaptation is usually followed by a new round of technological developments and farming enterprises once again have to enlarge and become more industrialised to survive. Chronic crises and frequent farming disasters are an inevitable aspect of agriculture. This will not change unless an economic crisis arises, farmers use less technology on a large scale, ot production decreases substantially. The ever-increasing cost-price pinch caused by rising production costs and decreasing farmgate prices will give industrial farms preference over traditional family enterprises.

Just as the present cycle calls for more technology and higher production; farming enterprises also need to borrow more to remain in business. The increasing need for capital and farmers' weakening repayment ability eventually reaches a point where most farms exceed thclr credit capacities. Farmers' survival then depends on banks and agribusinesses, leaving them with little control over their own future.

Farming the market

Farmers have become passive recipients of market signals. With the advent of new technology, they have tried to increase production to survive. This has reduced 42 000 farmers in SA to mere suppliers of raw material to five or 10 food processors. Large-scale production of a few staple products, such as wheat, maize, milk and meat, has forced farmers into this position.

In their effort to make agriculture more profitable, farmers keep on producing more, and technology enables them to do so. Farmers are therefore trying to farm the market instead of trying to market farming. In so doing they have simply missed their goal, namely to provide for the needs of the consumer. The emphasis on 'production has taken thinking out' of farming, especially as new technology makes production easier.

Avoiding catastrophe

Centuries ago the American Indians adopted a simple vision for agriculture: "Feed the village, everyone in the village, and do so in a manner that disturbs nature as little as possible." This means that the goals of farming have to be defined in terms of the economic, social and ecological quality of life it can offer farmers and the community at large.

Over half a century agriculture has moved so far from its basic objectives, that it has lost the sympathy and support of the community. Since 1994 local farmers have also fallen out of favour with government. One of the first challenges of agriculture is therefore to change the public's perception of farmers so that agriculture will be regarded as a national asset rather than a national liability.

Under current circumstances the future of agriculture looks set to revolve around better implements, effective cultivation methods, pest-resistant cultivars, high fertilisation levels and yields, sophisticated computers and modern communication tools. This will also result in higher production, but it will be accompanied by a loss of human and natural resources. Fewer but larger farming operations; jobless labourers; the stagnation of rural economies; and depopulated towns, schools and churches will be a few of the side effects of agriculture in the future.

Agriculture will have to change fundamentally to avoid a catastrophe. This can't be a gradual change. There's no time for that. There needs to be a paradigm shift in thinking about farming that will:

- force farmers to become entrepreneurs who market and conserve their family farming enterprises;
- encourage production that focuses more on the needs of the consumer than on delivering raw materials in large volumes to food processors; and
- promote cultivation practices that conserve resources on a sustainable basis.

Agriculture is not in trouble because prices are low. Prices are low because agriculture is in trouble. Higher production made possible by improved technology has led to falling prices. This has created a vicious cycle, 'reducing farmers across the world to suppliers of raw materials for a few large food processors.

Perhaps to escape this cycle, we need to follow the age-old philosophy: "Feed the village, everyone in the village, and do so in a manner that disturbs nature as little as possible."