

COMMODITY PROFILES

Field crops

VOLUME 1/2006



agriculture

Department:
Agriculture
REPUBLIC OF SOUTH AFRICA

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2006

Published by
Department of Agriculture

Design and layout by
Directorate Agricultural Information Services

Obtainable from
Resource Centre
Directorate Agricultural Information Services
Private Bag X144
Pretoria
0001

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Wheat	
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COMMODITY PROFILES

Preamble

BACKGROUND

Agriculture in South Africa has emerged from a history of protection and subsidisation which affected the structure, efficiency and competitiveness of the sector. Previously the marketing system was characterised by high levels of state control and dominated by large white commercial farmers with the exclusion of black people and developing farmers. Therefore agricultural policy changes initiated by the South African Government after 1994 resulted in the transformation of agricultural markets from highly regulated to deregulated.

As the policy environment becomes conducive to developing agriculture Government's role is to build capacity in terms of knowledge and information. Market information is crucial to the proper functioning of markets. It promotes efficient arbitrage between

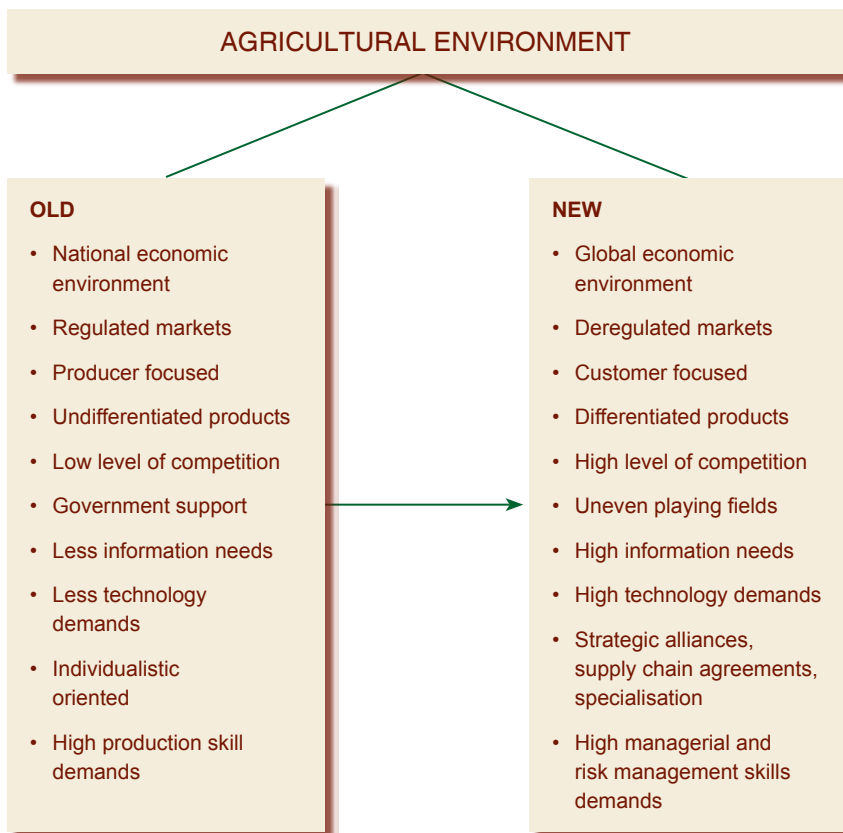



DIAGRAM 1. Changes in the agricultural environment in South Africa



markets, which would benefit both the consumers and the producers and result in the efficient allocation of productive resources. It improves the bargaining power of producers when dealing with traders and processors and it reduces transaction costs by reducing risks. It is for this reason that commodity profiles have been developed by the Directorate Marketing. The information contained in the commodity profiles will provide insight into the current state of the various commodity products throughout the value chain, that is from the farmer to the consumer. Aggregates on supply and demand as well as import and export statistics will be provided.

Since 1997, South Africa has been initiating a progressive agricultural marketing reform process aimed at deregulating its agricultural marketing arrangements from a highly regulated to an essentially free dispensation. Additionally, the reform process aimed to meet the objectives of market access for all market participants, efficiency, and optimisation of export earnings and the enhancement of viability of the overall agricultural sector value chains. Since then, there has been a significant positive response to deregulation by farmers, traders, processors and other service providers along the marketing chains for most commodities for which we have comparative advantages in producing.

Deregulation has created many opportunities and resulted in a phenomenal increase in the number of new entrepreneurs participating in different nodes of agricultural marketing value chains, ranging from production, processing and trading to providing other supplementary services to ensure efficiency in the operation of the overall marketing value chains. There can therefore be little doubt that, to date, agricultural marketing reforms have been supportive of stated government policy goals, with possible exception of the uncertainty around agricultural unemployment.

The new dispensation aims to meet the objectives of increasing market access for all market participants, marketing efficiency, optimisation of export earnings, and the enhancement of viability of the agricultural sector through expected macroeconomic outcomes such as jobs, investments and food security.

The agricultural sector is adjusting to the comprehensive and managed programme of deregulation that has been implemented in this sector, and is emerging as a strong and internationally competitive producer of many primary agricultural products, creating a sound platform for downstream value addition and branching into predominantly high-value crops. However, some important legacies of the previous policy of extensive regulation and market intervention still prevail in some areas, the most important of which are:



- Lack of export market focus and expertise for noncommodity products.
- Uncompetitive value-adding processes.
- Lack of coordination in development initiatives and policy frameworks of national and provincial governments, and development agencies.
- Lack of market intelligence systems.
- Entry barriers for SMMEs in many areas (access to land, capital, expertise, etc.).
- Lack of new product development strategies.

WHAT IS A COMMODITY?

A commodity is an internationally traded product, the price of which is determined by the international market forces of demand and supply, e.g. maize, wheat, cotton, etc., while a niche product is a differentiated product that is sold through specialised markets, e.g. essential oils, etc.

MARKETING VALUE CHAINS

A marketing value chain is a network of organisations/institutions that are involved through upstream and downstream linkages in different processes and activities that produce value in the form of products and services in the hands of the ultimate consumer. These institutions could be in the form of cooperatives/associations with a mutual purpose of meeting consumer needs through products/services and product development.

The agricultural value chain

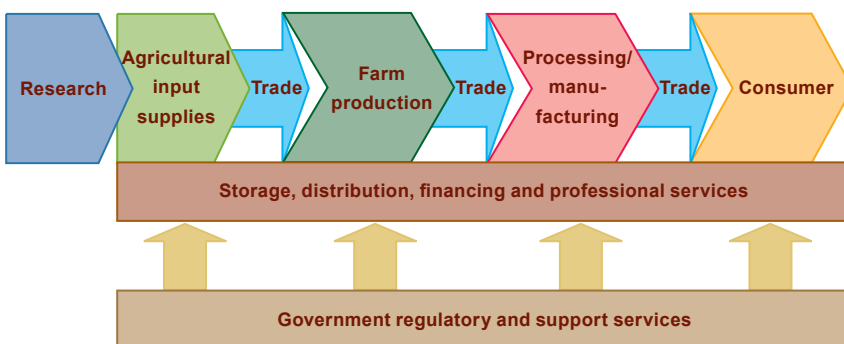
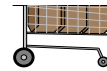


DIAGRAM 2. The agricultural value chain

A value chain is directed by research in response to the changing needs of consumers. The agricultural value chain spans a series of activities (see Diagram 1) starting from agricultural input supplying industries (farm equipment and machinery, agrochemicals and veterinary supplies, seeds, etc.), through farm production, processing or manufacturing industries, traders/marketing firms (exporters, brokers, agents, wholesalers, retailers, street vendors) until products reach the final consumer.



The value chain covers the full chain of activities required to bring a product from its conception to its end use and beyond, such as research and development, raw material supply and all activities of production, marketing and sales to international buyers, and beyond that to disposal and recycling. Distribution channels play a critical role and have a huge impact on competitiveness and profitability in the value chain. Inefficiencies and, subsequently, higher costs at the lower end of the chain are transmitted throughout and the consumer feels the pinch at the end.

WHAT IS A COMMODITY PROFILE?

A commodity profile is a short description that provides important details about a particular agricultural product and industry. It also gives a basic overview of the entire commodity value chain.

WHO CAN BENEFIT FROM A COMMODITY PROFILE?

- Resource-poor farmers
- Investors in agribusinesses
- Economists
- Agricultural extension agents
- Policy makers
- Agroprocessors
- Export agents/importers/traders
- Researchers, students
- Banks, etc.
- The agricultural industry.



CATEGORIES OF COMMODITIES COVERED IN THE PROFILES

- **Horticultural products:** citrus fruit, subtropical fruit, tropical fruit, vegetable crops, flowers.
- **Livestock products:** cattle, pigs, goats, sheep, poultry, ostriches, fish, game.
- **Grains:** cereal grains, grain legumes, oilseeds.
- **Industrial products:** cotton, sugar, chicory, black tea, coffee, mohair, wool, honey-bush tea, rooibos tea, sisal, cassava, tobacco, hides and skins, hemp and flax, wine.

WHAT IS THE IMPORTANCE OF COMMODITY PROFILES?

- They assist the farmers to have a better understanding of the particular agricultural product's value chain, possibilities of growth and participation, the participants in the particular sector, their location throughout the country and the share of the market that they command. It therefore also informs policy makers in terms of benchmarking to monitor the attainment of AgriBEE objectives.
- As such this also assists to identify any opportunities that exist for previously disadvantaged individuals to participate at any level through the value chain.
- It also helps to identify where farmers can sell their produce in terms of identifying who the first point of contact is after farm production. This also assists in identifying any types of competition that exist in certain markets.
- The relative importance of a particular industry in terms of its contribution to employment, imports and exports and GDP is also outlined in broad overview. It also goes further to give a brief summary



as to whether a particular industry is export oriented or locally based. The possibilities of selling a product in the domestic market and the existing export markets are important to help producers make production decisions and inform extensionists/agricultural development officers to provide expert advice to resource-poor farmers.

- Agroprocessors will be able to know who their major competitors are in various markets by evaluating the participants through the value chain, and the profile provides an idea of the availability and the sources of raw materials for the processing industry.
- A profile also outlines the rates of participation of previously marginalised people in the various industries of agriculture and the existence of any efforts by organised industry in developing resource-poor farmers.
- Farmer organisations are also identified to assist new entrants into agriculture to get contact with experts in the fields of marketing, production practices and for consumer education and information.
- Many crops or animals fail to reach the required stage of maturity or marketing simply because of unsuitable weather conditions or having been grown or reared in the wrong environments. A profile outlines the suitable production areas where certain crops or animals can thrive.
- As a result emerging farmers and potential investors who would like to invest in agriculture and agroprocessing industries would find it easy as part of their market research to understand the trends, advantages and disadvantages of being involved in particular types of agribusinesses.