



Econ3x3

www.econ3x3.org

A web forum for accessible policy-relevant research and expert commentaries on unemployment and employment, income distribution and inclusive growth in South Africa

Downloads from this web forum are for private, non-commercial use only.

Consult the *copyright and media usage guidelines* on www.econ3x3.org

October 2021

The EU Green Deal: how will it impact South African agricultural exports?

Wandile Sihlobo, Stellenbosch University, and *Tinashe Kapuya*¹, Bureau for Food and Agricultural Policy

Abstract

The European Union (EU) is the second most important market for South Africa's agricultural products, accounting for 27% of the country's total agricultural exports. Despite South Africa transitioning from the Trade Development Cooperation Agreement (TDCA) to the Economic Partnership Agreement (EPA) to secure continued and improved market access in the EU, a new set of regulations under the EU Green Deal and its Farm to Fork Strategy are set to impose additional compliance costs that will likely negate the benefits of existing preferential trade arrangements. We present a set of challenges, opportunities, and risks that both government and the private sector need to address if South Africa aims to increase agricultural exports to the EU.

Introduction ²

The SACU and Mozambique-EU Economic Partnership Agreement (EPA) of 2016 enhanced market access benefits for South Africa. These included fully or partially removed customs duties on 98.7% of exports, expansion of tariff rate quotas (TRQs) on key agricultural exports, and a more implementable agricultural safeguard mechanism, among others. Since the implementation of the agreement in October 2016, South Africa's exports to the EU have increased by 25%, from US\$2.2 billion (in 2017) to US\$2.8 billion (in 2020)³. The pace of South Africa's agricultural exports was declining at 2% per annum over the period 2013-2016. However, with improved market access under the SADC-EPA, the rate of agricultural exports grew by 4% per year from 2017 to

¹ For correspondence, email: wandile@agbiz.co.za. **Wandile Sihlobo**, the Chief Economist of the Agricultural Business Chamber of South Africa (Agbiz) and the author of "*Finding Common Ground: Land, Equity, and Agriculture*", is a research fellow at the Department of Agricultural Economics at Stellenbosch University.

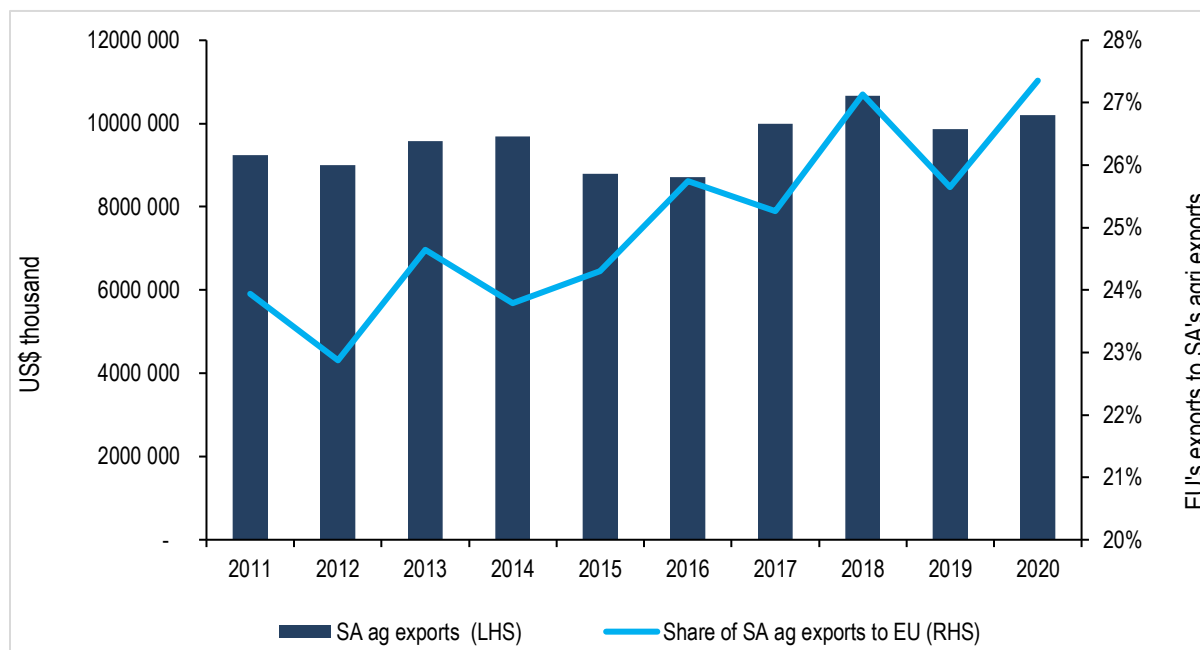
Tinashe Kapuya is a Senior Program Officer at Alliance for a Green Revolution for Africa in Nairobi (Kenya) and Research Associate at the Bureau for Food and Agricultural Policy in Pretoria (South Africa).

² This article is based on the authors' contributions published in the Farmer's Weekly Magazine and a presentation made at the International Food and Agribusiness Management Association (IFAMA).

³ This is according to data from [Trade Map \(2021\)](#).

2020. But there are reasons to fear this growth will slow down as a new set of regulations, part of the EU Green Deal's Farm to Fork Strategy, is implemented.

Figure 1: South Africa's agricultural exports (US\$'000) and the share of the EU (%)



Source: TradeMap (2021), authors' calculations

The Farm to Fork Strategy

The EU and the rest of the world are seeking to implement urgent policy measures to combat the effects of climate change. In its 2030 climate target plan, the EU aims to reduce greenhouse gas (GHG) emissions by 55% from 1990 levels. To that end, the EU has crafted the “Farm to Fork Strategy”, a new approach that ensures that agriculture, fisheries, and the entire food system effectively contributes to achieving this target. The Farm to Fork Strategy⁴ was launched in 2020 and it is at the core of a broader initiative called the European Green Deal whose aim is to reduce the environmental and carbon footprint in the way food is produced and consumed.

The strategy lists 27 actions covering food production, processing, retailing, and waste. These actions are not expected to be implemented until 2022 to give regulators and food system actors time to transition into the new policy regime.

It has four broad pillars:

- (a) *Consumer demand* – which focuses on nutritional labelling and creating a sustainable labelling framework that covers nutrition, climate, environment and social aspects of food products. The labelling requirements are intended to empower consumers to make conscious decisions about health and sustainability.
- (b) *Food production* – which sets out the fundamentals for sustainable production by setting targets that reduce the use of fertilizers and pesticides and the revision of legislation regarding feed additives and animal welfare.

⁴ You can access more information on the Farm to Fork Strategy [here](#)

- (c) *Industry behaviour* – that seeks concrete commitments from agribusiness and other food-system actors concerning health and sustainability. To that end, the EU will develop a code of conduct on the development of business and marketing practices and require agribusiness to integrate sustainability into their corporate strategies.
- (d) *Trade policy* – which seeks commitment from third countries on the use of pesticides and animal welfare and the fight against microbial resistance. This raises the question of creating a fine balance between resilience and protectionism.

With the EU seeking to compel third countries - such as South Africa - to adhere to new regulations to continue to access its lucrative market, questions have arisen about the capacity and potential for South Africa to adapt, as well as the risks and opportunities that these regulations present to future access into the EU market.

What are the challenges?

South African producers – as well as those in the rest of SACU and Mozambique – may face several challenges. These include:

- **Regulatory and policy uncertainty**

Regulations in the Farm to Fork Strategy are not expected to be implemented until 2022. However, it might take some time for regulators and food-system actors to align their policy, regulations, and business decisions to the emerging requirements of the food system. Policy cycles and political processes can impose a lag-time of anywhere between 3-5 years, which will lead to a transition phase of regulatory and policy uncertainty.

- **High costs of compliance**

Over the years, South African agribusinesses has had to conform to stringent EU regulatory standards, as well as an ever-increasing set of private standards related to traceability, authenticity, exposure to allergens, good farming practice, child labour, sustainable farming, sustainable farming practice, and various kinds of certification (e.g. Hazard Analysis Critical Control Points or HACCP, Kosher, Halal etc.). An example is the requirement for South African citrus producers to comply with the Citrus Black Spot (CBS) measures, which costs the industry, on average, over R1.9 million per year.⁵ With Fair Trade Certification costing over US\$1000 for smallholder farmers⁶, resource-poor farming households can seldom afford such high costs of adopting new regulations and certification. Without financial support, most smallholder farmers will inevitably be excluded from participating in export markets.

What are the opportunities?

- **Shifting towards low levels of fertilizer and chemical use, and reducing soil contamination**

⁵ Estimates based on a Bureau for Food and Agricultural Policy (BFAP) report commissioned by the Citrus Growers Association (CGA) in 2018.

⁶ Based on key informant interviews with a UK based firm that imports from South Africa.

Some of the food produced in South Africa is genetically modified (GM), and produced under agricultural systems that intensively use fertilizers and chemicals.⁷ Worth noting is that the EU is currently reviewing its GM regulations concerning production and importation of GM crops. On 29 April 2021, the European Commission released a study confirming that new genomic techniques products have the potential to contribute to sustainable agri-food systems in line with the objectives of the European Green Deal and Farm to Fork Strategy.⁸ The study states that "...any further policy action should aim at enabling new genomic techniques for products to contribute to sustainability while addressing concerns....of [] food production [such as] organic agriculture. Still, there is growing evidence that countries that have embraced GM crops (such as US, Ukraine, Argentina, Russia, Brazil, Canada etc.) are also experiencing lower insecticide use, practicing more environmentally friendly tillage operations, while achieving considerable crop yield improvement over time."⁹

While South Africa has existing commercially driven export value chains that already conform to these emerging rules (i.e., high value organically produced food), it's important to point out that such food systems are still targeting niche markets in the EU. Questions remain around the economic viability of extensive, organic and low-input farm production systems that drive these niche food systems. The Farm to Fork Strategy is ultimately seeking to make these niche markets mainstream. This is an opportunity for South Africa only if farmers can begin to produce higher volumes at a relatively competitive price.

- **High and growing food demand**

There are studies that project that global food demand will increase by as much as 60% by 2050.¹⁰ Few EU member states can allocate enough land to produce and match the level of food supply that can meet this demand growth, so the assumption is that the EU will increasingly depend on food imports. In South Africa, there are at least 1.3 million ha of additional available cropland that can be sustainably brought into production to expand and increase food output.¹¹ Against this backdrop, South Africa can continue to expand its production to meet an increasingly significant portion of the EU's food needs, especially if local food systems adapt and align standards to meet the regulatory standards dictated in the farm-to-fork strategy.

- **Technical change**

The EU is depending on progressive technical change as a key driver that will re-set the agro-food system. The premise is that technological innovation will drive productivity increases, reducing food prices to reasonably affordable levels. In South Africa, technical change will involve adoption of technologies that will not only reduce the carbon footprint of the agro-food system but also increase yields in a sustainable way. Part of that process will be to expand the adoption of high-yielding, drought- and pest-tolerant genetically engineered crops that will enable farmers to produce more food with less land¹² This will also allow for more land to be set aside for preservation and

⁷ Maize is a primary example where 80% of the GM, also soybeans where over 90% is GM.

⁸ For more information you can access it [here](#)

⁹ [Lusk et al. \(2017\)](#)

¹⁰ An example of such studies is Maarten Elferink and Florian Schierhorn (2016) article in the Harvard Business Review (Available [here](#)).

¹¹ More information about the available land is accessible [here](#).

¹² You can access more information about the effect of GM crops on productivity [here](#)

increase the potential for carbon sequestration.¹³

- **Business model innovation**

Many commercially driven export-oriented value chains have well-established systems of traceability and food safety, as well as allergen control reporting, with audit processes that can identify, verify, and authenticate standards. However, adapting to the demands of the Farm to Fork strategy will involve (multinational) agribusinesses making significant investments in smallholder production by expanding training and capacity building programmes and corporate social responsibility projects that could boost the sourcing of farm production from smallholder farmers. Partnerships with smallholder farming communities, as well as environmental protection agencies and NGOs (such as African Parks) can lead to greater levels of accumulating carbon credits to increase market access into the EU.

What are the Risks?

- **Increased inequality**

Without deliberate and strategic interventions that support regulatory compliance, there is a real chance that resource-poor farmers will be left out of the new "sustainable agro-food system" due to their lack of financial and technical capacity to conform to new standards. This will only serve to deepen the inequality gap and widen the divergence between the informal and formal food systems. The first mover advantage for EU value-chain actors may potentially displace sub-Saharan African exporters in markets if adoption of regulations takes more time than initially envisaged.

- **Off-shoring of “bad production” to South Africa**

Those food producers who cannot comply with the provisions of the Farm to Fork strategy could potentially relocate parts of their value chain in South Africa, targeting exports to the Middle East, and the Far East and Asia where food standards are far less stringent. Without any pressure to comply to environmental sustainability, the types of technologies that will be implemented in South Africa may hurt the continent in the long run.

Conclusion

The four key factors that will drive the re-set of the food system through the Farm to Fork strategy will be (a) technical change (b) business model innovation (c) growing food demand and (d) policy and regulation. The EU and the private sector may need to provide significant technical and financial support to facilitate South Africa's transition and align its regulatory environment with the focus on health and sustainability. In the long run, the expectation is that with the harmonization of standards and practices will also come structural change of the food system in such a way that value chain profits are not disproportionately accumulated at the expense of farmers. This will require higher levels of transparency across all parts and aspects of the food system.

¹³ We use this term in the context of the definition contained [here](#).

References

Bureau for Food and Agricultural Policy (BFAP). 2018. South African Citrus industry: Economic and financial quantification of CBS compliance. A report compiled for the Citrus Growers' Association (CGA).

Sihlobo, W., 2021. [A New Chance for Genetically Engineered Crops](#). Czechia: Project Syndicate.

Trade Map, 2021. [Agricultural trade data](#), Geneva: International Trade Centre.

Kapuya T. 2021a. Will the EU's Farm-to-Fork Strategy help the region meet climate targets? *Farmer's Weekly* (p.13); 2 July 2021.

Kapuya T. 2021b. Implications of the EU's Green Deal for Africa. *Farmer's Weekly* (p.15); 16 July 2021.

European Union Commission. 2020. Farm to Fork Strategy: For a fair, healthy and environmentally friendly food system. Accessed Online [here](#) on 18 October 2021.

Lusk, J., Tack, J. & Hendricks, N., 2017. [Heterogeneous Yield Impacts from Adoption of Genetically Engineered Corn and the Importance](#), Cambridge: The National Bureau of Economic Research.