

Agricultural Dimensions of the Industrial Policy Action Plan (IPAP2)



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Agri-SA Conference

21 February 2011

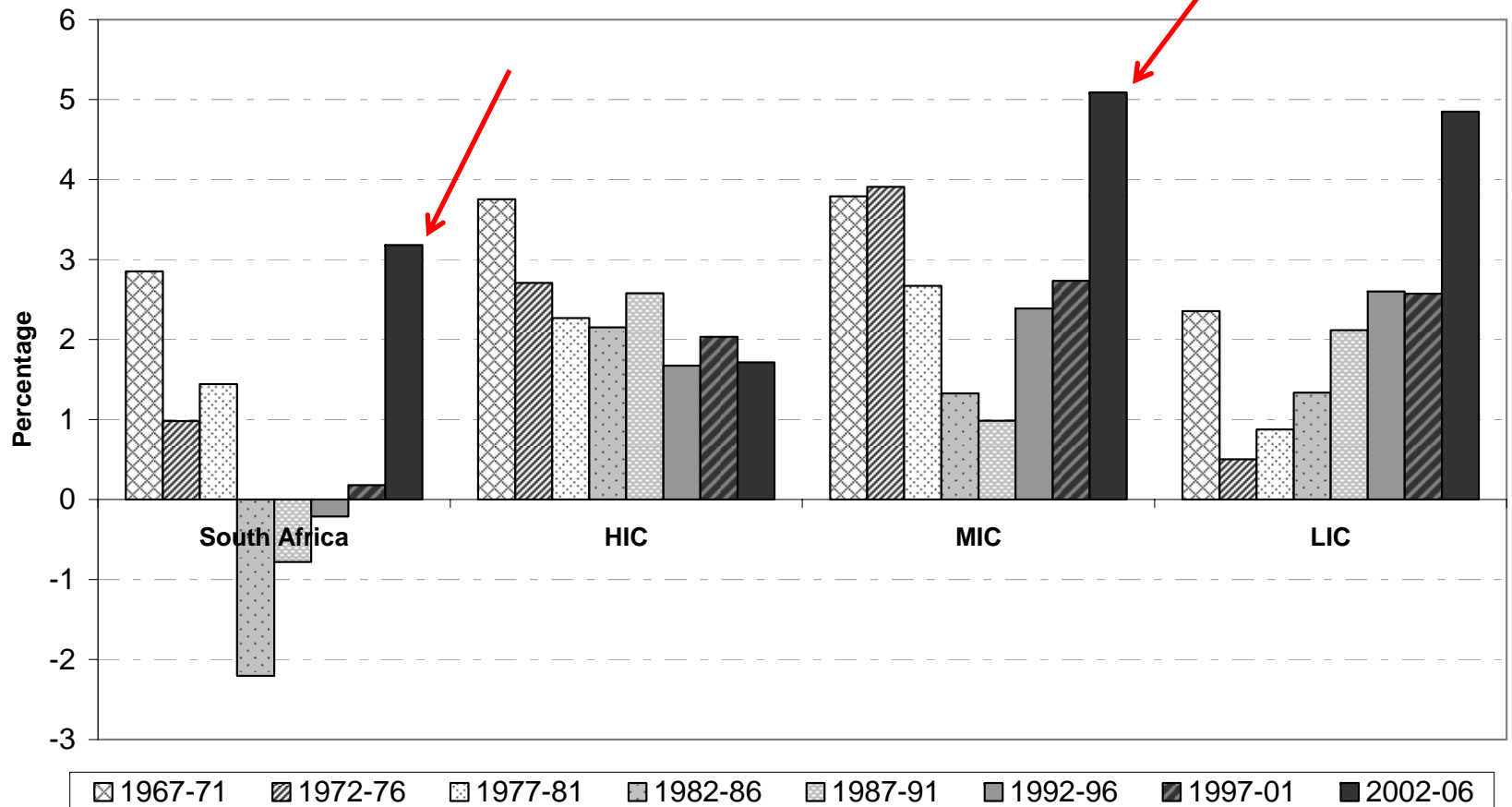
Outline

- o **Economic Context**
- o **IPAP2 Principles**
- o **Agriculture & Agro-processing in IPAP2**
- o **IPAP 2011/12**

SA Economy: Problem Statement

Growth lower than peer countries

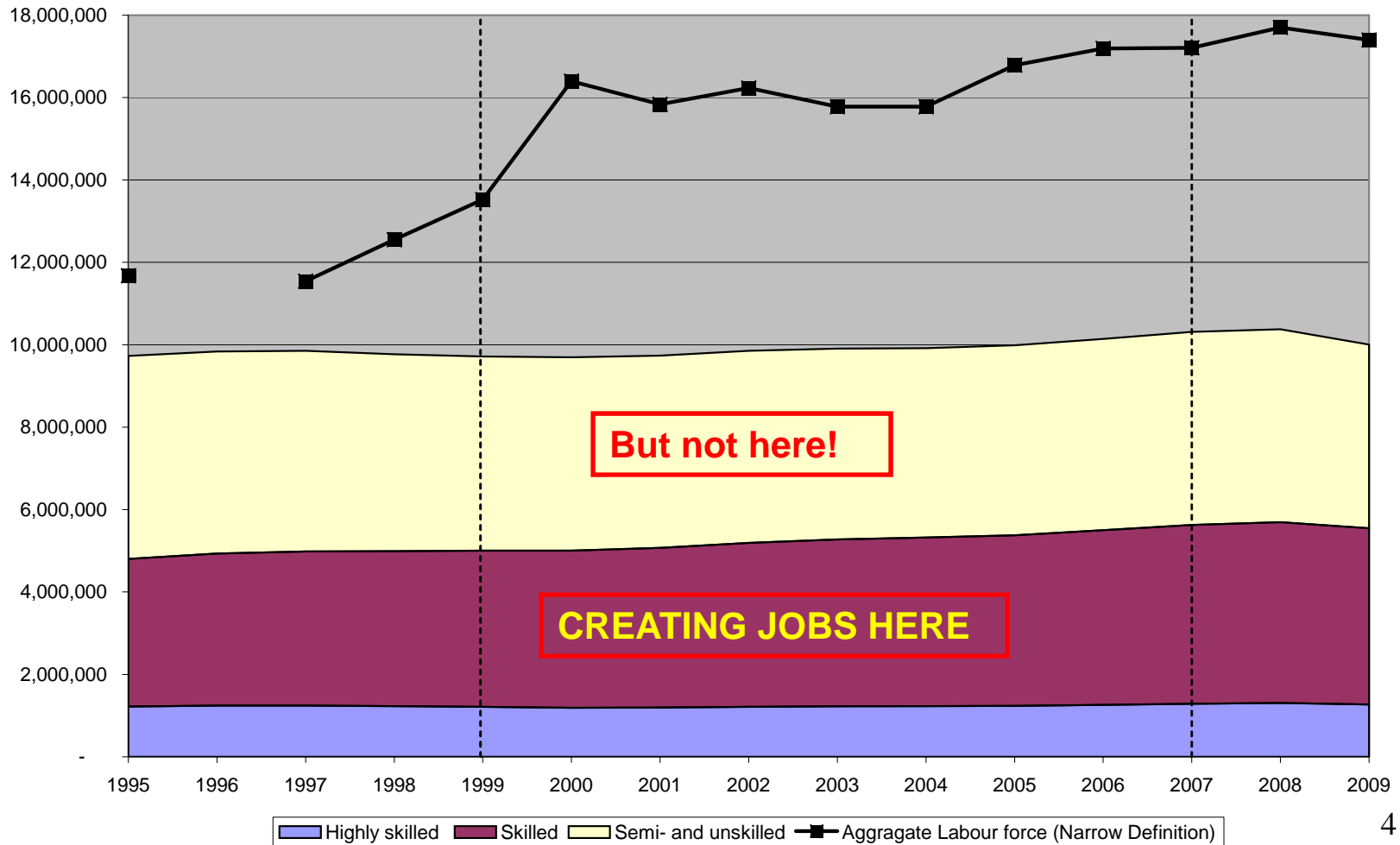
South African growth relative to peer country groups



SA Economy: Problem Statement

Unemployment has not fallen below 22.8%

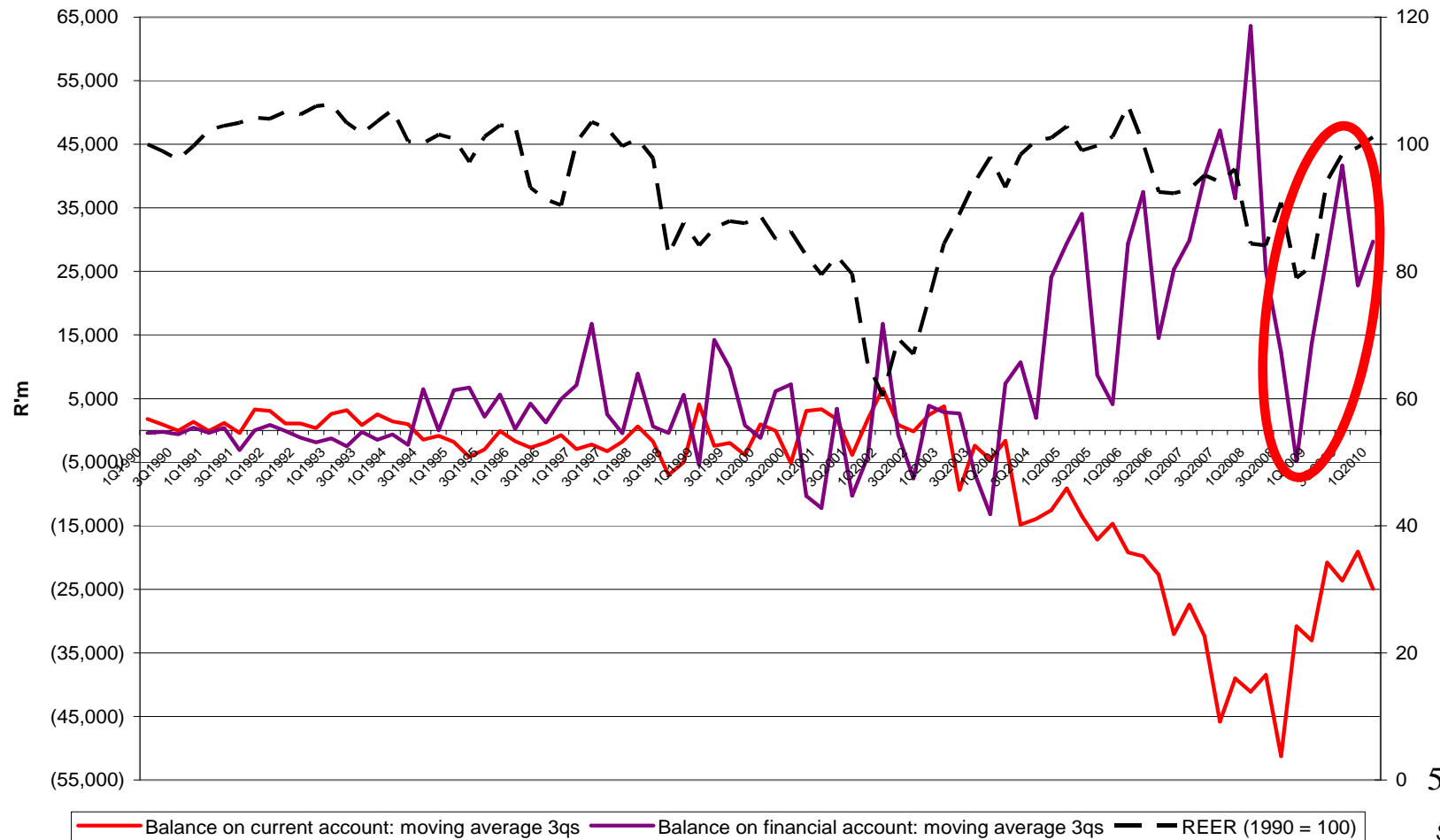
Formal employment by skills category and labour force, 1995 – 2009



Causes: Currency strength and volatility

Currency overvaluation and volatility: external 'Dutch Disease'

Balance on current account, financial account and real effective exchange rate

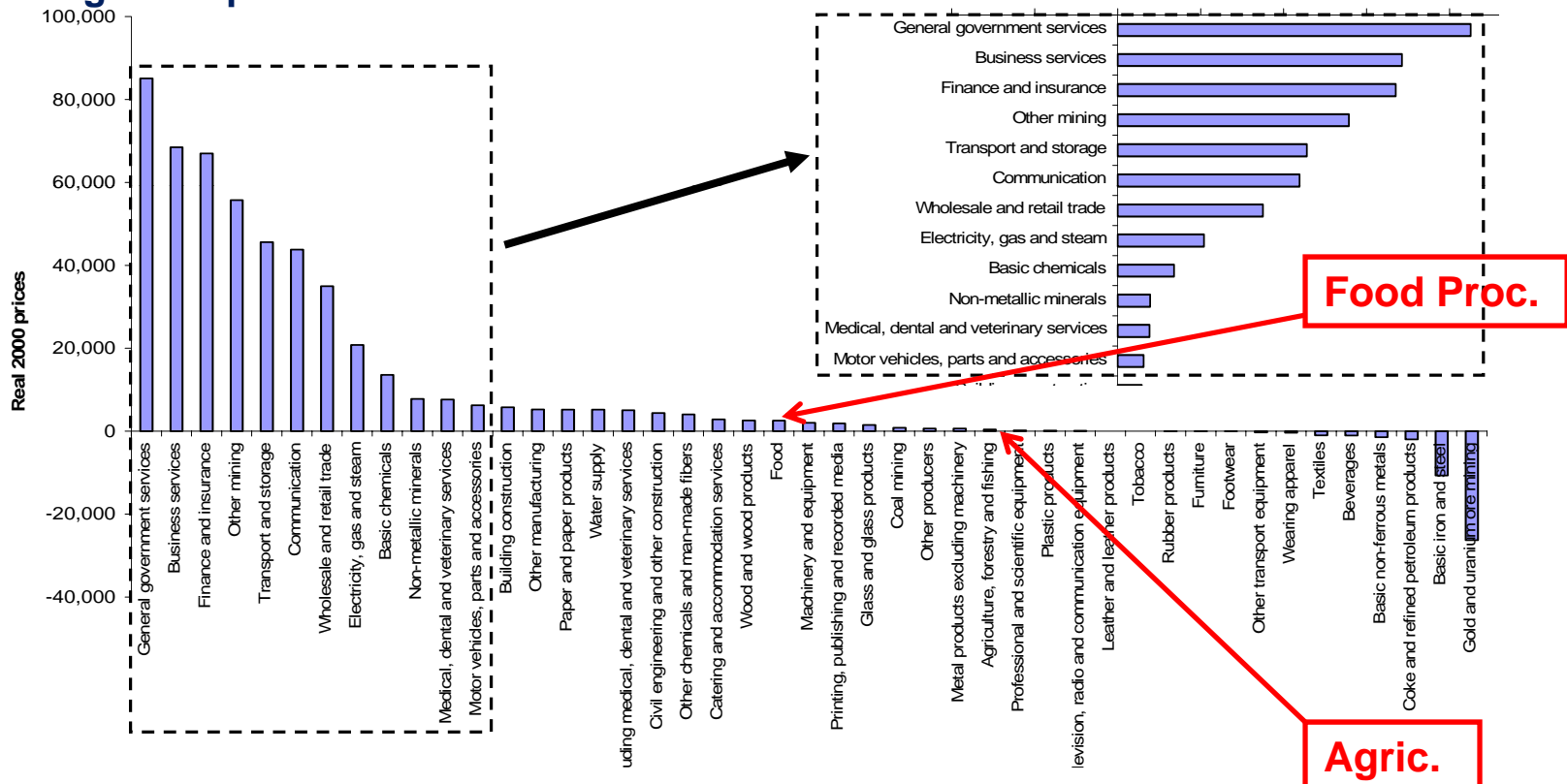


Source: SARB

Causes: Industrial Financing

Fixed investment is concentrated: public sector, debt-driven consumer sectors and capital intensive mineral-energy sectors

Change in capital stock between 2000 and 2008 across all economic sectors

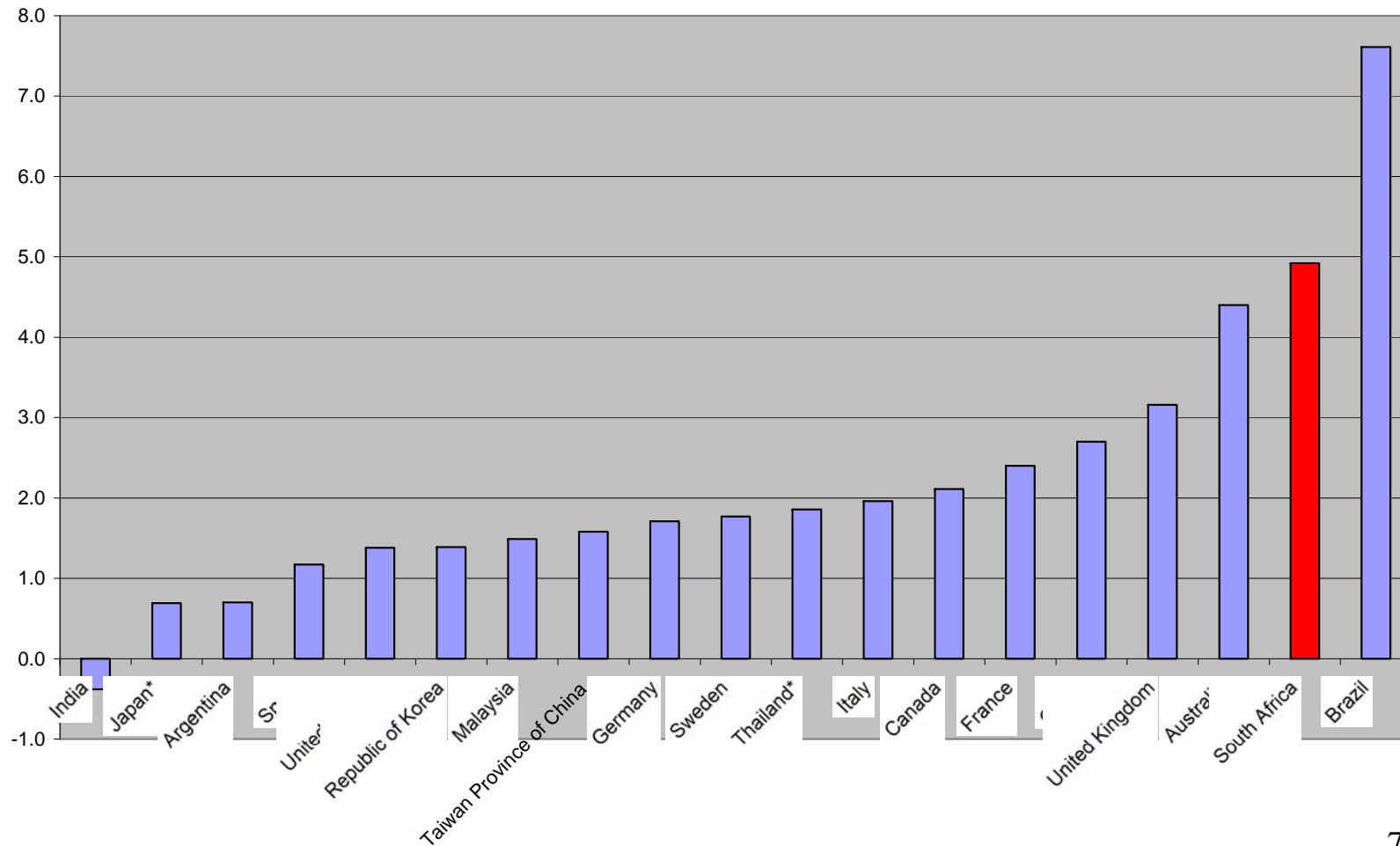


Investment is not being channelled significantly to more labour-intensive and value-adding sectors

Causes: Real interest rates

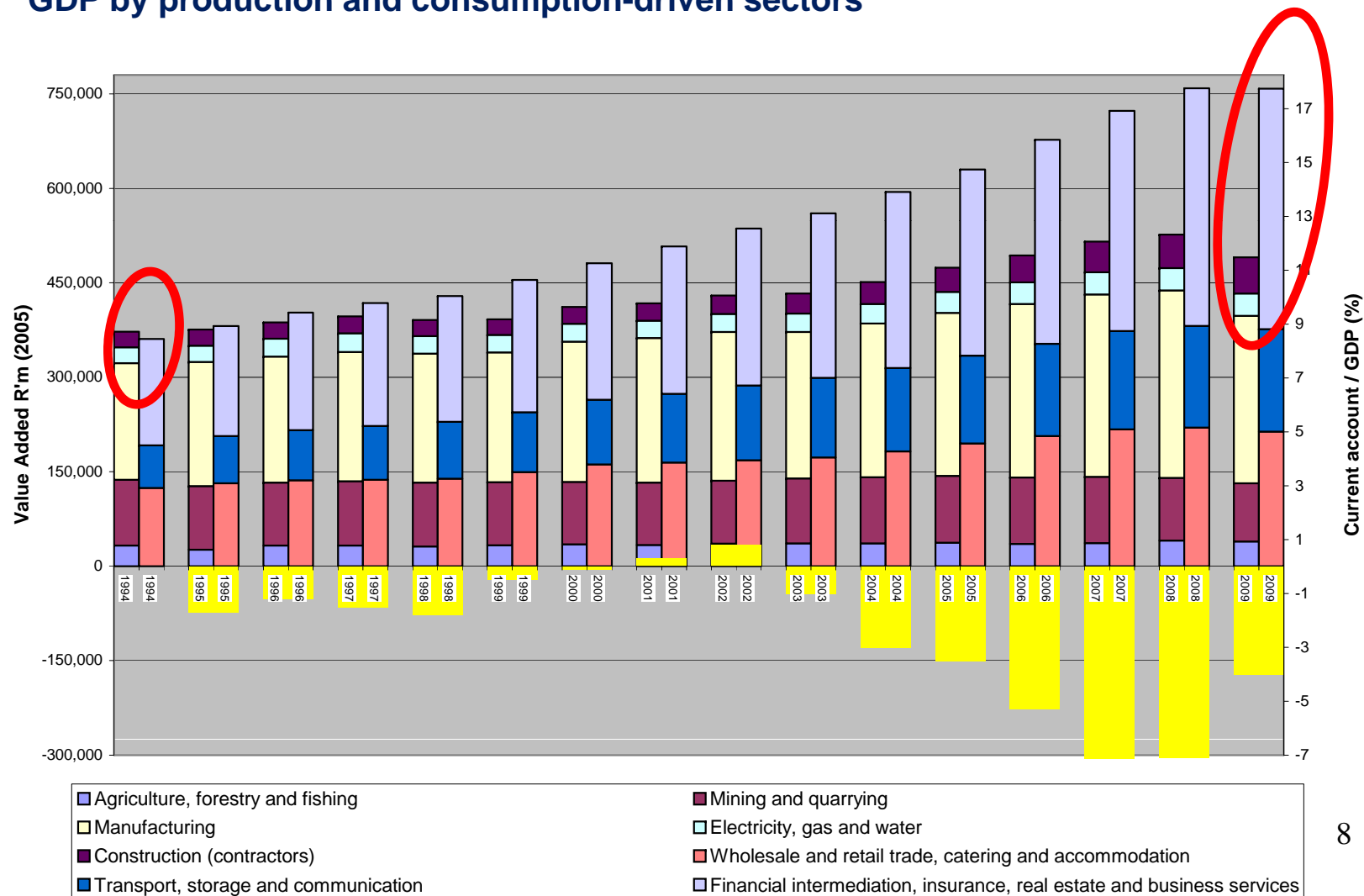
High cost of capital relative to our top trading partners

Pre-crisis real interest rates in SA and our main trading partners, 2007



Causes: Structure of growth

- Growth driven predominantly by private debt-based consumption
- GDP by production and consumption-driven sectors



A Comprehensive & Integrated policy response is required to scale-up Industrial Policy...

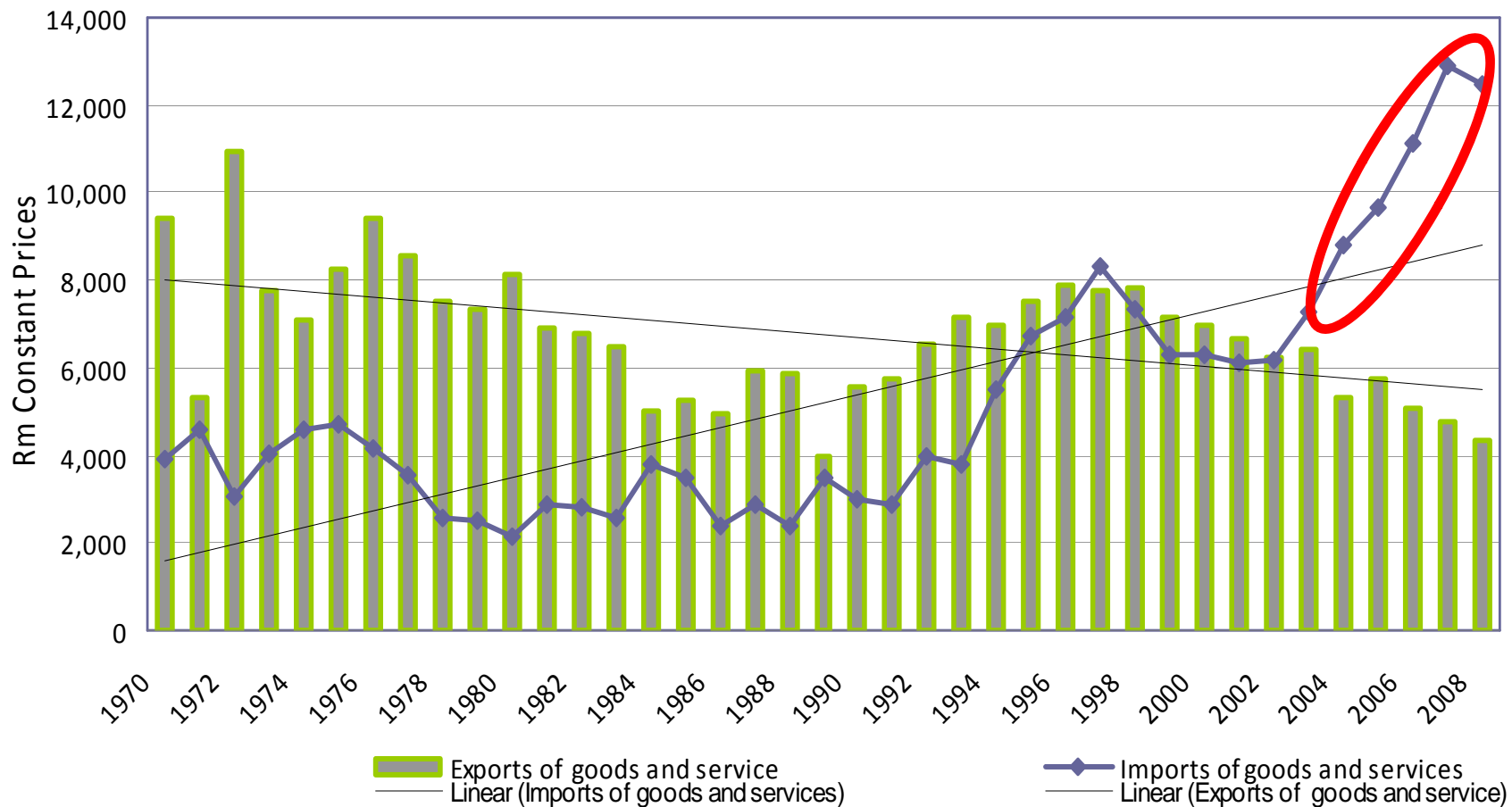
1. **Stronger coherence between macro- and micro-economic policies** in relation to exchange and interest rates; inflation and trade balance imperatives
2. **Industrial financing** channelled to more labour-intensive and value-adding sectors
3. **Leveraging procurement** to raise domestic production and employment in a range of sectors
4. **Developmental trade policies** such as tariffs and standards deployed in a selective and strategic manner
5. **Competition policies:** competitive input costs for productive investments and affordable goods and services for poor and working-class households
6. **Skills, technology and innovation policies** better aligned to sectoral priorities
7. Deploying these policies in general and in relation to more ambitious **sector strategies**, as set out in detailed Cross-cutting and Sector KAPs

Agriculture & Agro-processing in IPAP2

- **Central to overall success of IPAP2!**
- **Principles**
 - **SA producers highly competitive but distorted world market**
 - **'Mature' industries facing low growth**
 - **Exports to traditional trading partners**
 - **New industries face high regulatory barriers**
 - **Imports rising**
 - **Basic food needs of population NOT being met**

Economic Performance

Trade Balance
Food Processing



Agriculture & Agro-processing

Key Actions

1. Implement Food Control Agency

- Strengthen consumer safety and promote recapture of domestic market
- Address increasing food safety requirements for export markets

2. Aquaculture / Mariculture

- Legislative changes to improve enabling environment
- Develop marine Aquaculture Zones
- Establish aquaculture hatcheries
- Financing and Technology support

3. Organics

- Organic produce strategy and action plan
- Develop organic food standards
- Development of niche markets, e.g. organic cotton

Agriculture & Agro-processing

4. Small scale milling

- Support small scale milling sector to create competition, support small businesses and lower bread prices
- Could fundamentally restructure maize market
- Develop financing and technology package

5. Fruit and vegetable canning industry

- Raise competitiveness for long term sustainability

6. Rooibos and Honeybush Tea

- Develop domestic packaging capacity

7. Skills Development

- Highlight current skills shortages
- Signal future skills needs

Key departments / agencies: DAFF, DTI, IDC, EDD, DoH, DWA, DEA, Provincial Government

Agriculture & Agro-processing

Biofuels

- Biofuels has substantial opportunity to generate employment and value-added across primary (farming), manufacturing (refining) and tertiary (distribution) sectors and contribute to rural development
- Impetus around Biofuels has slowed due to debates about food security and appropriate crops to include.
- Key opportunity
 - Fast-track regulatory processes to produce ‘quick win’ around employment and rural development progress
 - Scale up biofuels to 10% of fuel supply
- Potential to create 125,000 jobs over next ten years, mostly in rural areas, and lower oil imports

Agriculture & Agro-processing

Key Actions

1. Biofuels

- Ensure mandatory uplift of 2% of bio-ethanol into fuel supply at minimum price, rising to 10% over the next 10 years
- IDC investment to support investment in projects (currently invested in 4 plants)
- Skills development support

Key departments / agencies: DoE, DTI, EDD, DAFF, IDC, NEF

Agriculture & Agro-processing

IPAP2 Strategic Imperatives/Pillars?

1. New feedstock opportunities (demand pull)

- Organic Policy
- Biofuels

2. Re-positioning mature processing sectors

- Fruit & veg canning
- Cotton
- Black and Rooibos tea

3. Meet basic needs

- Small-scale milling
- Food Safety Agency

4. Facilitate entry of 'new' industries

- Aquaculture
- Honeybush tea

5. Protect existing industries

- Developmental trade policy
- Food Safety Agency

IPAP 2011/12 – 2013/14

No Brainers

1. Food standards/tariff policy
2. IPR Protection
3. Market diversification (export mkts + 'micro' markets)



For Discussion

1. Grain balancing?
2. Dairy?
3. Soya bean value chain?
4. Food-processing?
5. Import replacement?
6. Sugar industry (entry into energy market)?
7. Natural fibres value chain (cotton)?

Thank You