The impact of COVID-19 on the South African agricultural sector

By Prof Ferdi Meyer, managing director, Bureau for Food and Agricultural Policy

A few months ago, if anybody suggested the possibility of an international viral pandemic during a typical strategic planning session of a company, they would have been laughed out of the meeting room – and it would have been an actual room with people physically present.

On 27 March this year, the country went into what was initially envisaged to be a 21-day lockdown period, which implied that all South Africans had to stay home. This lockdown period was eventually extended.

In his address on 23 April, president Cyril Ramaphosa announced an approach where the re-opening of the economy would be managed based on five alert levels. The country moved to level 4 on 1 May, which brought some relief to the agricultural sector through the resumption of wine, wool and cotton exports. However, the drop in food consumption levels mainly due to the continued lockdown of fast food outlets and restaurants, is cause for major concern.

Dwindling demand

The impact of job losses and overall economic hardship still has to filter through the system and even if the country swiftly moves to level 3 or even level 2, demand will remain weak for the third and fourth quarters of 2020. Cold storage space, especially for products such as chicken and beef, is filling rapidly and the first companies are hinting at cutting back on production levels.

Consequently, the Bureau for Food and Agricultural Policy has already reduced the projected feed demand figures for grains and oilseeds for 2020. Major uncertainty remains regarding the length and depth of COVID-19's impact on the agricultural sector, especially since current indications all point to the fact that coronavirus infections in South Africa will still increase considerably and are only expected to peak in September.

Disruptions in the food system

It is apparent that government aims to follow a flexible and responsive model where restrictions on some economic activities, especially those with a low risk of transmission, will gradually be relaxed. However, if there are signs that infection rates are starting to accelerate again, restrictions will be tightened. When that happens, disruptions in the food system will not be caused by lockdown restrictions, but rather by the closing of food processing plants and distribution and retail facilities when abrupt localised outbreaks of COVID-19 occur.

"While supply chain logistics may, in the event of a prolonged outbreak, start to influence the consistency of availability of these products to South Africa, global supply is not a concern.

We have seen a number of these disruptions in other parts of the world, especially in meat processing plants in the United States.

Effect on imports and exports

Although global stock levels are generally very high, food supply chains and food consumption patterns are already affected. Overall, South Africa is a surplus producer of food and the value of South Africa's food exports exceeds imports by a significant margin. In terms of imports, the world market is well stocked in all food items. Since mid March, any periodic shortfalls largely occurred due to logistical disruptions caused by lockdowns and restrictions on the movement of goods. This is mainly the case for specific food items that are typically imported from affected regions in the world market.

On the export side, disruptions due to logistical problems or restrictions on the movement of goods is having a negative economic impact on South African producers, agribusinesses and exporters. For example, in April there were significant delays with a number of cargo ships that were supposed to load citrus and other fruit for export.

The record citrus crop is currently at its peak harvesting period and any bottlenecks in exports can cause major financial loses, as agribusinesses will face lower prices when products destined for export are diverted into the local market.

The most significant contributor to South Africa's food import bill is highly processed, non-perishable products, which would typically include vegetable oils, sugar, coffee, tea and alcohol. While supply chain logistics may, in the event of a prolonged outbreak, start to influence the consistency of availability of these products to South Africa, global supply is not a concern.

South Africa finds itself at a relatively early stage in the epidemiological cycle. There are widely differing views on the appropriate balance between containing the spread of the virus as far as possible to flatten the curve and improve the readiness of the health system, versus the negative impact of lockdown restrictions on economic activity.

Although we know that the world economy will eventually recover, life as we know it will not be the same.

For enquiries, phone Prof Ferdi Meyer on 012 420 4583 or send an email to ferdi@bfap.co.za.