

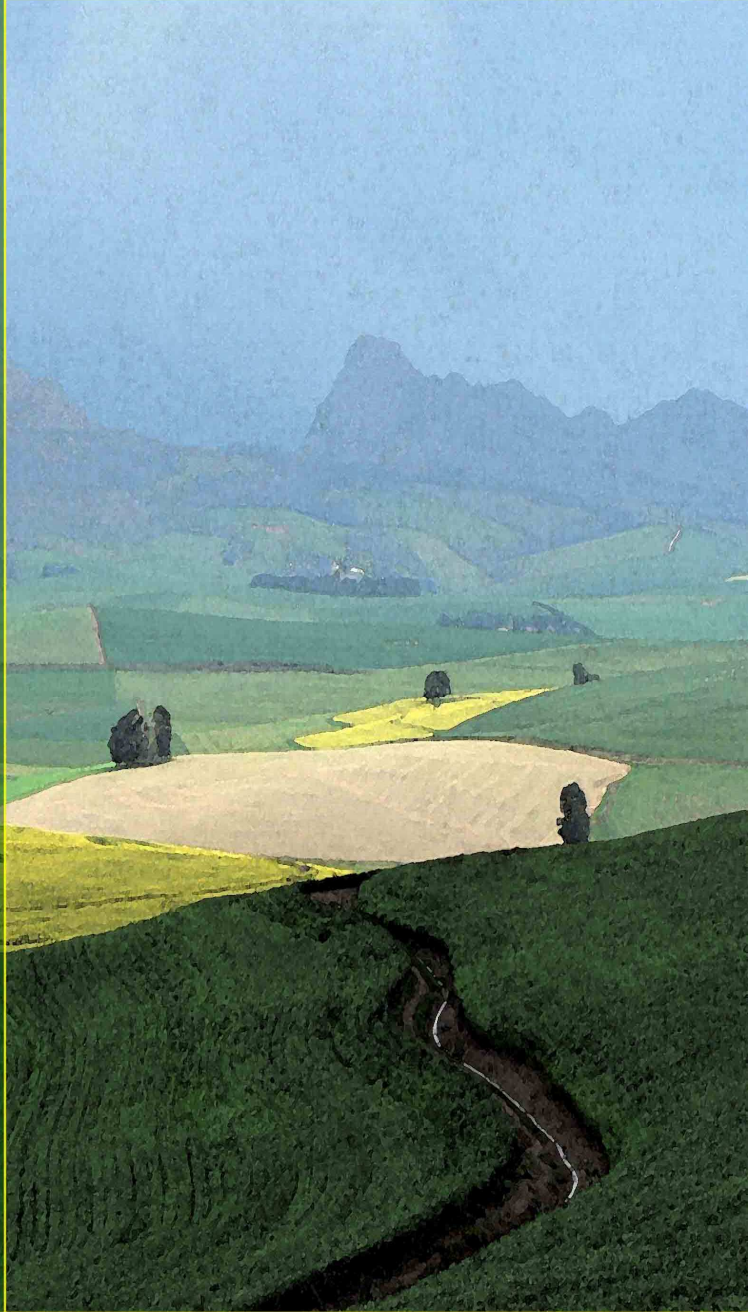
2008

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The South African Agricultural

BASELINE

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BFAP

BUREAU FOR FOOD AND AGRICULTURAL POLICY

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South African Pork Producers Organisation (SAPPO)
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Foreword

The Bureau for Food and Agricultural Policy (BFAP) was established in 2004 with the purpose of facilitating decision making in the South African agricultural sector as well as training of individuals in order to increase analytical and research skills available to the sector. BFAP is housed as an independent program within the Department of Agricultural Economics, Extension and Rural Development at the University of Pretoria, the Department of Agricultural Economics at the University of Stellenbosch, and the Department of Agricultural Economics at the Provincial Department of Agriculture, Western Cape. BFAP is the first of its kind in South Africa and has become a valuable resource to government, agribusiness and farmers by providing analyses of future policy and market scenarios and measuring their impact on farm and firm profitability. BFAP acknowledges and appreciates the tremendous help and insight of numerous industry specialists over the past years. Although their comments and suggestions are taken into consideration, BFAP's own views are presented in the baseline publication. Finally, BFAP expresses its sincere appreciation to the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri and its staff who have trained BFAP staff members and have provided outlooks on world commodity markets over the past six years.

The analysis of world and domestic markets consists of baseline projections and scenario analyses of possible market and policy changes and the possible impacts of these changes on domestic markets and farm profitability and survivability. Over the past two years input costs and food prices have risen rapidly. The question in everybody's mind is whether local and world commodity markets are at a new equilibrium. This baseline is constructed in such a way that the decision maker can form a picture of a possible new equilibrium, what future changes could take place and what their likely effects could be on the equilibrium given a specific set of assumptions.

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Context and Purpose

World prices of nearly all grain and oilseed crops have more than doubled between 2005 and the first quarter of 2008, which implies that parity prices for most of the commodities have also shifted to all-time record highs. Future markets have also become far more volatile. The rapid increase in food prices has raised concerns about the affordability and accessibility of food for the poor, while the production of biofuels from food crops has frequently been identified as one of the main drivers of the sharp rise in food prices. This has turned into the so called “food versus fuel” debate that has been broadly covered in the media. Agricultural commodity markets are now also more integrated into the global energy market than before, not only due to the production of biofuels, but also due to the costs of transportation, processing, distribution and marketing of intermediate and final products.

The question in everybody’s mind is whether high prices are here to stay. The answer to this question partly lies in a clear distinction between temporary and permanent factors to determine whether a structural shift has occurred and the world is at a new equilibrium or not. For example, adverse weather conditions negatively affecting yields in countries like Australia could be regarded as a temporary factor, whereas the production of biofuels from food crops can be regarded as a permanent factor. This baseline presents one possible scenario where temporary factors play out over the short run and permanent factors cause a structural shift in the market. The baseline simulation thus tells us what the possible outlook for this new equilibrium could be given a specific set of assumptions. BFAP assumes that average weather conditions prevail in South Africa and around the world, world economies grow in line with adjusted projections developed by Global Insight and productivity generally increases in line with past trends. Baseline projections for world commodity markets are taken from an updated version of the FAPRI 2008 US and World Agricultural Outlook.

All the commodities are simulated within a closed system of equations in the BFAP sector model. This implies that any shocks in the grain sector are transmitted to the livestock sector and the biofuels sector, and vice versa. The BFAP sector model is an econometric, recursive, partial equilibrium model. For each commodity, the important components of supply and demand are identified and equilibrium established in each market by means of balance sheet principles where demand equals supply. This year potatoes and table grapes were added to the list of commodities already covered in the baseline. Baseline projections are provided up to 2014.

The baseline does NOT constitute a forecast, but rather a benchmark of what COULD happen under a particular set of assumptions. Inherent uncertainties including policy changes, weather, and other market variations ensure that the future is highly unlikely to match baseline projections. Recognizing this fact, BFAP incorporates scenario planning and risk analyses in the process of attempting to understand the underlying risks and uncertainties of agricultural markets. **Scenarios and risk analyses are, however, not published in the baseline, but only prepared as confidential reports for individual clients.** Finally, the BFAP Baseline 2008 should be regarded as only one of the tools in the decision-making process of the agricultural sector and other sources of information, experience, and planning and decision making techniques have to be taken into consideration.

Executive Summary

The BFAP baseline 2008 presents an outlook of South African agricultural production, consumption, prices and trade for the period 2008 to 2014. The baseline is based on assumptions about a range of economic, technological, environmental, political, institutional and social factors.

Global economic growth is assumed to slow down somewhat as a result of high energy and food prices, as well as slower growth in developed countries. However, economic growth in some emerging economies such as China and India is assumed to remain fairly strong. This keeps demand for energy and commodities at a relatively high level. As a result, oil prices are projected to remain above \$100 per barrel and are expected to increase over time. South Africa's economic growth is expected to slow down in 2008 and 2009 due to pressure on consumer expenditure, as well as constraints on the supply side.

World grain prices rose sharply in 2007/08 because of weather-related supply shortages and demand increases from food use and the production of biofuels. The projected recovery in wheat production is expected to stabilize the price of wheat from record highs in the first quarter of 2008. Maize prices continue to strengthen as some area is shifted to the production of soybeans and world demand grows. World prices of oilseeds and vegetable oil are expected to remain high, with relatively small decreases expected in the price of sunflower over time. Ethanol production is expanding rapidly and ethanol prices are expected to remain relatively flat over the baseline. Mandates drive demand for biodiesel in the EU and the US and prices are projected to increase over the baseline as production struggles to keep up with consumption. World meat prices are supported by increased per capita meat consumption due to sustained income and population growth, especially in Asian economies. Although dairy prices are expected to remain high, expansion in exports from Argentina and Brazil could provide some downward pressure.

In the South African market a general shift in area out of maize production to sunflower, soybeans and wheat can be expected as relative net returns have drastically improved in the production of these commodities. This causes maize prices to rise in 2009. Beyond 2009, a surplus of maize will be produced and prices are expected to trade close to export parity levels. This implies that upside price risk is present in the maize price. Wheat prices are expected to decrease in 2009 and 2010 due to lower world prices.

Biofuel production in South Africa is expected to commence in 2009, with sugar cane as the major feedstock. Production of sugar is, therefore, expected to decline by 15% by 2014. This is mainly due to the diversion of 3.2 million tons of sugarcane to the production of ethanol. The industrial biofuel strategy does not impose any mandatory blending and therefore the price of biofuel will be determined by biofuel parity prices and the Basic Fuel Price (BFP) for fossil fuel.

Meat consumption is expected to soften until 2010, when economic growth is projected to recover. Prices are expected to increase marginally in 2009 and then start to increase at an increasing rate from 2010 onwards. Whereas the production of lamb and pork is expected to remain relatively constant, beef production will expand by 8% and chicken production by 14% in 2014. Dairy prices are expected to remain strong due to a weakening exchange rate and local production being under pressure by high feed prices.

For commodities like apples and table grapes, local prices are expected to increase due to a weakening exchange rate and strong world prices. High input costs cause the potato area to decrease by 5000 ha in 2009. Prices are therefore expected to rise as demand remains strong over the baseline.

Executive Summary

The impact of baseline commodity price projections on food prices depends on the degree of price transmission and the nature of the supply chain in terms of the share of raw commodity in the processed final product. However, taking the baseline projections into consideration, some implications for food prices can be drawn. From the baseline it is evident that commodity markets are trading at a new equilibrium. This implies that prices are trading at new levels, which are expected to remain due to structural changes. These structural changes include the production of biofuels, high oil prices and therefore input costs, and generally the inelastic demand for food in the world due to strong economic growth over the past years. It is therefore evident that food prices are not expected to decrease over the short run. Given the economic expectations and the outlook on commodity prices, food prices will increase but at a decreasing rate (below 10%) over the next two years. This has positive implications for the rate of inflation.

For many years observers have thought that the agricultural industry hampers South Africa's economic growth. However, good profit margins have brought along a fresh breeze of incentives in the industry in the past two years. As a result, primary agriculture has experienced significant growth; first in the livestock industries due to low feed prices and rising meat and dairy prices due to strong economic growth, and now in the field crops and horticultural industries due to output prices that have more than doubled over the past two years.

However, these profit margins are either closing rapidly or have closed for most of the industries and a new equilibrium is being established. Profits in the livestock industry have been eroded by high feed prices, and profits in most of the rest of agriculture have been slashed by high input costs.

It is also important to understand that a new equilibrium does not imply that commodity prices are expected to be less volatile and, therefore, to be less risky in the future. It does, however, imply that the environment and the levels of doing business have shifted. Revenue and costs of production are higher, more credit and collateral are required, the budget for small-scale farmer development and land reform has to be revised and the revenue targets for BEE implementation suddenly seem to be very low. High commodity prices have not only brought about initial profits and now high input costs in the agricultural industry, but have also adversely affected food security in many developing countries, especially in Sub-Saharan Africa, and South Africa, like the rest of the world, is challenged to produce more and affordable food. It is crucial, therefore, for the country to maintain the momentum and the positive incentives that have brought life to the industry over the past two years.

Global food production has been squeezed into a corner and the question is how industry and government will respond. It is important to turn the threats of high commodity prices into opportunities of growth and job creation. The cost of producing food in first world countries is high and land is scarce. In Latin America the land in use has increased rapidly and there is more scope to expand, but there are real concerns about the environmental impact of expanded production. Sub-Saharan Africa has enormous natural, physical and human potential, and it is time that the continent starts unlocking this potential in order to reap the benefits of this endowment. South Africa's agricultural sector, the largest on the continent, has much to teach in this regard. However, political and social instability in the region needs to be addressed, and farmers need to be given the incentives they need for profitable production.

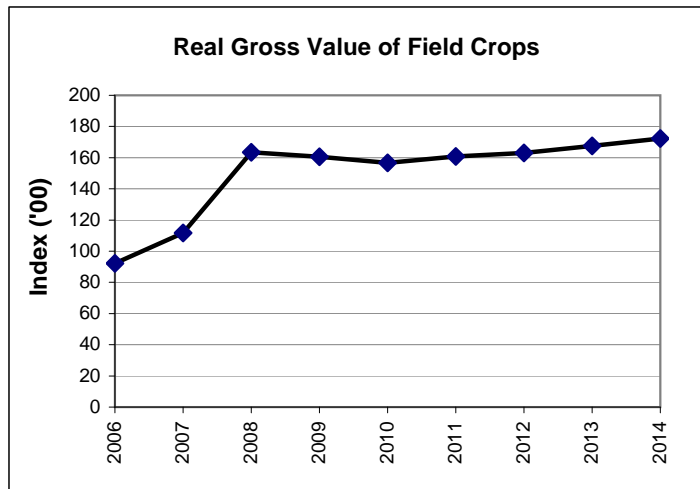
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Overview

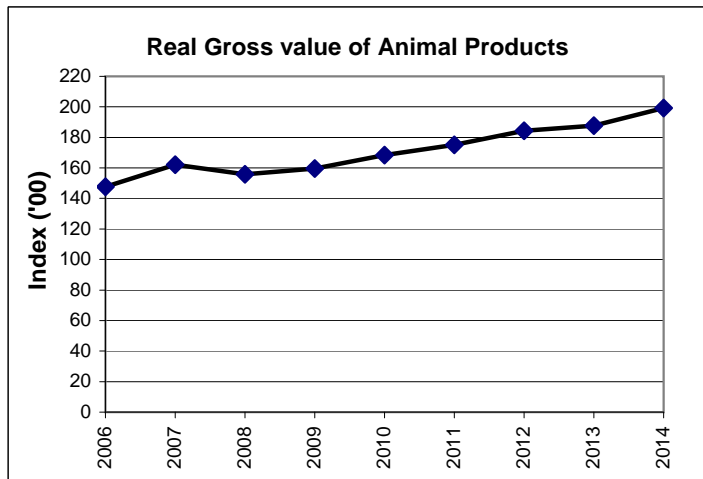
Real Gross Value of Field Crops

The real gross value is projected to reach its peak in 2008 under high commodity prices, and increased plantings due to high 2007 commodity prices. For 2009 and 2010 the real gross value is projected to remain fairly constant and even decrease slightly as plantings and commodity prices remain fairly constant. However, from 2011 onwards, the real gross value is projected to increase at a slightly increasing trend.



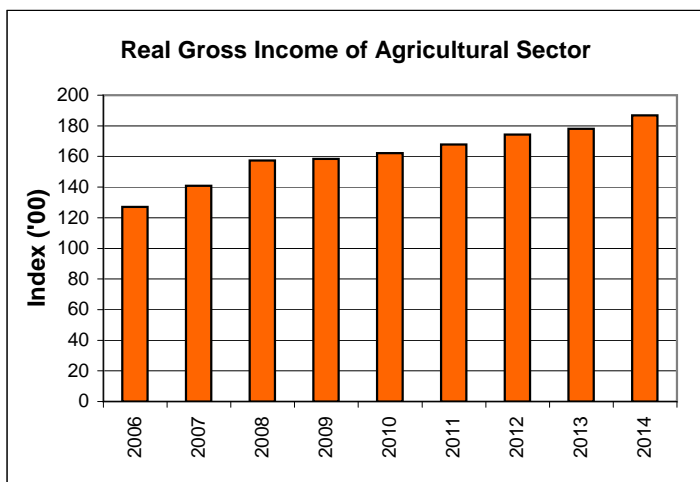
Real Gross Value of Animal Production

Animal production is the largest source of income for the agricultural sector, producing more than 40% of the gross income. The real gross value of animal production indicates in general an upward trend for the past decade with typical livestock cycles and a peak in 2007 with high prices and slaughterings. It is projected to decline marginally in 2008 with constant prices and slightly lower production for some of the meat categories. From 2009 onwards it is projected to grow at an annual average growth rate of 4.3% with the highest growth rate within this period projected for 2010 and 2011.



Real Gross Income of Agricultural Sector

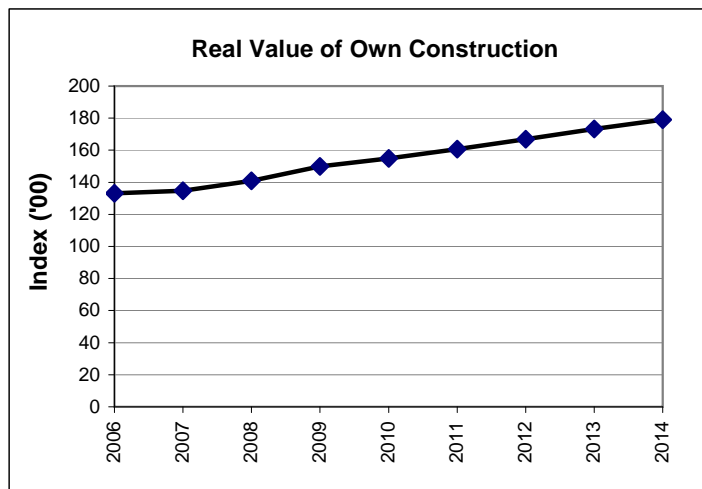
Real gross income of the agricultural sector is derived from field crops, animal production and horticulture activities. It increased by 11% in 2007 and similar growth is expected in 2008. Annual average growth of real gross farm income is projected at 2.9% for the period 2009 to 2014.



Overview

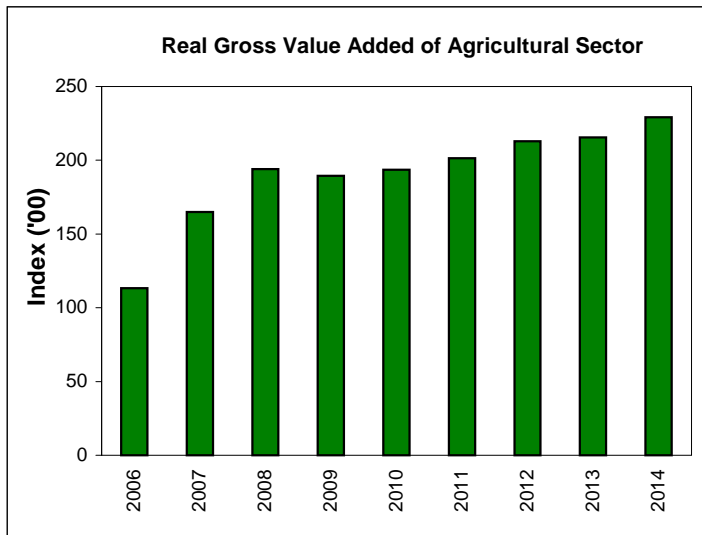
Real Value of Own Construction

Own construction is a key component in the calculation of the agricultural value added. It refers to the erection of new buildings and works, and additions and alterations to existing buildings and works, which is done by agricultural producers. The annual average growth rate of the value of own construction is projected to be 4% over the baseline period.



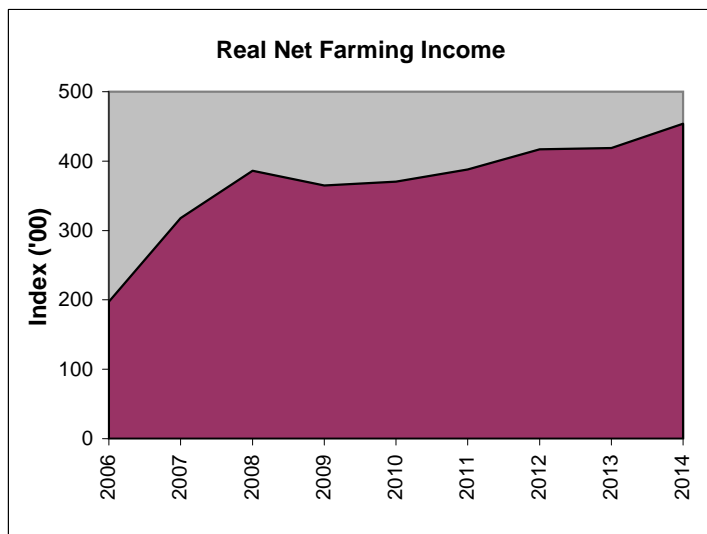
Real Gross Value Added

Real gross value added of the agricultural sector is the contribution of the sector to the total GDP of the economy. The general downward trend was reversed in 2007 when it increased by more than 40%. It is expected to increase by a further 17% in 2008 but then an annual average growth rate of 2.8% is projected for the period 2008 to 2014 due to the sharp rise in input cost expenditure.



Real Net Farming Income

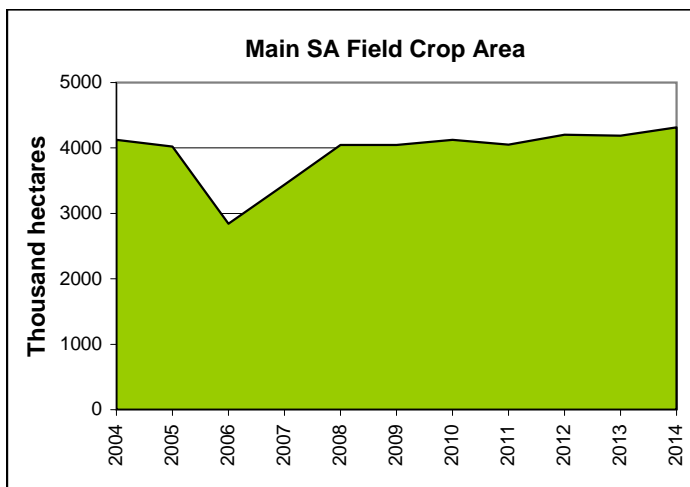
Real net farming income is the income after taking account of depreciation, labour remuneration, interest and rent payment. It showed an increase of 60% in 2007 and is expected to grow by 20% in 2008. An annual average growth of 2.7% is projected during the remaining baseline period due to the impact of rising input costs and relatively constant output prices.



Overview

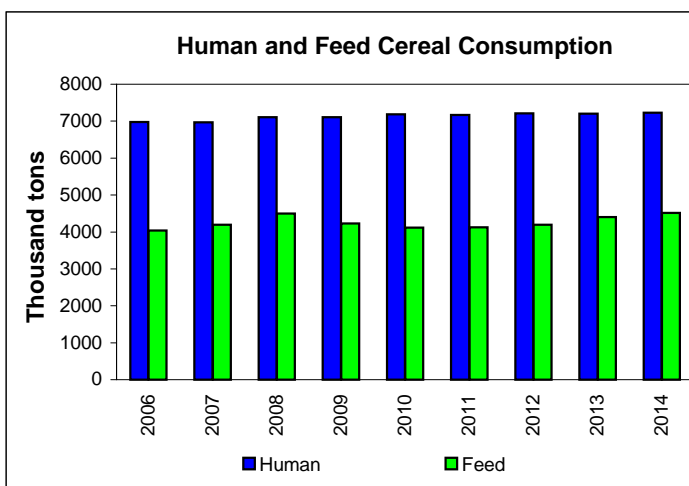
Land Use

The area planted to the main field crops declined from 2004 to 2006. The area increased during 2007 and is projected to increase even further in 2008 on the back of high commodity prices. From 2009 onwards the area is projected to increase only marginally because profit margins have narrowed with the rapid increase in input costs. Yields are expected to improve over time and total grain and oilseed production is expected to grow by 7% and 25% respectively. The total area under the main field crops is projected to reach 4.3 million hectares in 2014.



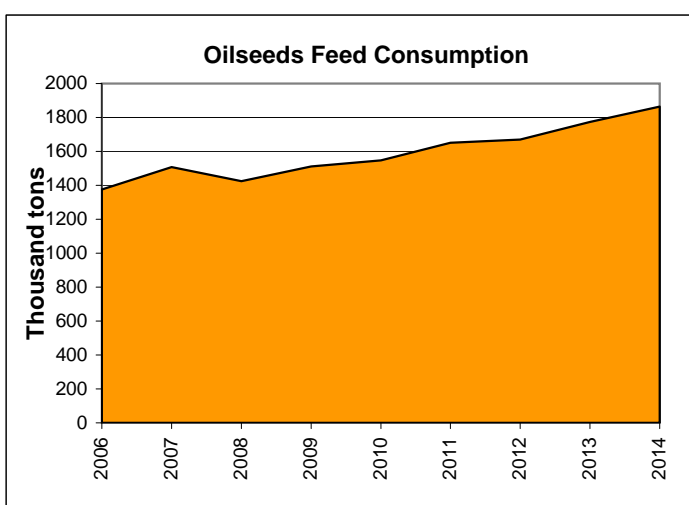
Human and Feed Cereal Consumption

Human cereal consumption is projected to increase by more than 200 000 tons over the baseline period, mainly due to an increase in the consumption of wheat. Feed consumption is expected to decrease marginally during 2009 due to high feed costs that have eroded profits in most of the livestock industries. However, feed consumption will grow at a constant rate from 2010 onwards as the increase in meat and dairy prices outpaces the increase in feed prices.



Oilseeds Feed Consumption

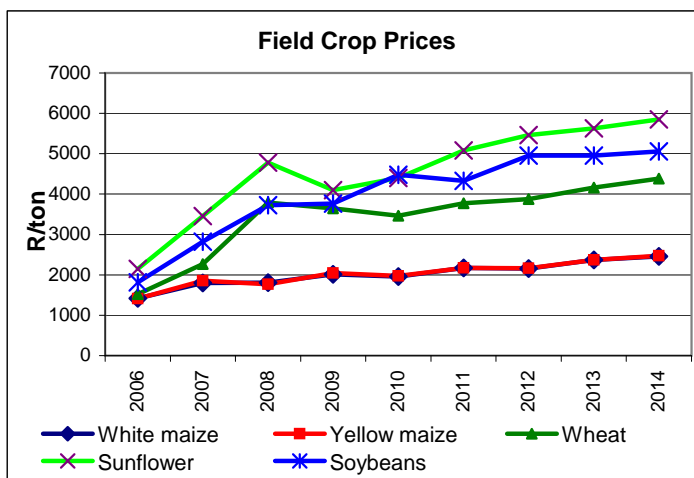
Oilseeds feed consumption (sunflower, soybeans, canola) has been growing over the past decade and is projected to grow over the baseline. A slight slowdown in growth will occur in 2008 due to record high prices of oilseeds. However, world oilseed prices are projected to decline in 2009 as more area is devoted to oilseed production internationally. Beyond 2008, the demand for sunflower, soybeans and canola dedicated for the livestock industries is projected to grow rapidly to reach 1.8 million tons in 2014. Important to note is that this consumption figure does not include imported cake, but only the oilseeds produced in the local market.



Overview

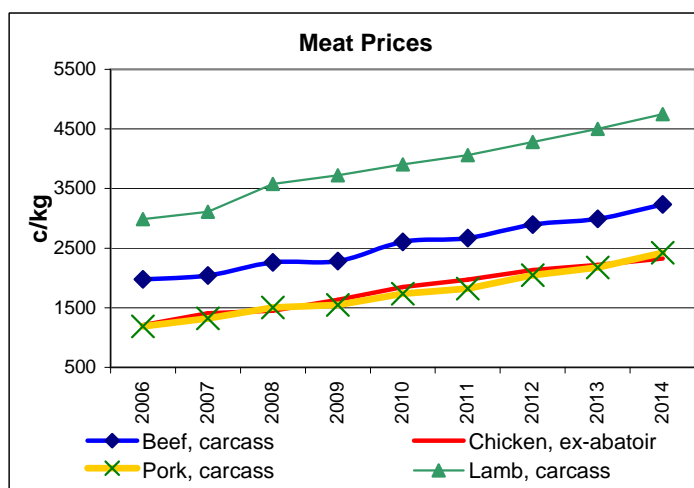
Field Crops

In 2009, a general shift away from maize to wheat, sunflower and soybeans is expected. Maize prices are, therefore, projected to rise above R2000/ton in 2009 in response to decreased plantings. Sunflower prices are expected to pull back in 2009 as production increases rapidly. However, over the remaining baseline period oilseed prices are expected to remain high on the back of high world prices for vegetable oil. Wheat prices decrease in 2009 and 2010 as the world price decreases due to increased production, but from 2010 onwards wheat prices will increase constantly in response to a depreciating exchange rate as well as relatively constant world prices.



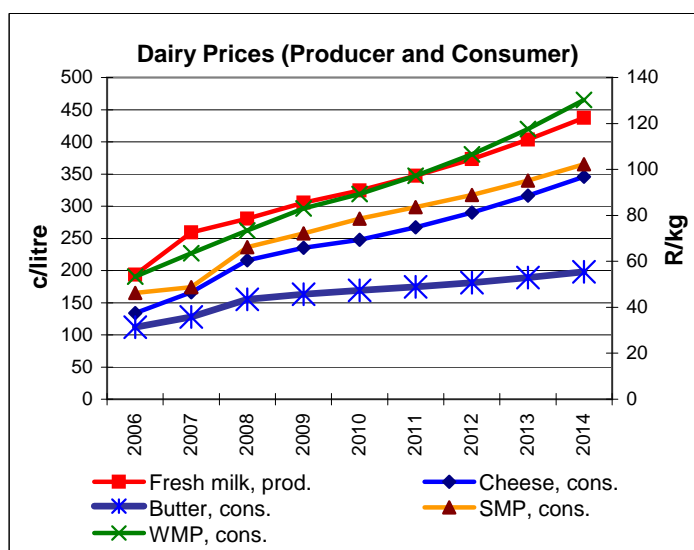
Meat

The demand for meat has grown rapidly over the past three years due to changing consumer preferences in terms of substituting grain products for meat and increasing real disposable income levels. Consumption growth is projected to slow down in 2009 due to high interest rates and poor economic growth, but from 2010 onwards demand for meat will grow consistently over time. Whereas lamb prices will grow constantly over the baseline, beef, pork and chicken prices will follow a cyclical trend. Total meat production grows by 11% and total domestic consumption grows by 12% over the baseline. South Africa, therefore, remains a net importer of meat.



Dairy

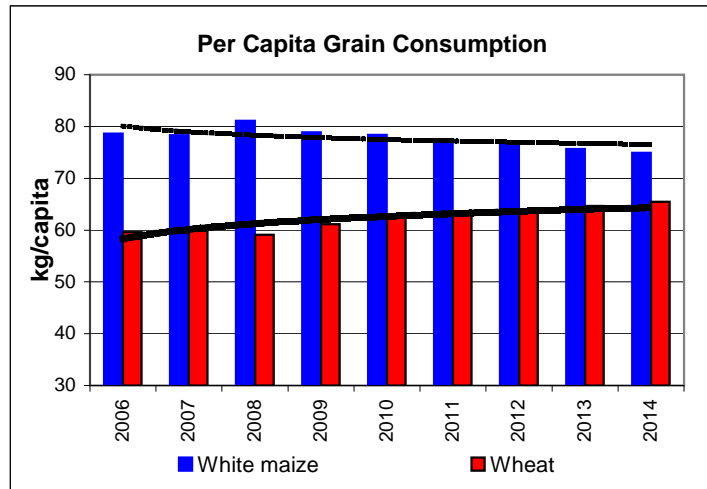
Due to a tight balance between demand and supply in the dairy market, prices will likely be far more volatile than projected in the baseline. The projected increasing trend in all dairy prices can be ascribed to an increase in per capita consumption of dairy products, and more expensive imports caused by a depreciating exchange rate. Utilisation of milk is projected to remain above production of milk by more than 100 000 tons during the baseline period, which implies that South Africa will remain a net importer of dairy products.



Overview

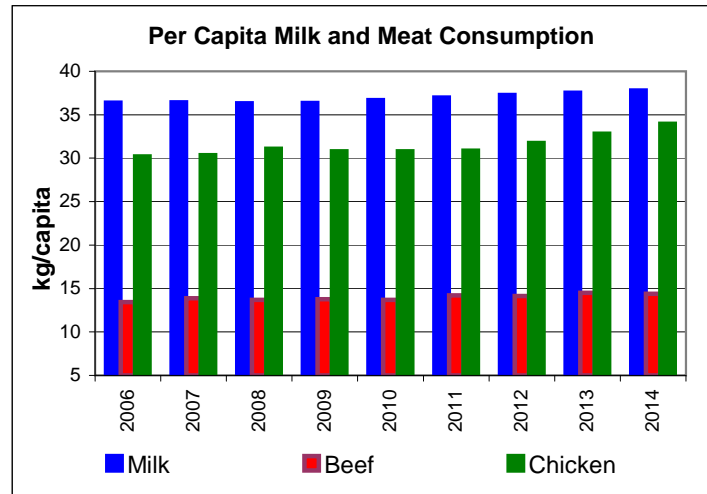
Per Capita Grain Consumption

The per capita consumption of maize (maize meal) is projected to decrease over the baseline period. However, the per capita consumption of wheat (bread) is projected to increase at a decreasing rate. This increase in per capita bread consumption can mainly be attributed to urbanization and the projected increase in disposable income for a larger share of the population. Rice appears to be a strong substitute for maize meal and bread as consumer incomes increase and preferences change.



Per Capita Milk and Meat Consumption

The per capita consumption of beef is projected to remain relatively constant with a marginal increase from 2010 onwards. Consumers are expected to increase per capita consumption of milk and especially chicken at an increasing rate beyond 2010 because of economic development and urbanization. This follows after a short period of constant (marginal decline) milk and chicken consumption levels in 2009. Consumers increase fresh milk consumption at an average additional 250ml of milk per person per year.



Baseline Policy Assumptions

The baseline contains all currently agreed policies on an international as well as domestic level. In this case it implies that all FAPRI baseline projections of international commodity prices were simulated under the assumption that all countries will adhere to their bilateral and multilateral trade agreements and their WTO commitments. In the case of South Africa, current policy is maintained. With the deregulation of agricultural markets in the mid-nineties all the non-tariff trade barriers and most direct subsidies were replaced by tariff barriers. In the case of maize, variable import tariffs were introduced and for wheat the variable import tariff dispensation was replaced by a 2% ad valorem tariff in 2006. Simple ad valorem tariffs are applied in the case of oilseeds. In the case of meat and dairy products, a combination of fixed rate tariffs and/or ad valorem tariffs was implemented. The projected tariff levels, as derived from the FAPRI projections of world commodity prices, are presented in the table below.

In the case of biofuels, the South African government has published the industrial strategy on biofuels in December 2007. This strategy has been incorporated into the model. A number of issues were not clearly addressed or explained in the industrial strategy and much uncertainty exists in the market regarding the production of biofuel. For a complete analysis and discussion of the possible impact of the industrial strategy on a potential South African biofuel industry and its impacts on the agricultural markets, please refer to our website at www.bfap.co.za for the third BFAP report on biofuels.

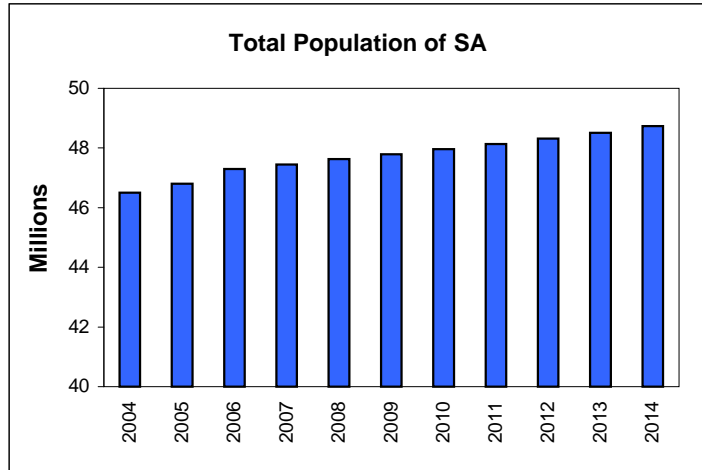
	2006	2007	2008	2009	2010	2011	2012	2013
			R/ton					
Maize import tariff: ref.price = US\$ 110	0	0	0	0	0	0	0	0
Wheat import tariff: 2% of fob	28	31	57	51	47	51	52	56
Sunflower seed import tariff: 9.4% of fob	174	204	450	440	475	446	518	511
Sunflower cake import tariff: 6.6% of fob	34	39	110	88	96	85	105	94
Sorghum import tariff: 3% of fob	33	35	48	50	53	58	59	64
Soybean import tariff: 8% of fob	127	136	240	235	292	272	321	314
Soybean cake import tariff: 6.6% of fob	76	85	170	152	150	133	160	144
			tons					
Cheese, TRQ quantity	1199	1199	1199	1199	1199	1199	1199	1199
Butter, TRQ quantity	1167	1167	1167	1167	1167	1167	1167	1167
SMP, TRQ quantity	4470	4470	4470	4470	4470	4470	4470	4470
WMP, TRQ quantity	213	213	213	213	213	213	213	213
			percentage					
Cheese, in-TRQ	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Butter, in-TRQ	15.8%	15.8%	15.8%	15.8%	15.8%	15.8%	15.8%	15.8%
SMP, in-TRQ	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%
WMP, in-TRQ	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%
			c/kg					
Cheese, above TRQ rate: 500c/kg	500	500	500	500	500	500	500	500
Butter, above TRQ rate: 500c/kg	500	500	500	500	500	500	500	500
SMP, above TRQ rate: 450c/kg	450	450	450	450	450	450	450	450
WMP, above TRQ rate: 450c/kg	450	450	450	450	450	450	450	450
Beef import tariff: max(40%*fob, 240c/kg)	510	575	642	660	686	712	740	777
Lamb Import Tariff: Max(40%* fob, 200c/kg)	392	483	570	554	549	540	561	589
Chicken import tariff: 220c/kg	221	220	220	220	220	220	220	220
Pork import tariff: max (15%* fob, 130c/kg)	130	130	130	130	147	161	169	173

Macroeconomic Indicators

The baseline simulations are largely driven by the outlook for a number of key macroeconomic indicators. Projections for these key indicators are to a large extent based on information provided by Global Insight and further own adjustments and inputs by industry specialists.

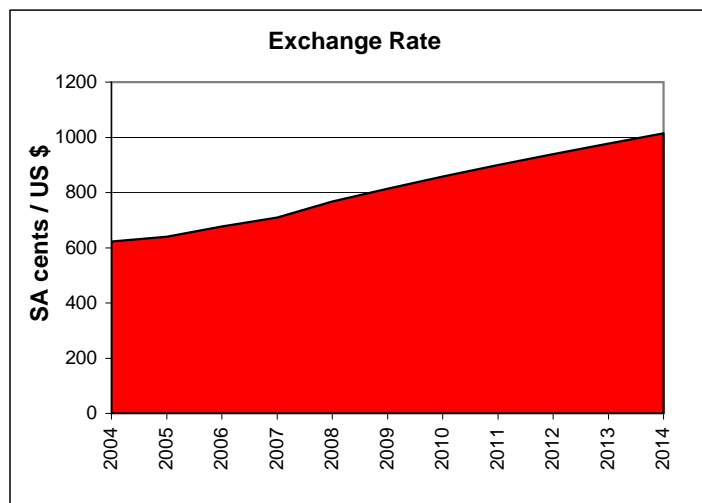
Population

Population growth is a key driver in the demand for food products. The population projection underlying the 2008 baseline is that of a population increasing to a level of 48.7 million in 2014.



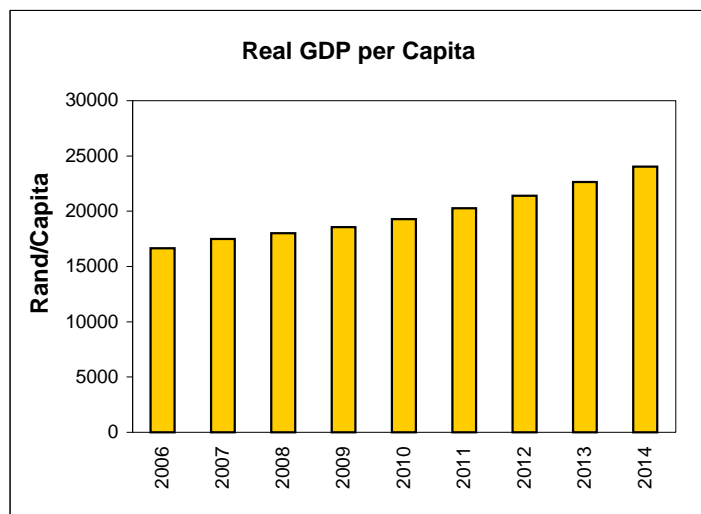
Exchange Rates

The Rand/Dollar exchange rate remains a strong driving force of price levels and trade volumes of food products in the South African agricultural sector. During the past decade, significant exchange rate variability has been experienced. The baseline projects a gradually depreciating Rand of R7.67/US \$ in 2008 to levels of R10.15 against the US Dollar in 2014. The Rand depreciates due to differences in levels of productivity and inflation.



GDP Per Capita

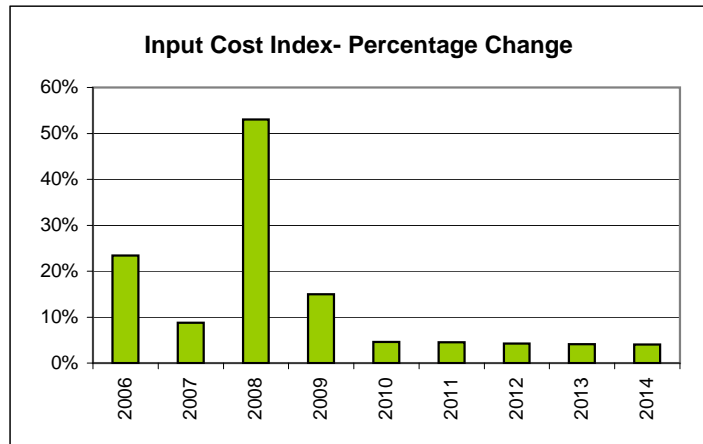
GDP per capita is a key variable driving the demand for food. The strong positive growth of the South African economy over the past couple of years contributed to the increase in real GDP per capita. Growth in real GDP per capita is projected to decrease in 2008 and 2009 to 3% per annum, but from 2010 onwards it is projected to grow at an increasing rate to reach R24 036 in 2014.



Macroeconomic Indicators

Input Cost Index

Input costs have increased tremendously in the first quarter of 2008 on the back of already rising input costs in 2006 and 2007. Prices of fertilizer have increased by as much as 300-400%. Aggregate input costs are projected to rise by 53% in 2008 and a further 17% is expected in 2009. From 2009 onwards, prices are projected to rise constantly but at a declining trend.



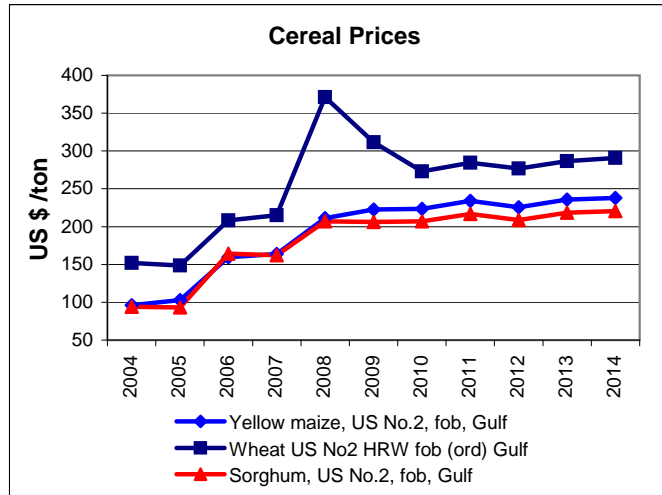
	2006	2007	2008	2009	2010	2011	2012	2013	2014
			Millions						
Total population of SA	47.3	47.4	47.6	47.8	48.0	48.1	48.3	48.5	48.7
			SA cent/US \$						
Exchange rate	677	710	767	814	858	900	939	977	1015
			Percentage change						
Real GDP per capita	3.6%	5.0%	3.0%	3.0%	4.0%	5.0%	5.7%	5.8%	6.1%
GDP deflator	6.8%	8.8%	9.1%	5.7%	5.5%	5.0%	4.8%	4.6%	4.6%
Input cost index	23.4%	8.8%	53.0%	15.0%	4.6%	4.5%	4.3%	4.1%	4.0%
			Percentage						
Weighted interest rate index	11.16	12.50	15.00	15.00	14.00	13.00	13.00	13.00	13.00

World Prices

In addition to the outlook for macroeconomic indicators, the outlook on world agricultural commodity prices determines the path of the baseline projections. The baseline presents an **updated version** of the *FAPRI 2008 U.S. and World Agricultural Outlook*.

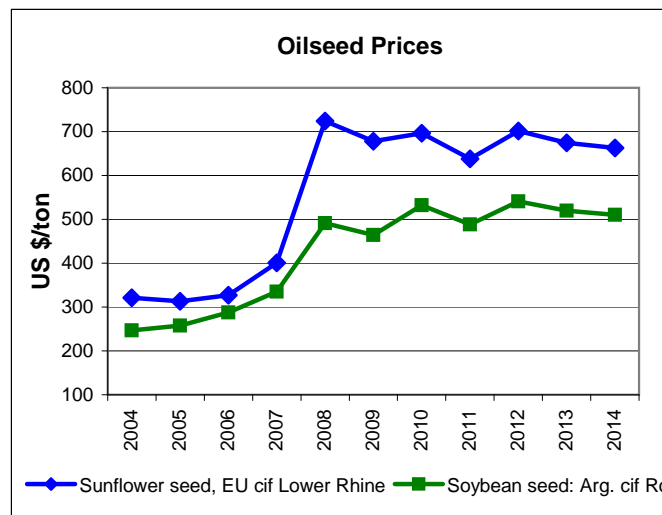
Cereals

The projected recovery in wheat production stabilizes the price of wheat from the recent high of \$371/ton to trade below \$300/ton over the baseline period. Main increases in production, due to higher prices, are projected to occur in Canada, Argentina and Brazil. Despite a decline in the US maize area in 2009, the world maize area is expected to increase by more than 2 million hectares in 2008/09. World maize production and consumption are projected to reach 869 million tons and 867 million tons respectively in 2014. Thus, the stock-to-use ratio is projected to remain stable but tight over the baseline period. Important to note is that cereal prices have broken away from the typical 10-year average levels and it is projected that the prices will remain at these high levels over the baseline period.



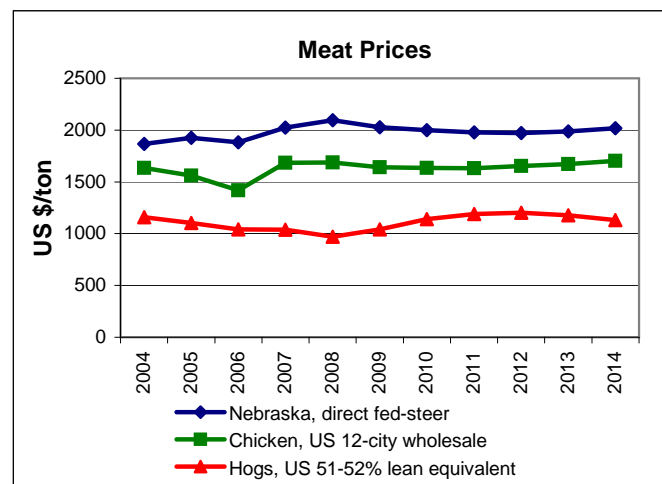
Oilseeds

World production of soybeans is expected to recover by 10% in 2008/09 as the US and Brazil respond to the record high price. This will cause prices to decrease slightly. However, over the baseline the soybean price is expected to remain high due to a growing world demand, mainly for feed and food. Shrinking area and lower yields cut EU sunflower production by 30% in the past season. World sunflower area responds to strong prices and production is expected to increase annually. Increasing demand causes sunflower world stocks to remain tight at approximately 2 million tons.



Meat

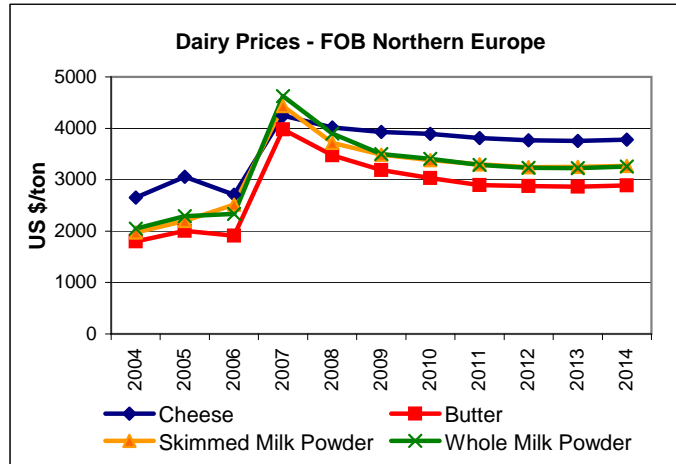
Poultry prices declined over the period 2004 - 2006, mainly caused by a number of outbreaks of Avian Influenza in various countries. In the next decade, as growth in production of 2.7% falls short of the 3.1% increase in consumption, the poultry price grows by 0.5% annually. Driven by high feed costs, beef prices are projected to reach a peak in 2008. World beef trade is expected to recover as more countries end their import bans and China becomes a net importer of beef. Pork consumption is affected as BSE and Avian influenza (AI) bans are slowly lifted and, therefore for the following two years prices are under pressure due to the softer demand. The pork price cycle reaches a low in 2008 and the next peak is in 2012.



World Prices

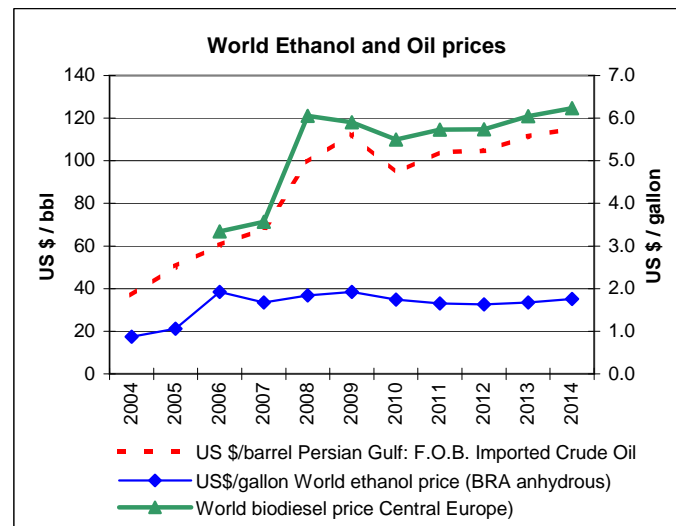
Dairy

Strong global demand and limited growth in supplies from major exporters caused dairy prices to rise to record levels in 2007. Although high prices encourage production in many countries, strong economic growth together with a growing population will lead dairy prices to remain relatively high over the baseline period. The Australian dairy industry is set to recover from the recent drought and favourable government policies boost Brazilian dairy production. Interesting to note is that EU dairy exports are projected to remain constant over the baseline period.



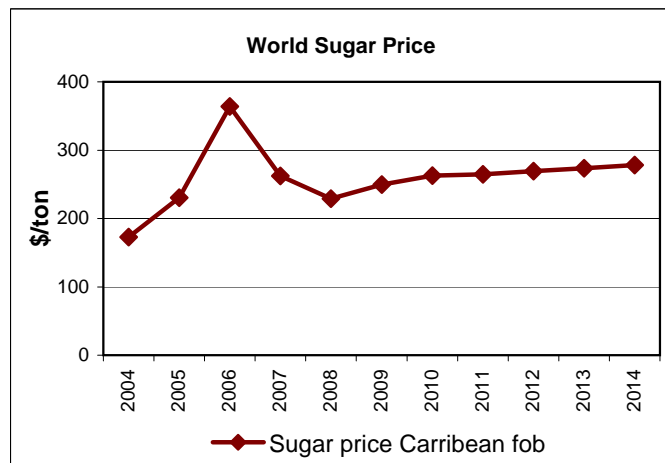
Ethanol and Oil

The world oil price is projected to remain relatively high over the baseline period. There is a tremendous amount of volatility in the oil price. In this baseline projection the assumption is made that the US economy slows down significantly and has a dampening effect on emerging economies. The world production of ethanol is growing rapidly because of high petroleum prices and supportive policies. The projected Brazilian anhydrous ethanol price remains relatively constant at just below \$2/gallon over the baseline, mainly because Brazilian ethanol production is expected to increase by 96%, whereas consumption is projected to increase by only 56%. Expanded biodiesel production in Argentina and Brazil leads to a temporary price decline in 2009 and 2010. However, beyond 2010 the world biodiesel price increases, driven by higher demand from the EU.



Sugar

The world sugar price increased by 57% in 2006 as stocks declined and expectations of a tight market continued. In 2007, the price declined by 27% and is projected to decline in 2008 by a further 12.7%. This can be attributed to a strong supply response to the high prices of 2006. From 2009 onwards a steady increase in prices is expected due to the reduction in European Union sugar supply and an increased demand for sugarcane in the production of ethanol. World sugar production increases by 15.5% and world consumption increases by 24.8% over the baseline.

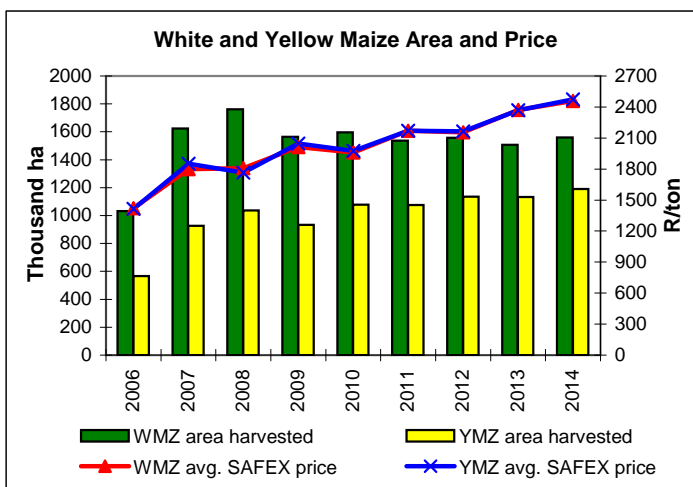


White and Yellow Maize

NOTE: The split years are reported in the year where production takes place. E.g. The 2007/08 maize production season is reported in 2008.

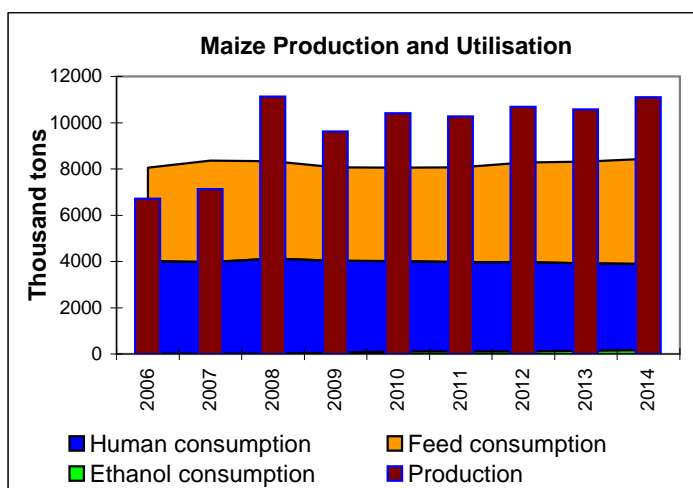
Area and Price

The white and yellow maize areas increased in 2007/08 on the back of high producer prices. The maize area is projected to decline by 11% in 2008/09 as much land is taken out of maize production and planted under wheat and oilseeds. With the recent sharp increase in input costs and relative movement of commodity markets, growth in net returns of wheat and oilseeds has generally outpaced the growth of maize net returns. During the remaining baseline period, the maize area is projected to remain relatively stable (2.65 million ha on average), with prices increasing constantly on the back of increasing parity prices.



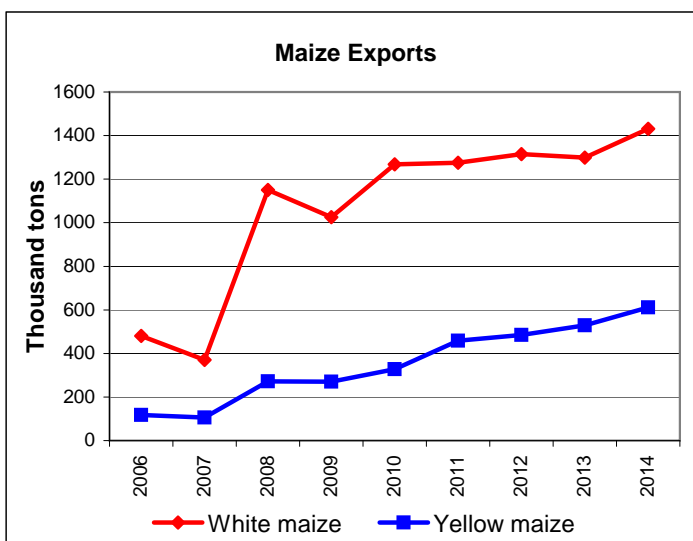
Production and Utilisation

Maize production for 2008 is projected at 11 million tons. Because of lower plantings maize production is projected to decrease in 2009 and then slowly recovers as technology improves and average yields increase. Per capita consumption of maize declines by 6% as consumers substitute grain products for meat and other foodstuffs. Feed consumption will, however, rise by 347 000 tons. The consumption of maize for ethanol production is projected at 163 000 tons in 2014. This represents approximately 2% of the total domestic maize use.



Trade

Maize exports are key in driving prices in the domestic maize market. Maize exports are projected to increase significantly in 2008 compared to 2007 in response to higher maize production. White and yellow maize exports are projected to increase towards the end of the baseline period. White maize exports are influenced mainly by levels of maize production in other SADC countries as well as changes in transport infrastructure and administration that either facilitate improved export efficiency or hamper exports.



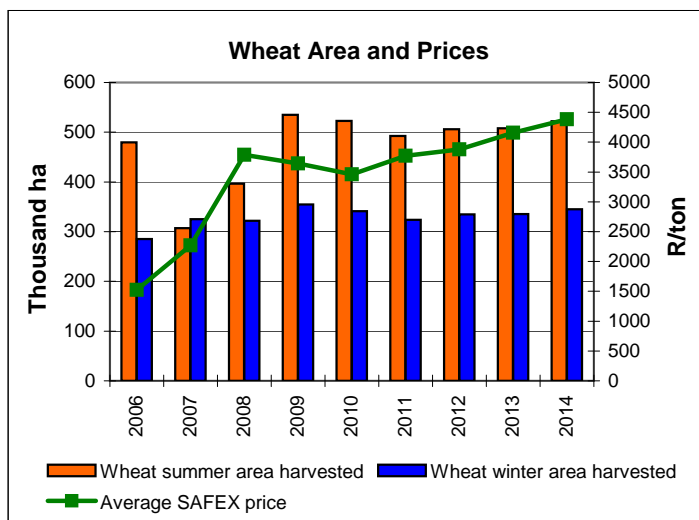
White and Yellow Maize

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Area harvested	thousand hectares								
White maize	1,033	1,625	1,762	1,564	1,596	1,536	1,558	1,507	1,559
Yellow maize	567	927	1,038	934	1,079	1,076	1,135	1,134	1,191
Total	1,600	2,552	2,800	2,498	2,675	2,612	2,693	2,641	2,750
Yield	t/ha								
White maize	4.25	2.66	3.84	3.73	3.76	3.79	3.82	3.85	3.88
Yellow maize	4.08	3.03	4.20	4.04	4.08	4.13	4.17	4.20	4.24
Production	thousand tons								
White maize	4,392	4,315	6,771	5,840	6,009	5,829	5,956	5,804	6,043
Yellow maize	2,315	2,810	4,357	3,777	4,406	4,438	4,727	4,768	5,052
Total	6,707	7,125	11,128	9,617	10,415	10,268	10,683	10,572	11,095
Feed consumption									
White maize	787	1,100	827	845	709	712	738	749	775
Yellow maize	3,260	3,280	3,380	3,197	3,334	3,393	3,569	3,657	3,781
Human consumption									
White maize	3,718	3,715	3,863	3,770	3,758	3,721	3,722	3,672	3,650
Yellow maize	290	260	266	252	256	247	248	239	234
Ethanol consumption									
Yellow maize	0	0	0	57	113	116	117	140	163
Total domestic use									
White maize	4,583	4,935	4,810	4,735	4,587	4,552	4,580	4,540	4,545
Yellow maize	3,556	3,875	3,828	3,688	3,886	3,937	4,116	4,218	4,360
									8,905
Ending stock									
White maize	1,630	690	1,501	1,581	1,736	1,737	1,797	1,762	1,830
Yellow maize	440	369	698	592	786	828	954	974	1,055
Exports									
White maize	480	370	1,150	1,025	1,268	1,276	1,315	1,299	1,431
Yellow maize	117	106	272	271	327	459	484	529	611
Imports									
White maize	0	50	0	0	0	0	0	0	0
Yellow maize	930	1,100	72	76	0	0	0	0	0
Average SAFEX prices	R/ton								
White maize	1422	1799	1810	2012	1960	2171	2154	2372	2459
Yellow maize	1415	1852	1764	2046	1977	2170	2165	2368	2474

Wheat

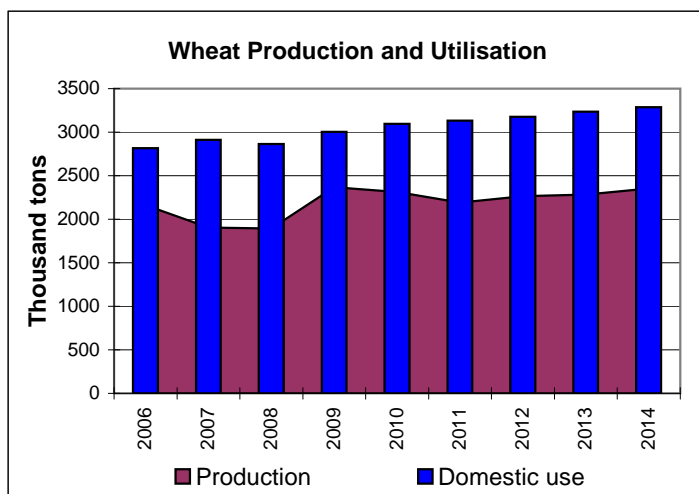
Area and Price

Domestic wheat prices have increased by 49% in 2007 and for the first part of 2008 by a further 67%. The total wheat area is expected to increase by 13% in 2008 and 23% in 2009. On average, annual wheat plantings increase by 200 000 hectares over the baseline. The wheat price is expected to decline over the next two years due to lower world prices. Beyond 2010, the wheat price rises as the exchange rate weakens and world prices are relatively stable.



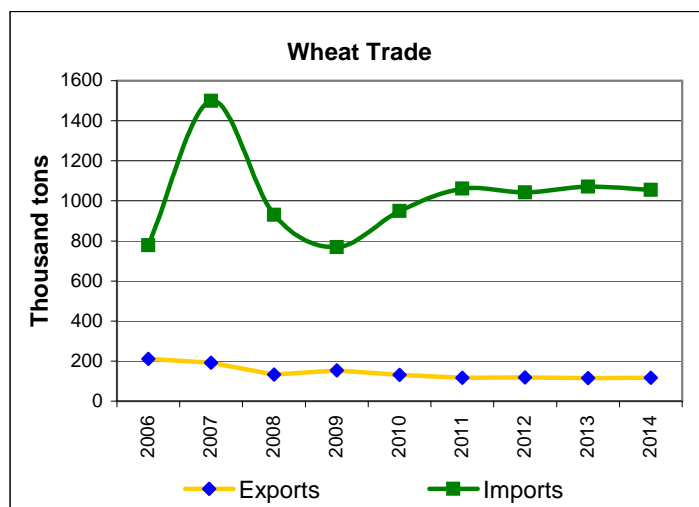
Production and Utilisation

Wheat production is expected to rise by 24% whereas wheat consumption is projected to increase by 15%. Production will reach a level of approximately 2.4 million tons in 2014. Domestic use increases to levels around 3.3 million tons per annum. This implies South Africa still remains a net importer of wheat.



Trade

1.5 Million tons of wheat were imported in 2007. Imports are projected to decline rapidly over the next two years, after which it is expected that approximately 1.05 million tons will be imported annually. Exports into neighbouring countries are expected to remain relatively constant.



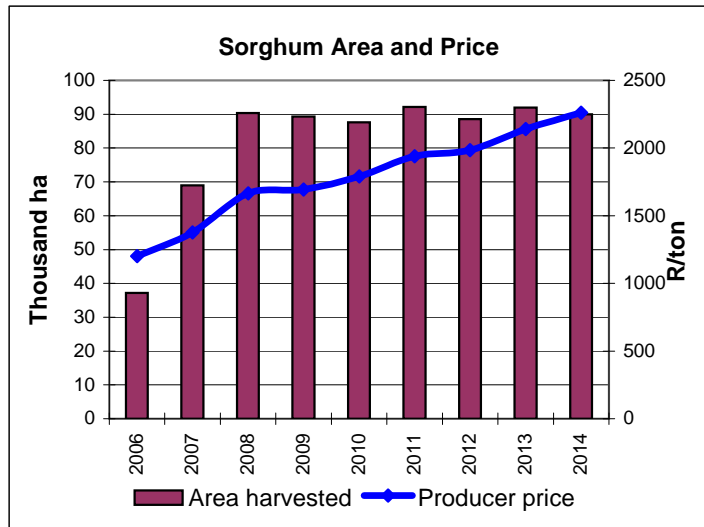
Wheat

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Area harvested			thousand hectares						
Summer area	480	307	396	535	523	492	506	508	522
Winter area	285	325	322	354	342	324	335	336	345
Average yield			t/ha						
Summer area	3.02	3.36	2.75	2.77	2.78	2.80	2.82	2.83	2.85
Winter area	2.50	2.69	2.50	2.50	2.51	2.51	2.51	2.51	2.52
Total wheat			thousand tons						
Production	2,162	1,905	1,894	2,368	2,311	2,192	2,266	2,283	2,354
Feed consumption	2	10	14	48	57	58	57	61	61
Human consumption	2,818	2,865	2,814	2,923	3,002	3,037	3,084	3,138	3,191
Domestic use	2,817	2,910	2,862	3,005	3,094	3,131	3,175	3,234	3,287
Ending stocks	380	683	354	334	369	375	389	393	398
Exports	211	192	133	153	131	117	119	116	117
Imports	778	1,500	931	769	949	1,061	1,043	1,070	1,055
Average SAFEX price			R/ton						
	1,523	2,267	3,788	3,644	3,462	3,774	3,879	4,159	4,385

Sorghum

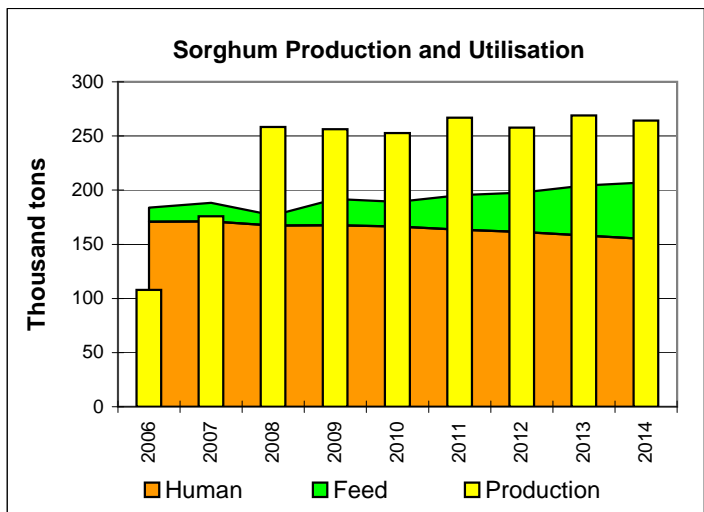
Area and Price

During the past couple of years significant variation has occurred in the sorghum area harvested and sorghum prices. Maize is normally the dominant crop and, therefore, influences the area planted to sorghum. Relatively high prices have led to sharp increases in plantings and in 2008 the area is expected to exceed the 5-year average. The sorghum area will, however, also be affected by the more favourable returns in the production of oilseeds and is not expected to increase any further over the baseline.



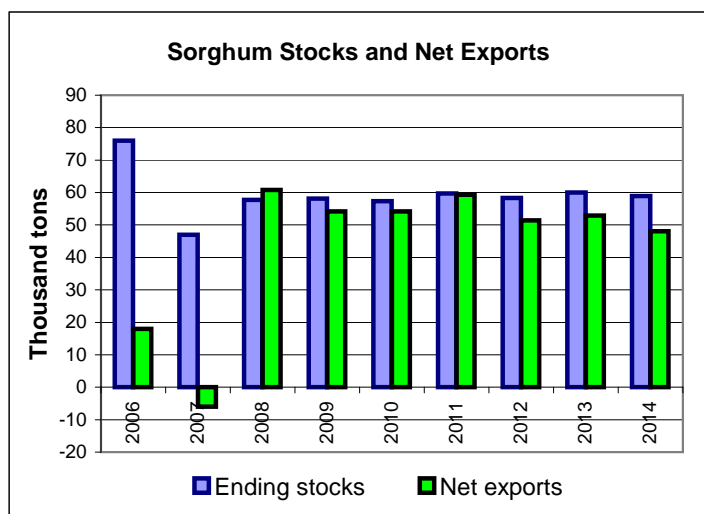
Production and Utilisation

With the rapid increase in sorghum area, an improved balance is established between demand and supply, of which domestic production is exceeding domestic use by approximately 55 000 tons every year during the baseline period. Consumption is projected to increase. This increase is, however, caused by increased feed consumption while human consumption is projected to decline as consumer preferences change towards premium and other beers, away from traditional beers. The majority of sorghum that is used in the human market is grown under fixed price contracts.



Stocks and Trade

Stocks will remain relatively constant just below 60 000 tons. It is expected that exports will decrease by 21% in 2014 as local consumption gradually expands.



Sorghum

	2006	2007	2008	2009	2010	2011	2012	2013	2014
			thousand hectares						
Area harvested	37	69	90	89	88	92	89	92	90
			t/ha						
Average yield	2.91	2.55	2.86	2.87	2.88	2.90	2.91	2.92	2.94
			thousand tons						
Production	108	176	258	256	253	267	258	269	264
Feed consumption	13	17	9	24	23	32	37	46	52
Human consumption	171	171	167	168	166	163	161	158	155
Domestic use	199	211	187	202	199	205	208	214	217
Ending stocks	76	47	58	58	57	60	58	60	59
Net exports	18	-6	61	54	54	59	51	53	48
			R/ton						
Average producer price	1,202	1,377	1,665	1,692	1,790	1,939	1,985	2,142	2,260

Barley

Area and Price

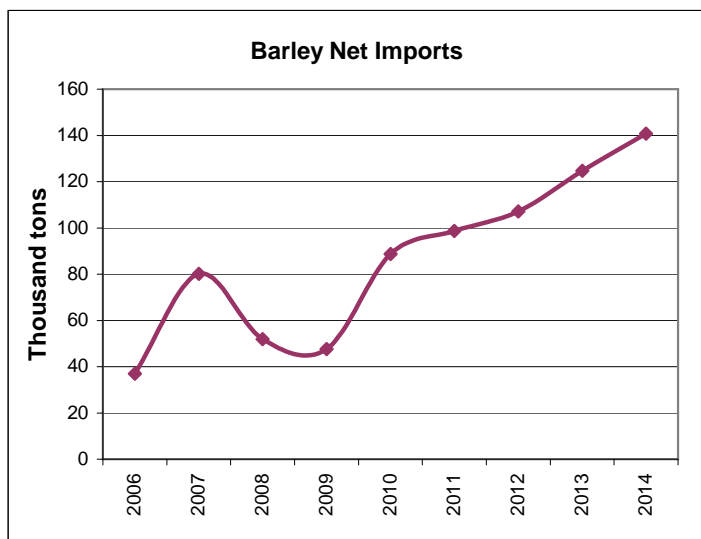
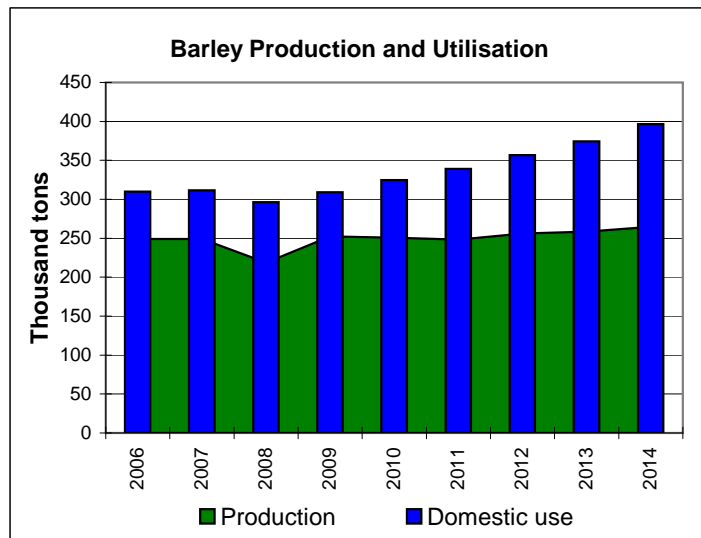
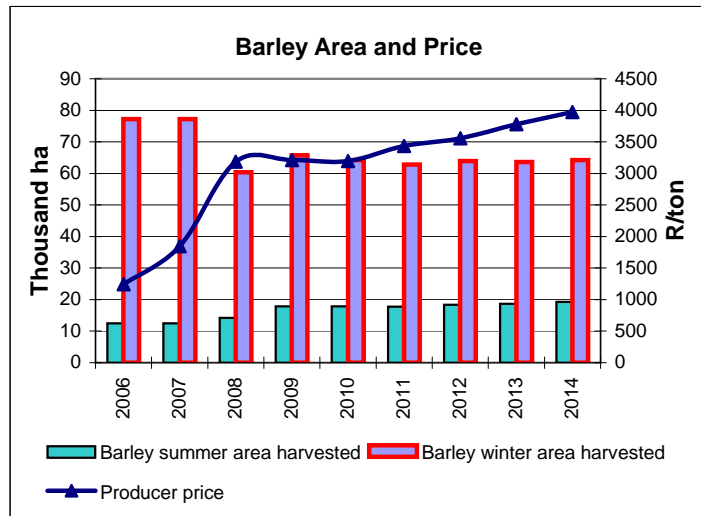
Barley is mainly produced for beer production in South Africa, and therefore has to compete against high quality imported barley from mainly Canada and Australia. Barley competes with wheat in the Southern Cape and the area planted to barley is projected to remain relatively constant over the long run due to fixed rotations in the plantings of winter crops. However, in 2008 some barley land will be substituted for wheat as the projected wheat prices are higher than the projected barley prices. Barley plantings in the irrigation areas are projected to increase steadily over the baseline to more than 19 000 ha. The barley price has also increased rapidly and is projected to increase further due to a depreciating exchange rate, making imports more expensive.

Production and Utilisation

Domestic use of local barley is projected to remain fairly constant until 2009 due to a slow down in economic growth and high interest rates. But from 2010 onwards, it grows steadily. The production of barley also increases towards the end of the baseline as barley plantings increase in the irrigation areas. The use of imported barley, whose characteristics differ from South African barley, is expected to increase at a faster rate than the demand for local barley. Imported barley is mainly used in the production of premium beers.

Trade

Demand for premium beers is expected to increase during the baseline period due to economic development and urbanization. This impacts on the demand for imported barley mainly from Canada and Australia. Net imports are, therefore, projected to increase over the baseline period.



Barley

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Area harvested									
			thousand hectares						
Summer area	12.5	12.5	14.2	17.9	17.9	17.8	18.4	18.7	19.2
Winter area	77.2	77.2	60.4	65.7	64.3	62.9	63.9	63.7	64.3
Average yield									
			t/ha						
Summer yield	5.50	5.50	5.26	5.29	5.32	5.35	5.37	5.40	5.42
Winter yield	2.34	2.34	2.38	2.40	2.42	2.44	2.46	2.48	2.49
Total Barley									
			thousand tons						
Production	249	249	219	252	251	248	256	258	265
Domestic use	310	311	296	309	325	339	357	375	396
Human consumption	284	282	272	284	299	313	331	350	371
Ending stocks	81	99	73	64	79	87	93	102	111
Net imports	37	80	52	48	89	99	107	125	141
Average producer price									
			R/ton						
	1,244	1,848	3,188	3,212	3,199	3,433	3,558	3,778	3,972

Sunflower

Area and Price

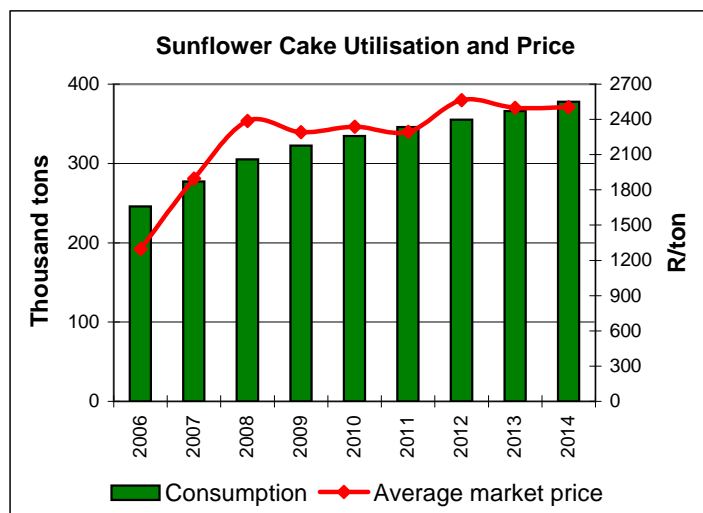
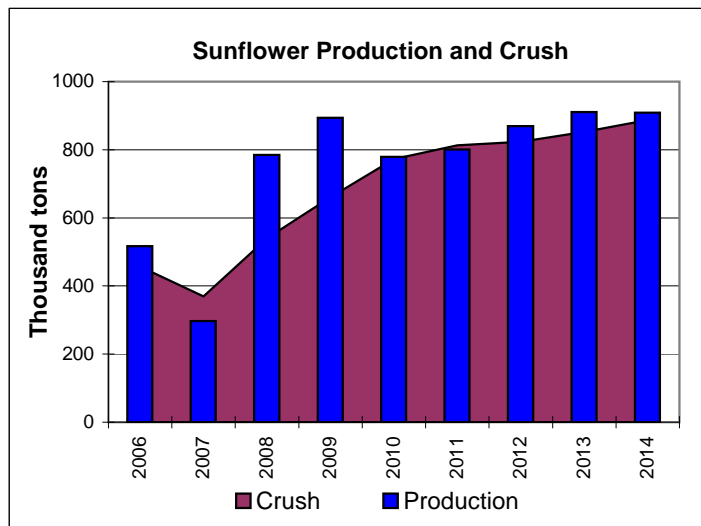
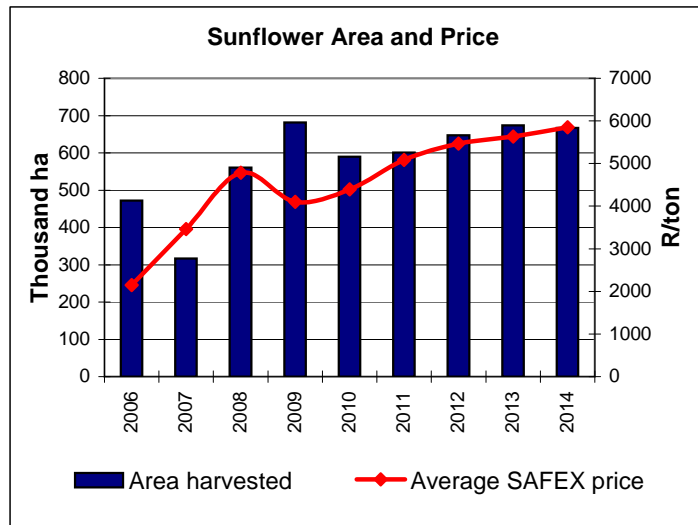
The sunflower area under production has increased sharply in 2007/08 and production is expected to reach almost 800 000 tons. Due to all-time high record prices in 2008, another sharp increase (22%) in the area under production is expected in 2008/09. An even larger sunflower area can be expected in 2009, however, some problems in traditional production areas with sclerotinia will limit expansion. Because of increased production and lower world prices, the local price is expected to decrease to around R4100/ton in 2009. This will cause some area to shift back into maize production in 2010. The area is projected at 667 000 ha in 2014. Prices are expected to recover after 2009 and follow an increasing trend due to a depreciating exchange rate as well as high world prices of sunflower oil and cake as local and international demand for vegetable oil rises.

Seed Production and Utilisation

Despite the fact that South Africa has excess crushing capacity, local crushers have to compete against imports of sunflower crude oil, which are influenced by the volatile exchange rate. There also exists a fine balance between the consumption of sunflower and soya oil in the SA market. Local crushing is projected at 887 000 tons by 2014 with all of the seed for crushing produced locally. SA last crushed more than 800 000 tons in the late nineties.

Cake Utilisation and Price

Currently, sunflower cake trades at approximately R2050/ton, which is lower than the projected average price for 2008. It is expected that local cake prices will be supported by a constant increase in the consumption of cake in the feed market and the projected increase in the soybean cake price. These products compete in the protein feed market. Although sunflower cake can be utilised in feed rations as a less expensive source of protein, the high fibre content limits the amount used. For example broiler rations do not include more than 7% sunflower cake. Despite this, cake consumption is projected to increase steadily to reach 378 000 tons in 2014.



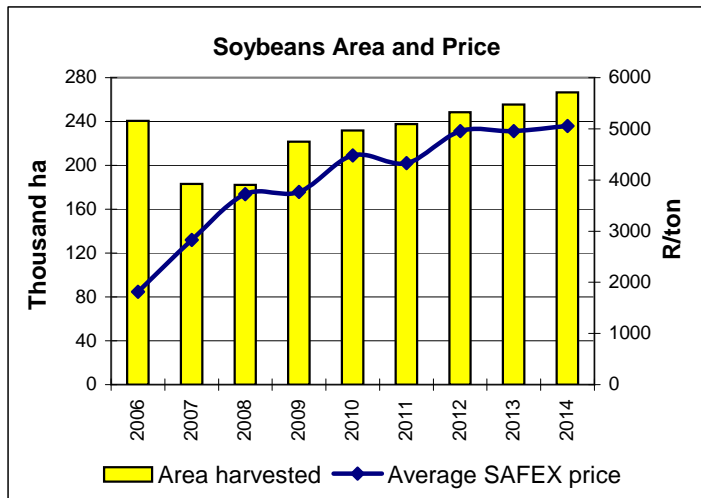
Sunflower

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sunflower seed									
			thousand hectares						
Area harvested	472	316	561	682	590	601	648	674	667
			t/ha						
Average yield	1.09	0.94	1.40	1.31	1.32	1.33	1.34	1.35	1.36
			thousand tons						
Production	517	297	785	894	779	801	869	911	909
Crush	457	369	540	661	773	813	823	852	887
Domestic use	459	372	556	678	788	829	841	871	905
Ending stocks	161	95	335	541	533	508	537	573	573
Net Imports	3	9	11	-9	0	4	0	-4	-4
			R/ton						
Average SAFEX price	2,150	3,459	4,782	4,100	4,397	5,083	5,465	5,631	5,853
Sunflower cake									
			thousand tons						
Production	192	155	227	277	324	342	346	358	373
Domestic use	246	277	305	323	335	346	355	366	378
Net imports	54	122	78	45	10	4	9	8	5
			R/ton						
Average market price	1,296	1,897	2,387	2,290	2,339	2,295	2,564	2,497	2,504

Soybeans

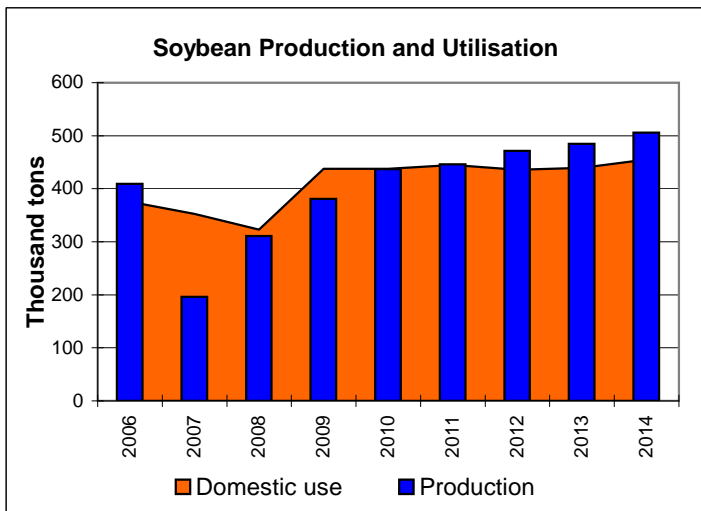
Area and Price

After lower plantings in 2007 and 2008, area is projected to rise by 22% in 2008/09 due to record high prices in 2008. The area then follows an increasing trend to reach 264 000 hectares in 2014. The SAFEX price increases from R3722/ton in 2008 to R5057/ton in 2014. The increase of 45% in the soybean area over the baseline can easily be overshadowed by far more rapid increases in output as seed varieties improve, and improved production practices such as more rotational cropping and no-till are adopted by SA farmers. However, it has to be noted that production of soybeans will still be limited to certain production regions in SA, mainly due to climate.



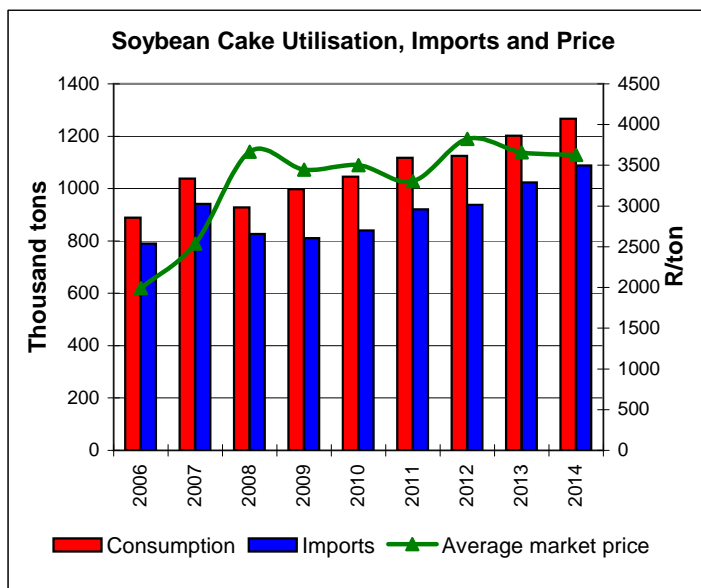
Seed Production and Utilisation

Soybean production for 2008 is projected at 311 000 tons, which implies an increase from 2007 levels of almost 58%. Production is projected to jump to 381 000 tons in 2009 as the relative profitability of soybean production compared to maize has improved a great deal in 2008. With the recent switch of crushing facilities to crush soybeans instead of sunflower, SA's soybean crush capacity has nearly doubled. Approximately 30 000 tons of soybeans will be crushed at smaller facilities for the production of biodiesel.



Cake Utilisation and Price

Soybean cake consumption is projected to increase to 1.26 million tons in 2014. Although cake production is projected to increase by 76% over the baseline, it will only amount to approximately 14% of local consumption by 2014. Therefore, the domestic cake price is a function of the world price and the exchange rate. The world price is projected to remain high but volatile and therefore the local price is projected to fluctuate between approximately R3300/ton and R3800/ton towards 2014.



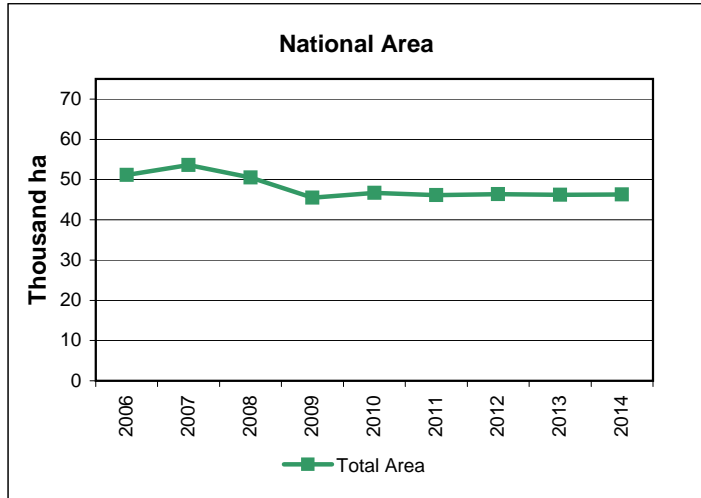
Soybeans

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Soybeans									
			thousand ha						
Area harvested	241	183	182	222	232	238	248	256	267
			t/ha						
Average yield	1.70	1.07	1.71	1.72	1.88	1.88	1.90	1.90	1.90
			thousand tons						
Production	409	196	311	381	437	446	471	484	506
Feed consump.full fat	241	192	191	192	168	187	190	205	220
Crush	128	134	127	234	258	246	233	222	223
Domestic use	376	353	323	438	438	445	436	440	455
Ending stocks	132	95	65	54	39	38	31	31	33
Net imports	9	119	-18	46	-14	-2	-43	-45	-48
			R/ton						
Average SAFEX price	1,815	2,826	3,722	3,768	4,479	4,327	4,952	4,953	5,057
Soybean cake									
			thousand tons						
Production	102	107	101	187	206	196	187	178	179
Domestic use	889	1,038	929	998	1,046	1,118	1,125	1,202	1,266
Net imports	790	942	827	811	839	921	938	1,024	1,088
			R/ton						
Average market price	1,993	2,540	3,669	3,445	3,502	3,307	3,825	3,658	3,626

Potatoes

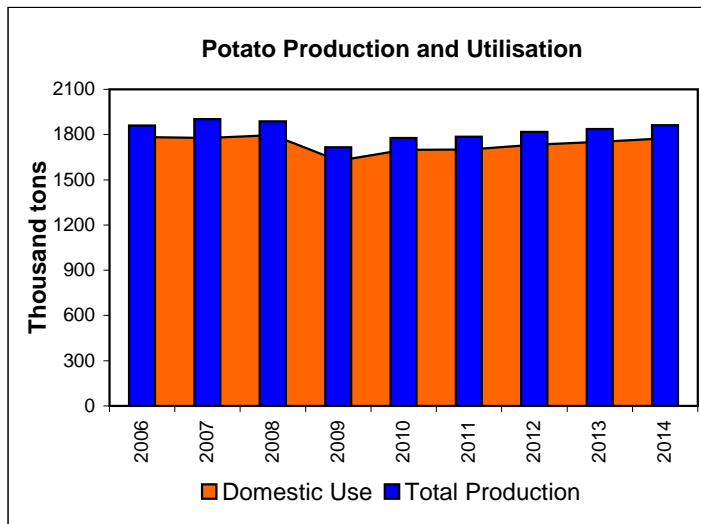
Production

For the past decade the area planted under potatoes has fluctuated around 50 000 ha. It is expected that the recent sharp increase in input costs will cause the area planted to reduce to levels of approximately 45 000 ha over the baseline period. The detailed breakdown of the area planted in each of the production regions shows that the Sandveld, Limpopo and Western Free State regions lose most of the hectares.



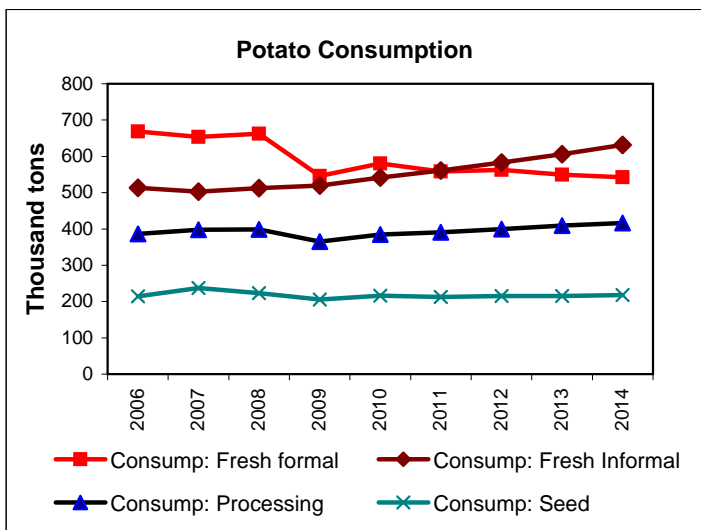
National Production and Utilisation

An all time record harvest of 1.903 million tons was recorded in 2007. Production is expected at 1.88 million tons in 2008 as the regions that plant later in the year are already affected by the sharp rise in input costs and, therefore, decrease plantings. The production of potatoes is expected to decrease by 9% in 2009 due to a sharp decrease in the area planted. Over the short run consumption is projected to soften slightly on the back of higher prices and high interest rates. However, over the long run potato consumption is projected to increase at an annual average of 2.04% to reach 1.808 million tons in 2014.



Consumption

Formal fresh consumption is projected to decrease, whereas informal fresh consumption and the consumption of processed potatoes are projected to increase over the baseline period. Fresh informal consumption is projected to overtake fresh formal consumption in 2011. There exists a lot of uncertainty in the industry over the dynamics in the informal market and a lot of research by the industry is currently dedicated to understand this market segment better.



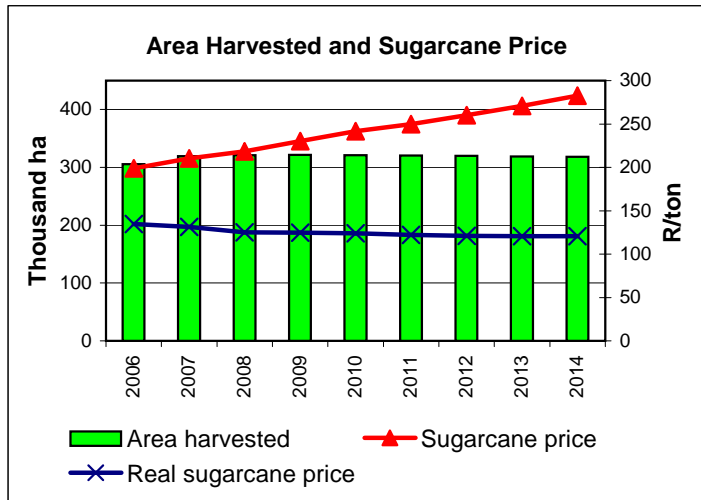
Potatoes

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Production Regions									
			thousand hectares						
Sandveld	6.57	6.89	6.39	5.30	5.53	5.38	5.39	5.35	5.36
Northern Cape	1.99	2.02	1.77	1.65	1.65	1.64	1.64	1.64	1.64
Eastern Cape	1.84	1.76	1.77	1.63	1.68	1.66	1.66	1.66	1.66
North-eastern Cape	1.43	1.49	1.25	1.20	1.29	1.27	1.28	1.27	1.27
Western Free State	6.22	7.06	6.59	6.07	6.16	6.13	6.15	6.13	6.12
South-western Free State	1.94	1.72	1.37	1.31	1.25	1.24	1.25	1.26	1.28
Eastern Free State	9.26	10.31	9.11	8.23	8.52	8.44	8.48	8.45	8.45
Kwazulu	4.13	4.19	4.13	4.02	4.08	4.07	4.08	4.08	4.08
Mpumalanga	3.63	3.50	2.99	3.06	3.13	3.13	3.14	3.14	3.14
Limpopo	8.67	9.39	8.92	7.34	7.31	7.14	7.13	7.09	7.09
Marble Hall	1.63	1.91	2.17	1.85	1.91	1.88	1.91	1.91	1.92
Northwest	0.90	1.79	1.70	1.60	1.65	1.63	1.64	1.63	1.63
Other	2.96	1.61	2.35	2.27	2.55	2.49	2.58	2.57	2.63
Total Area	51.17	53.64	50.52	45.53	46.72	46.09	46.33	46.18	46.27
			thousand tons						
Production	1,859.0	1,903.0	1,887.1	1,724.8	1,799.6	1,805.2	1,841.8	1,863.4	1,891.7
Imports	55.9	16.1	19.4	23.2	27.9	28.5	23.0	24.4	25.4
Consump: Fresh formal	669.0	653.7	662.6	546.2	580.2	558.2	562.8	549.3	542.9
Consump: Fresh Informal	513.3	502.6	512.6	519.9	541.9	561.2	582.8	606.3	631.5
Consump: Processing	386.2	397.6	398.6	364.8	384.8	390.6	399.4	409.1	416.7
Consump: Seed	214.6	237.4	223.2	205.4	216.1	212.9	215.6	215.6	217.4
Total Domestic Use	1,784.0	1,791.6	1,797.3	1,636.6	1,723.3	1,723.1	1,760.7	1,780.6	1,808.8
Potato Exports	130.9	87.3	70.5	65.0	48.4	53.6	58.1	58.5	57.4

Sugarcane and Sugar

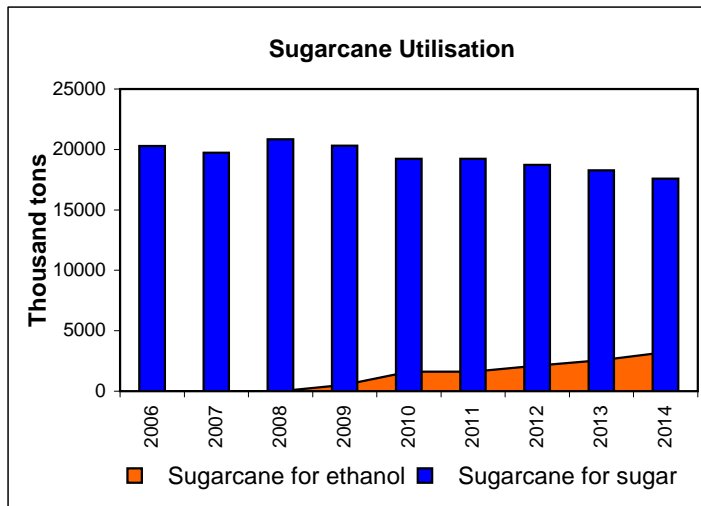
Sugarcane Area and Price

The area under sugarcane and area harvested is expected to show marginally negative growth over the baseline period. Despite a short period of positive growth in 2005 and 2006, the real price of sugarcane is expected to decline from R134.90/ton in 2006 to R120.50/ton in 2014. The negative correlation between the nominal and real prices indicates that the increase in inflation is projected to outpace the increase in sugarcane prices. The area under sugarcane is projected to decline by 3000 hectares over the baseline.



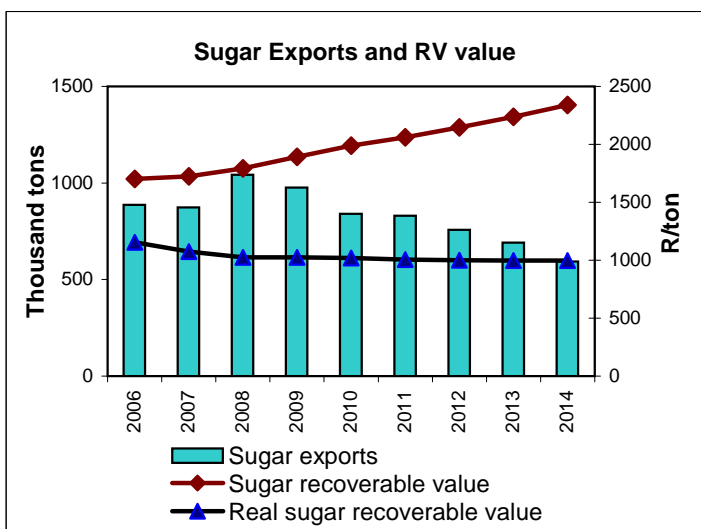
Sugarcane Utilisation

Production of sugar is expected to decline by 15% by 2014. This is mainly due to the diversion of 3.2 million tons of sugarcane to the production of ethanol. Domestic consumption of sugar is expected to increase steadily, mainly due to population growth.



Sugar Exports and Recoverable Value (RV)

Due to decreasing production of sugarcane, a stable yield and increasing production of ethanol from sugarcane, the amount of sugar exported is expected to decline significantly over the baseline period. With the ethanol industry expected to compete with sugar for sugarcane as a feedstock, the nominal RV price is expected to increase at an average of 4.1% annually from 2007 to 2014. However the RV price will weaken in real terms over the same period, decreasing from R1155/ton in 2006 to R981/ton in 2009. This shows that inflation is projected to outpace the increase in the RV prices.



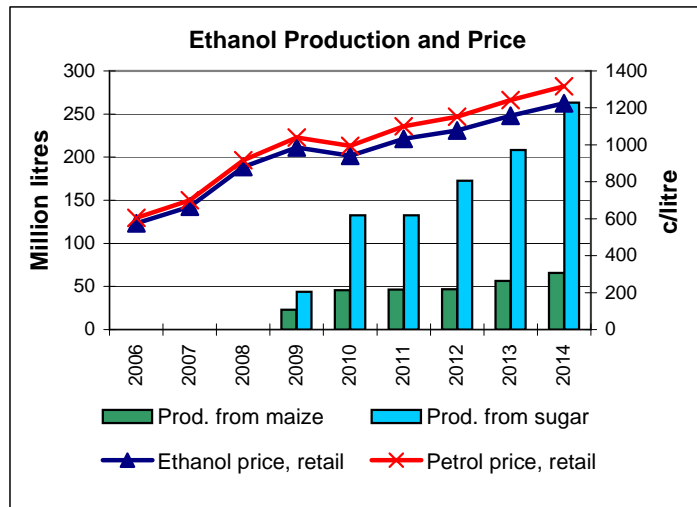
Sugarcane and Sugar

	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Sugar										
			thousand hectares							
Sugarcane area harvested	305.6	319.4	321.1	321.4	320.8	320.3	319.7	319.1	318.4	
			thousand tons							
Sugarcane production	20,279	19,724	20,830	20,864	20,861	20,859	20,848	20,833	20,824	
Sugarcane for sugar	20,279	19,724	20,830	20,325	19,233	19,232	18,728	18,272	17,589	
Sugarcane for ethanol	0	0	0	539	1,627	1,627	2,120	2,561	3,234	
Sugar production	2,235	2,273	2,449	2,390	2,262	2,261	2,202	2,148	2,068	
Sugar domestic use	1,341	1,400	1,407	1,413	1,421	1,432	1,444	1,458	1,474	
Sugar exports	886	874	1,043	977	840	830	758	690	594	
			R/ton							
Ave. sugarcane price	198.8	210.5	218.6	230.3	241.5	249.9	260.2	270.9	282.8	
Recoverable value	1,702	1,724	1,793	1,893	1,989	2,060	2,147	2,239	2,340	

Biofuels

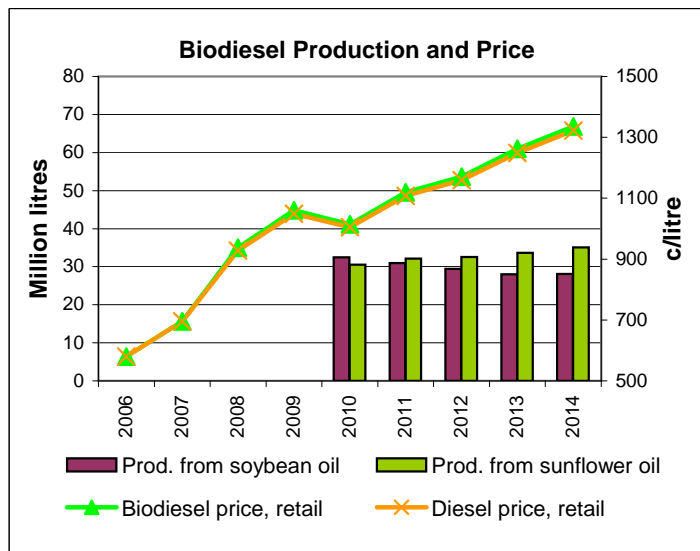
Ethanol

The new policy on biofuels does not require a mandate but rather voluntary blending rates. This implies that ethanol production will only take place in the model if a positive profit margin can be realized. Higher oil prices are expected to add some space to the profit margin and over time the production of ethanol is expected to increase to around 329 million litres in 2014, of which 263 million litres will be produced from sugar and 66 million litres from maize. In principle, maize is not excluded as a possible feedstock for ethanol production, however, it is not allocated the 100% fuel levy exemption. The 100% fuel levy exemption in the ethanol price causes ethanol to trade slightly lower than the price of petrol.



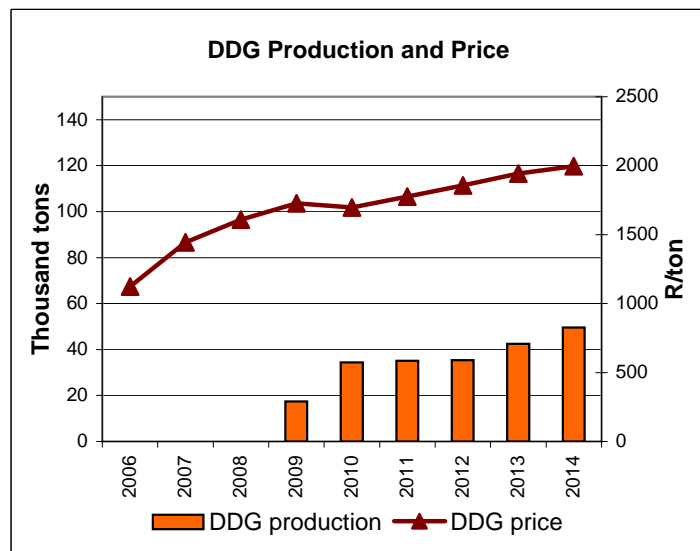
Biodiesel

Without significant favourable government policies, biodiesel production out of oilseeds is not viable in SA due to record-high prices of vegetable oil in the human market. The lack of a mandate also implies that biodiesel prices are unlikely to fetch a higher price in the market than standard fossil diesel. Hence, most activity in the biodiesel industry is expected to come from smaller production facilities and combined refining activities. Combined biodiesel production is expected to reach around 63 million litres in 2014 with biodiesel from soybean oil contributing around 28 million litres and sunflower oil 35 million litres. One opportunity would, however, be for SA to export to the EU, since EU biodiesel prices are very high. This will depend on the EU's acceptance of SA as a formal exporter of biodiesel.



Dried Distillers Grain (DDG)

The consumption of yellow maize in the production of ethanol will amount to 163 000 tons by 2014. This implies that approximately 49 000 tons of DDG will be available for domestic consumption. DDG is projected to trade at R1996/ton in the domestic market by 2014.



Biofuels

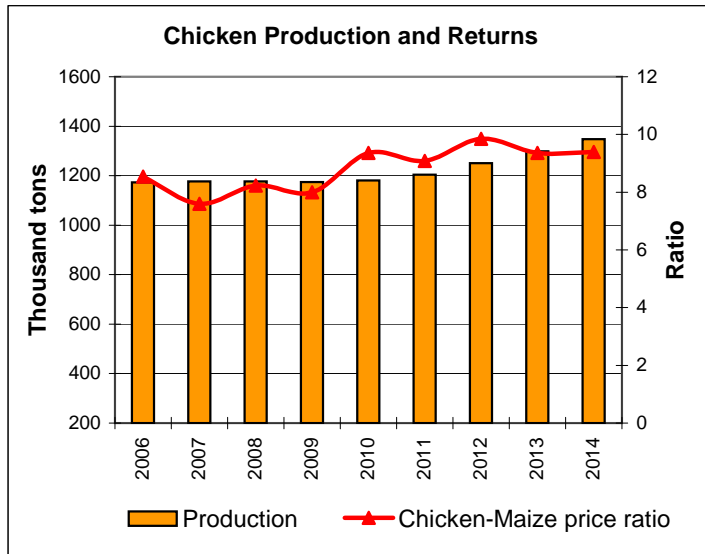
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Ethanol									
	million litres								
Production from maize	n.a.	n.a.	n.a.	23	46	46	47	56	66
Production from sugar	n.a.	n.a.	n.a.	44	132	132	172	208	263
Total ethanol production	n.a.	n.a.	n.a.	67	178	179	219	265	329
Ethanol domestic use	n.a.	n.a.	n.a.	67	178	429	509	683	732
Ethanol imports	n.a.	n.a.	n.a.	0	0	250	289	419	403
Ethanol exports	n.a.	n.a.	n.a.	0	0	0	0	0	0
	c/litre								
Ethanol Price, plant**	n.a.	n.a.	n.a.	646	582	656	685	746	795
Ethanol price, retail**	n.a.	n.a.	n.a.	985	940	1,032	1,078	1,158	1,226
Petrol price, plant	341	413	596	700	637	724	758	831	886
Petrol, retail price	605	700	917	1,039	995	1,100	1,152	1,242	1,317
DDG									
	thousand tons								
DDG production	n.a.	n.a.	n.a.	17	34	35	35	43	50
DDG imports	n.a.	n.a.	n.a.	0	0	0	0	0	0
DDG exports	n.a.	n.a.	n.a.	0	0	0	0	0	0
DDG domestic use	n.a.	n.a.	n.a.	17	34	35	35	43	50
	R/ton								
DDG price	n.a.	n.a.	n.a.	1,726	1,697	1,775	1,858	1,943	1,997
Biodiesel									
	million litres								
Production from soybean oil	n.a.	n.a.	n.a.	0	33	31	29	28	28
Production from sunflower oil	n.a.	n.a.	n.a.	0	31	32	33	34	35
Total biodiesel production	n.a.	n.a.	n.a.	0	63	63	62	62	63
Biodiesel domestic use	n.a.	n.a.	n.a.	0	0	0	0	0	0
Biodiesel imports	n.a.	n.a.	n.a.	0	0	0	0	0	0
Biodiesel exports	n.a.	n.a.	n.a.	0	63	63	62	62	63
	c/litre								
Biodiesel price, plant**	n.a.	n.a.	n.a.	803	743	835	873	950	1,010
Biodiesel price, retail**	n.a.	n.a.	n.a.	1,060	1,014	1,119	1,171	1,262	1,336
Diesel price, plant	336	420	585	688	626	712	747	819	874
Diesel, retail price	580	696	928	1,049	1,004	1,108	1,159	1,249	1,322

** Note: No mandatory blending requirements are imposed in the model. The levy exemptions are included and the biofuel prices are simulated in a floating market environment.

Chicken Meat

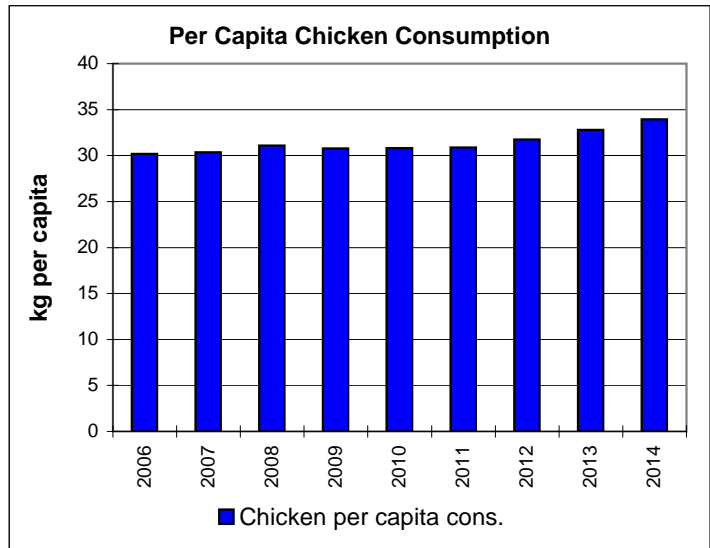
Production and Returns

The rapid increase in feed costs has caused the chicken-maize price ratio to deteriorate rapidly over the past two years, putting pressure on returns in the industry. The price ratio is, however, expected to improve over the next three years as the chicken price rises faster than the maize price. Production is, therefore, expected to remain stable until 2010 and is then expected to increase to reach 1.34 million tons in 2014. The producer price is affected by the cyclical behaviour in the beef and pork industries and an average price of R23.25/kg is projected by 2014.



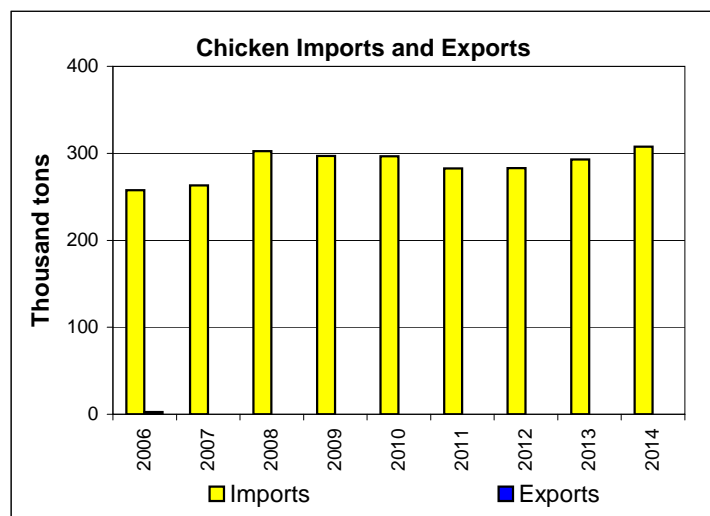
Consumption

The projected increase in per capita poultry consumption is positively correlated with South Africa's GDP per capita growth. Due to the expected decline in GDP per capita growth, high food prices and interest rates over the next two years, per capita consumption is expected to remain constant until 2010. However, in the long-term consumers are expected to increase the amount of chicken eaten at an average additional 900g of chicken per person per year. Potential growth in poultry expenditure by the "new black middle income class" remains one of the major drivers for this increase in per capita consumption (refer to the section on consumer trends for further information). This brings the domestic consumption of chicken to approximately 1.65 million tons in 2014.



Trade

Brazilian chicken production and exports are projected to continue expanding, with exports capturing a larger portion of the international market. Brazilian exports to South Africa continue to make up a substantial portion of the domestic market. Imports are projected to supply approximately 19% of local consumption towards the end of the baseline. South African exports decrease to zero over the baseline period.



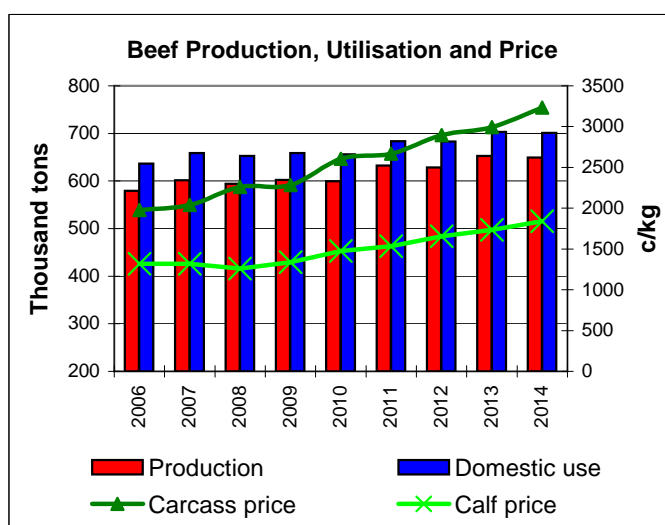
Chicken Meat

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Chicken									
			thousand tons						
Production	1,173	1,177	1,177	1,174	1,181	1,204	1,250	1,298	1,347
Domestic use	1,428	1,440	1,480	1,471	1,477	1,486	1,533	1,591	1,655
Imports	257	263	303	297	296	283	283	293	308
Exports	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
			c/kg						
Average producer price (ex abattoir)	1,208	1,407	1,452	1,636	1,850	1,970	2,133	2,217	2,325
			ratio						
Chicken-maize price ratio	8.54	7.60	8.23	7.99	9.36	9.08	9.85	9.36	9.40

Red Meat

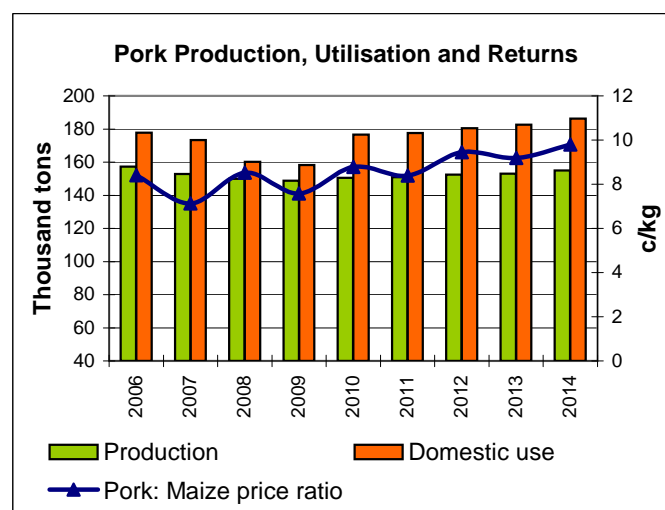
Beef

Beef production is projected to remain fairly constant over the period 2008-2010, but is then expected to enter into the next 4-year cycle and increases by 8% beyond 2010. Domestic demand is initially expected to soften in response to a slowdown in economic growth. As the economy recovers and interest rates decline, beef consumption is projected to grow at a moderate rate due to projected growth in personal disposable income of the South African population. Prices are projected to move sideways in 2009, but are projected to start increasing again from 2010 onwards. The gap between beef and calf prices is expected to widen.



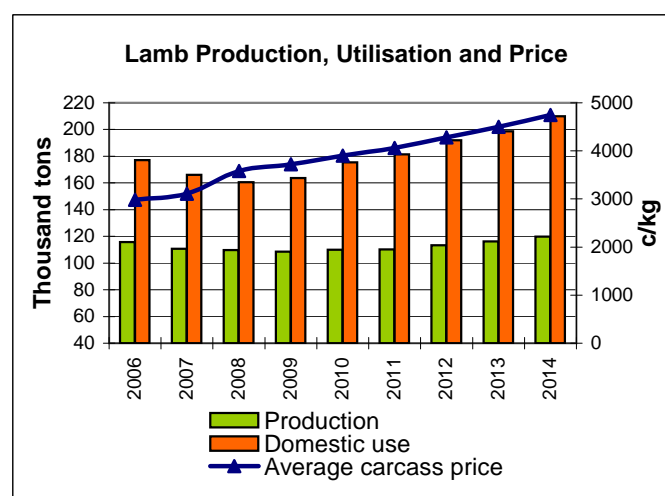
Pork

Pork production peaked in 2006 as a result of high pork prices and low feed costs. Prices are projected to increase in 2008 as the smaller pork production units are coming under increased financial strain due to the unfavourable pork-maize price ratio, which has in 2007 decreased to 7.1 from 8.4 in 2006, but which is expected to increase in 2008 to 8.5. The general trend after 2009 is an increase in production. Consumption is projected to increase from 2009 onwards at a rate slightly faster than that of production, causing an increasing price trend over the baseline period. Similar to beef, the next price peak is expected in 2010.



Lamb

The domestic consumption of lamb follows a similar trend as the consumption of beef, but lamb prices are projected to increase marginally in 2008 and 2009 before continuing to increase at an increasing rate over the remaining baseline period. Prices are supported by the increasing trend in world prices. World prices are projected to increase as the Australian industry enters a period of flock rebuilding after a widespread break in the drought. Production is expected to increase by 9% over the baseline to almost 120 000 tons. Similar to the other red meats, consumption of lamb is projected to increase from 2010 onwards, causing prices to increase at an increasing rate towards the end of the baseline.



Red Meat

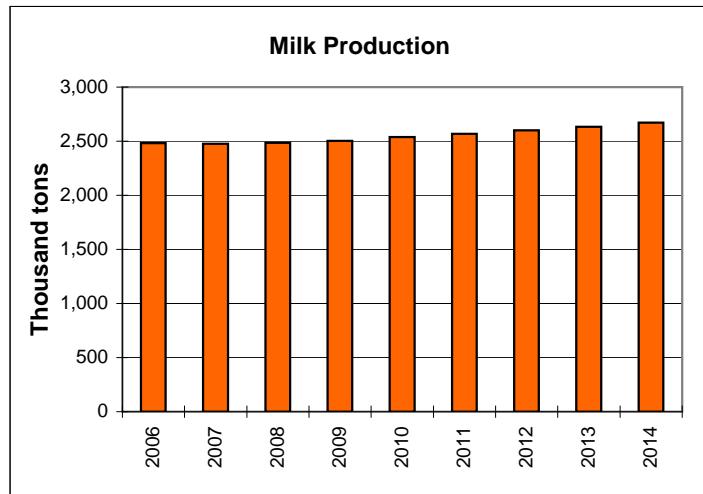
NOTE: Historic statistics for the red meat industry (especially beef) have been adjusted significantly since the previous baseline and further adjustments can be expected as industry statistics are improved and consolidated.

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Beef									
			thousand tons						
Production	579.7	601.7	593.9	602.2	599.3	632.4	628.7	652.9	649.0
Domestic use	636.3	658.9	652.7	658.6	656.0	683.5	682.8	703.2	701.0
Imports	48.3	46.9	62.2	60.0	62.1	57.0	59.7	56.1	57.7
Exports	10.0	9.0	3.4	3.6	5.4	5.8	5.6	5.9	5.7
				c/kg					
Average carcass price	1,976	2,040	2,260	2,283	2,604	2,669	2,896	2,995	3,232
Calf average auction price	1,319	1,320	1,261	1,340	1,475	1,535	1,654	1,735	1,839
				ratio					
Beef-maize price ratio	14.0	11.0	12.8	11.2	13.2	12.3	13.4	12.6	13.1
Calf-maize price ratio	9.3	7.1	7.1	6.5	7.5	7.1	7.6	7.3	7.4
Pork									
			thousand tons						
Production	157.2	152.8	149.9	148.8	150.4	150.9	152.4	153.1	154.9
Domestic use	177.8	173.3	160.2	158.2	176.7	177.6	180.5	182.6	186.4
Imports	20.5	23.2	13.5	12.8	28.4	28.9	30.1	31.3	32.9
Exports	0.0	2.7	3.2	3.4	2.1	2.2	2.0	1.8	1.5
				c/kg					
Average carcass price	1,189	1,320	1,505	1,550	1,736	1,821	2,045	2,175	2,423
				ratio					
Pork-maize price ratio	8.4	7.1	8.5	7.6	8.8	8.4	9.4	9.2	9.8
Lamb									
			thousand tons						
Production	115.8	110.6	109.8	108.6	110.0	110.3	113.4	116.2	119.9
Domestic use	177.0	166.0	160.5	163.6	175.5	181.4	192.0	198.7	210.0
Net Imports	54.8	52.0	50.7	55.0	65.5	71.2	78.6	82.5	90.2
				c/kg					
Average carcass price	2,986	3,108	3,580	3,721	3,904	4,062	4,280	4,501	4,750

Milk

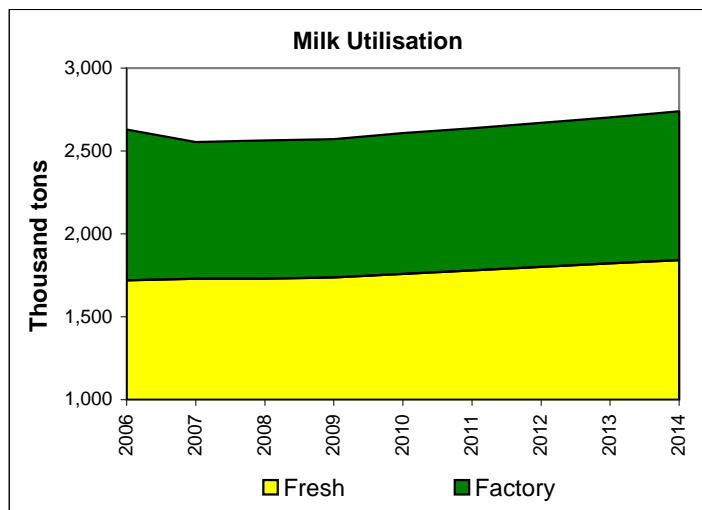
Milk Production

Production is expected to increase by an annual average of only 1.8% to reach 2.6 million tons by 2014, mainly due to rising feed costs. Although milk production is still increasing in the coastal regions due to lower production costs, coastal grazing areas are limited. High production costs in the interior regions cause a cut back on production, which supports domestic milk prices to some extent.



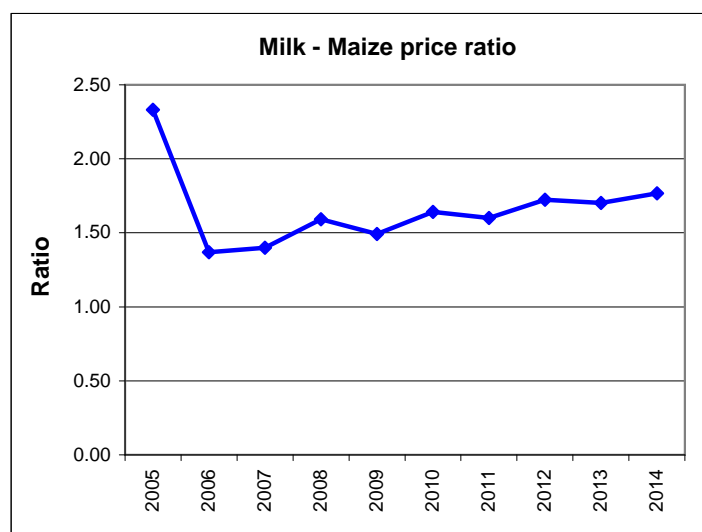
Utilisation

Factory milk consumption decreased by 10% in 2007 and imports of dairy products rose sharply. Factory milk consumption is projected to remain fairly constant in 2008 and 2009 and then it increases to 897 000 tons by 2014. It is expected that consumers will increase fresh milk consumption at an average additional 250ml of milk per person per year. Utilisation of milk is projected to remain above production by more than 100 000 tons during the baseline period, which implies that South Africa will remain a net importer of dairy products.



Milk production profitability

The milk-maize price ratio decreased sharply in 2006 as maize prices increased from a very low level and the milk price remained relatively constant. This affected on-farm profitability negatively. In 2007 and 2008 the ratio has improved somewhat and it is expected to improve further as the milk price is expected to rise faster than the maize price. However, due to maize prices remaining relatively high, the milk-maize ratio is not expected to reach the favourable levels experienced in 2005 over the baseline period.



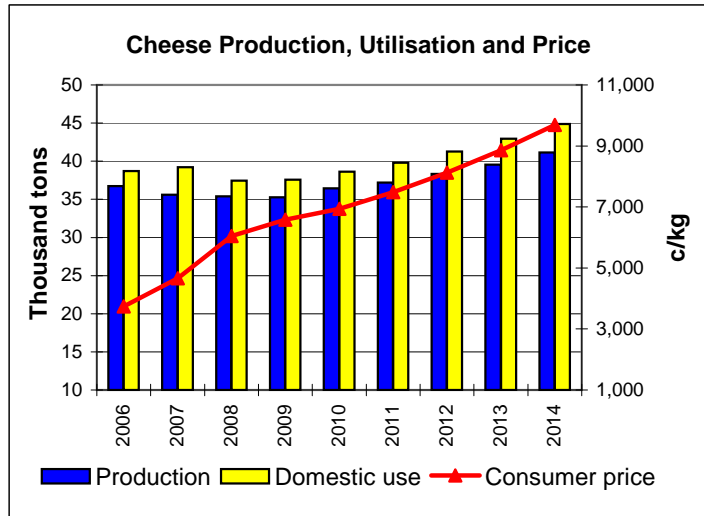
Milk

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Fluid milk									
			million litres						
Production	2,425	2,421	2,430	2,446	2,481	2,510	2,542	2,574	2,610
Fresh consumption	1,682	1,690	1,691	1,699	1,720	1,740	1,761	1,780	1,801
			thousand tons						
Production	2,586	2,510	2,520	2,528	2,563	2,591	2,624	2,656	2,693
Fresh consumption	1,677	1,685	1,686	1,694	1,715	1,735	1,756	1,775	1,796
Factory consumption	910	825	834	834	848	857	869	881	897
			c/litre						
Average producer price	193.6	259.2	280.7	305.5	324.6	347.2	373.3	403.3	437.4

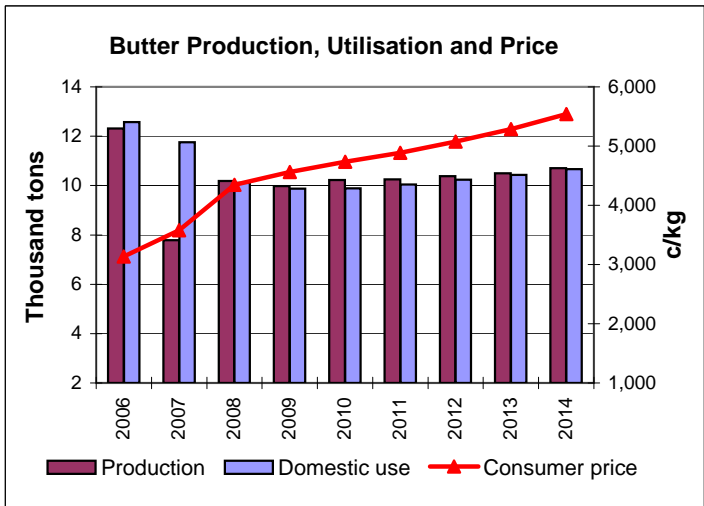
Cheese and Butter

Cheese Production, Utilisation and Price

Domestic cheese consumption is expected to decrease in 2008 and 2009 as interest rates rise and growth in per capita income decreases. However, from 2011 onwards cheese consumption is expected to increase by an annual average of 4.5%. South Africa has mainly been a net importer of cheese. This is expected to remain unchanged over the baseline period as consumption grows faster than production (19% as opposed to 16%). Domestic market shortages will support the projected increase in cheese prices. The projected price increase is also aided by the gradual depreciation in the exchange rate.

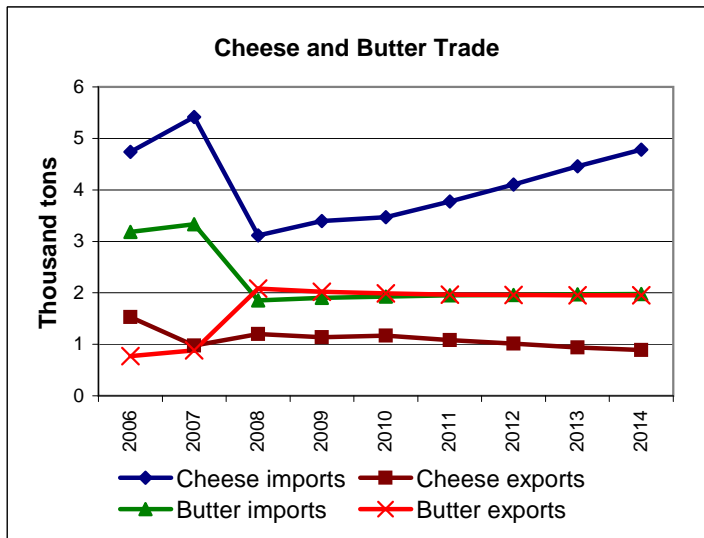


Butter Production, Utilisation and Price
Annual butter consumption and production is projected to remain relatively constant over the baseline period. Prices are expected to rise by an annual average of 4.5%



Cheese and Butter Trade

The gap between cheese imports and exports is expected to widen as domestic consumption outgrows production towards the end of the baseline period. Current projections suggest that butter will shift from being a net imported commodity to one where exports and imports are in balance from 2008 forward.



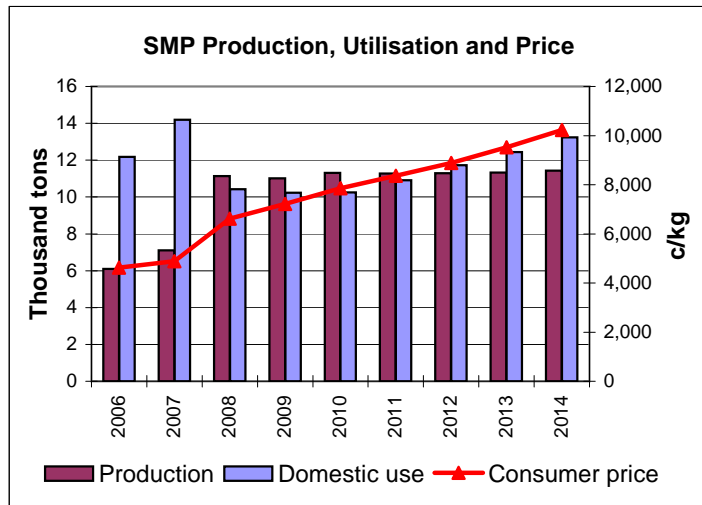
Cheese and Butter

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cheese									
			thousand tons						
Production	36.7	35.6	35.4	35.3	36.4	37.2	38.3	39.5	41.1
Domestic use	38.7	39.2	37.5	37.6	38.6	39.8	41.3	42.9	44.9
Ending stock	3.2	4.1	3.9	3.9	4.0	4.1	4.2	4.4	4.5
Imports	4.7	5.4	3.1	3.4	3.5	3.8	4.1	4.5	4.8
Exports	1.5	1.0	1.2	1.1	1.2	1.1	1.0	0.9	0.9
			c/kg						
Average consumer price	3,741	4,659	6,051	6,583	6,936	7,483	8,125	8,858	9,687
Butter									
			thousand tons						
Production	12.3	7.8	10.2	10.0	10.2	10.3	10.4	10.5	10.7
Domestic use	12.6	11.8	10.1	9.9	9.9	10.0	10.2	10.4	10.7
Ending stock	5.4	3.8	3.7	3.7	3.9	4.1	4.3	4.4	4.4
Imports	3.2	3.3	1.9	1.9	1.9	2.0	2.0	2.0	2.0
Exports	0.8	0.9	2.1	2.0	2.0	2.0	2.0	2.0	2.0
			c/kg						
Average consumer price	3,136	3,579	4,344	4,564	4,737	4,886	5,074	5,288	5,543

SMP and WMP

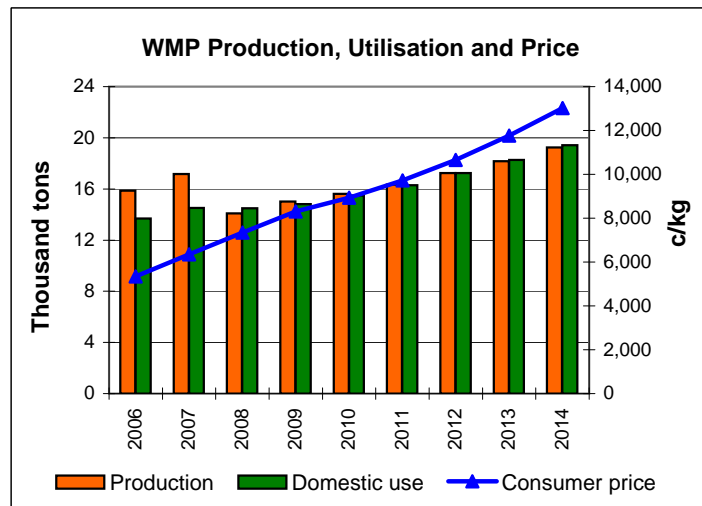
SMP Production, Utilisation and Price

Historical data shows a high level of volatility in the production and use of skimmed milk powder (SMP). Production is expected to increase over the baseline to 11 400 tons in 2014. Consumption is projected at 13 200 tons in 2014. This implies that SMP imports will increase over time. Similar to cheese, the price increase is aided by the gradual depreciation in the exchange rate.



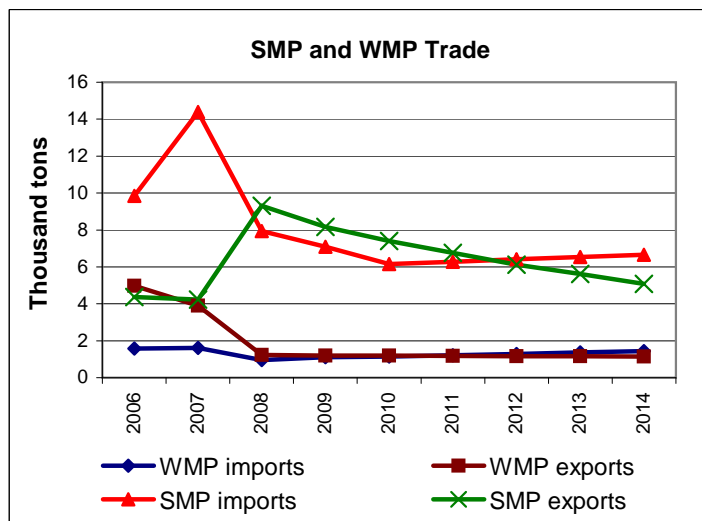
WMP Production, Utilisation and Price

Whole milk powder (WMP) production and consumption increases by 37% and 35% respectively over the baseline. The balance between domestic production and consumption remains tight and prices are expected to increase continuously over the baseline.



SMP and WMP Trade

SMP exports are expected to increase in 2008. However, it is expected that SMP exports will decrease over the baseline as domestic consumption is projected to grow faster than production. SMP imports are expected to moderate from the historical highs to a level of approximately 6 700 tons in 2014. Over the baseline, little trade is projected for WMP.



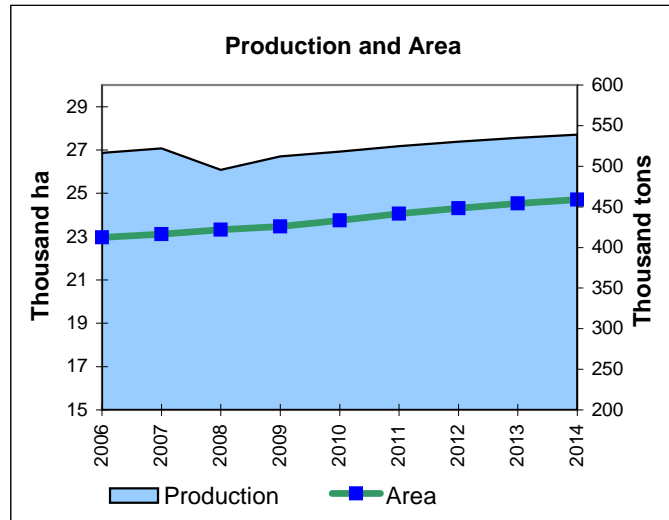
SMP and WMP

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Skimmed milk powder (SMP)									
	thousand tons								
Production	6.1	7.1	11.1	11.0	11.3	11.3	11.3	11.3	11.4
Domestic use	12.2	14.2	10.4	10.2	10.2	10.9	11.7	12.4	13.2
Ending stocks	4.3	7.4	6.7	6.5	6.3	6.1	6.0	5.8	5.6
Imports	9.9	14.4	7.9	7.1	6.2	6.3	6.4	6.5	6.7
Exports	4.4	4.2	9.3	8.2	7.4	6.8	6.1	5.6	5.1
	c/kg								
Average consumer price	4,625	4,880	6,615	7,221	7,862	8,359	8,890	9,518	10,226
Whole milk powder (WMP)									
	thousand tons								
Production	15.9	17.2	14.1	15.0	15.6	16.3	17.2	18.2	19.2
Domestic use	13.7	14.5	14.5	14.8	15.5	16.3	17.2	18.3	19.4
Ending stocks	2.2	2.5	1.9	2.0	2.1	2.1	2.3	2.4	2.5
Imports	1.6	1.6	1.0	1.1	1.1	1.2	1.3	1.4	1.4
Exports	5.0	3.9	1.2	1.2	1.2	1.2	1.2	1.2	1.1
	c/kg								
Average consumer price	5,340	6,349	7,336	8,309	8,933	9,729	10,663	11,761	13,025

Table Grapes

Production and Area

Despite the declining trend in the real price of fresh grapes exported, total area under dried and table grapes continued to increase in 2007. This increasing trend is projected to continue over the baseline period. Total production of table and dried grapes remained almost unchanged from 2006 to 2007, but is projected to decline in 2008 due to lower yields. Thereafter production is set to increase as total area increases.



Domestic Market for Fresh Grapes

The local market for fresh grapes showed excellent growth over the past seven years as real prices have increased on average by 2% per annum, while volume also increased by 2% per annum. Over the baseline period prices are driven upwards as the projected increase in real GDP per capita stimulates demand.

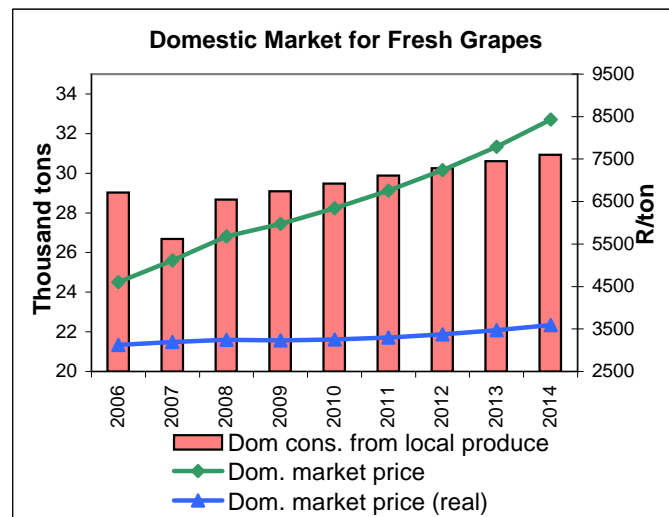


Table Grape Exports

The average euro price for SA grapes recovered to some extent in 2006/07 (referred to as 2007 in the figure) after it dropped to a low point during the 2005/06 season when exports from South Africa were 10% higher compared to the previous year and total Southern Hemisphere exports reached a new record. The price is set to increase further in the 2007/08 season due to lower supply. From the 2008/09 season onwards prices are projected to come under pressure should export volumes from South Africa and other Southern Hemisphere countries continue their long-term upward trend and new export markets are not opened. In Rand terms, the average export price is set to increase in 2008 resulting from the higher euro price and the favourable exchange rate. From 2009 to 2012 real Rand prices are projected to come under pressure as the projected depreciation in the exchange rate is not sufficient to offset the declining euro price.

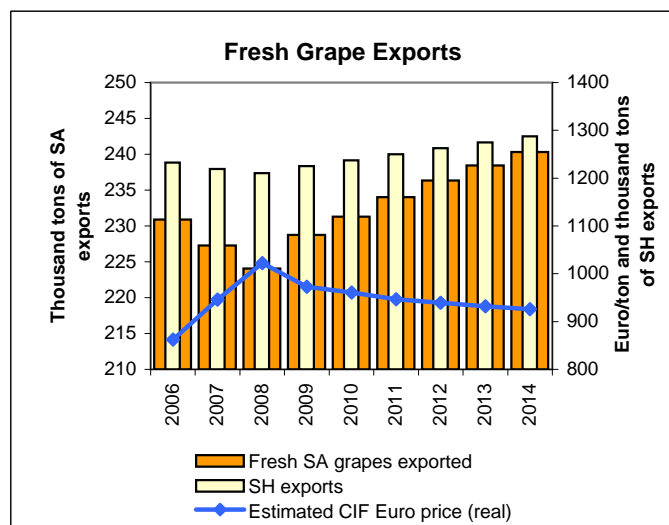


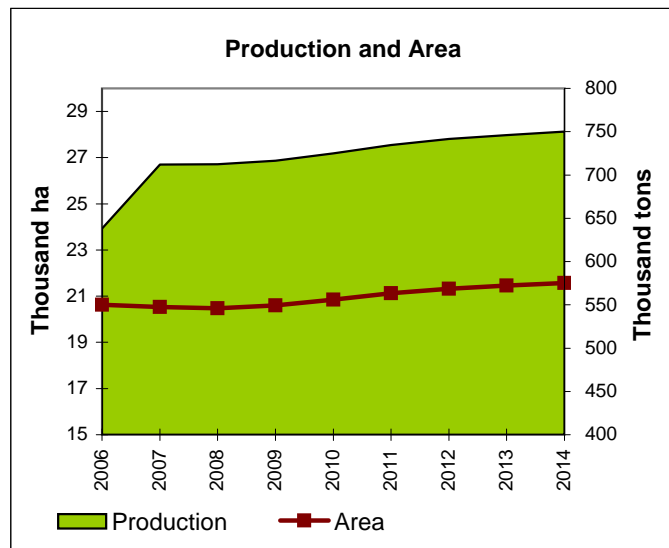
Table Grapes

	2006	2007	2008	2009	2010	2011	2012	2013	2014
			thousand hectares						
Area	23.0	23.1	23.3	23.5	23.7	24.1	24.3	24.5	24.7
			thousand tons						
Production	516.6	522.1	495.4	512.0	517.9	524.7	530.4	535.1	539.0
Dom. cons. of fresh grapes	29.0	26.7	28.7	29.1	29.5	29.9	30.3	30.6	30.9
Fresh grapes exported	230.9	227.3	224.1	228.8	231.3	234.0	236.4	238.4	240.3
			Rands/ton						
Dom. price (current)	4,605	5,116	5,679	5,972	6,346	6,757	7,239	7,787	8,433
Dom. price (constant 2000 prices)	3,124	3,191	3,247	3,230	3,253	3,298	3,373	3,470	3,594
Export price (current)	6,072	7,787	10,019	10,054	10,396	10,692	11,051	11,612	12,368
Export price (constant 2000 prices)	4,120	4,857	5,728	5,438	5,329	5,220	5,148	5,174	5,271

Apples

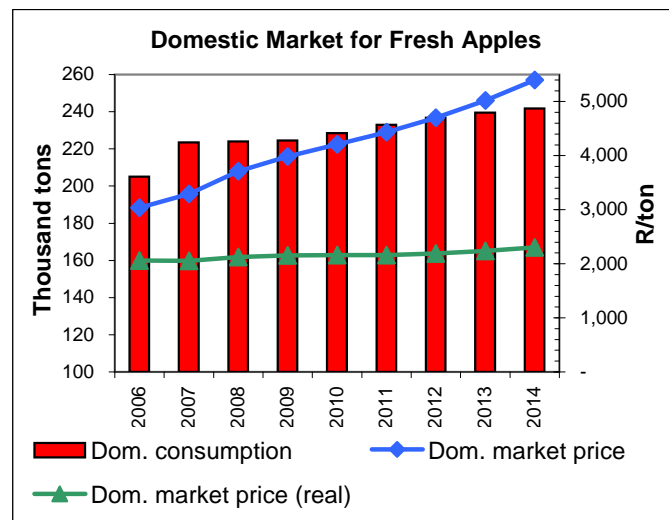
Production and Area

Area under apple trees continued its declining trend as total area declined by 107 hectares to 20 526 hectares in 2007. Nevertheless total production was up 12%, resulting from an above average yield in 2007 following the lower-yield season of 2006. Total hectares are projected to decline in 2008 to 20 482, whereafter it is set to increase over the remainder of the baseline period. The declining trend in apple area over the past few years is not unique to South Africa as world area declined by over 1.5 million hectares over the past 10 years. Over this period, though area declined on average by 4.8% per annum (1.5% excl. China), production increased by 1.3% per annum (-0.4% excl. China).



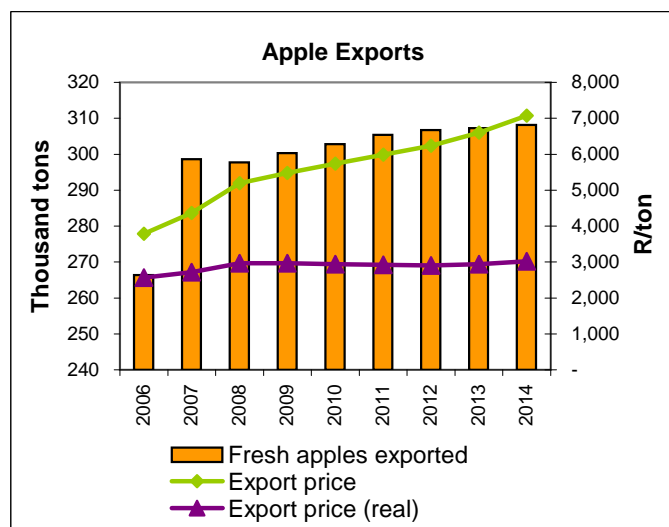
Domestic Market for Fresh Apples

After two years of real increases in the average price of apples sold on the local fresh produce markets, the real price declined marginally in 2007. Despite the relatively higher inflation outlook and lower economic growth projected for 2008, the local apple price is projected to return on its upward trend.



Apple Exports

The average price of fresh apples exported increased by almost 6% in real terms in 2007. This price increase was mainly due to a more favourable exchange rate, as the calculated average price for SA exports in real euro terms declined by 2% from 2006 to 2007. The price of SA apples in the export markets is determined by a number of factors including world economic conditions and world production. Assuming that apple prices in Europe, SA's main export destination, remain constant in real terms the average real export price is projected to increase in Rand terms in 2008 due to the sharp depreciation of the Rand against the Euro. However, with the projected more gradual depreciation in the Rand/Euro exchange rate over the remainder of the baseline period the average real Rand price of apples is projected to decline marginally up to 2012, but then increases slightly towards 2014.



Apples

	2006	2007	2008	2009	2010	2011	2012	2013	2014
	thousand hectares								
Area	20.63	20.53	20.48	20.61	20.85	21.13	21.32	21.46	21.58
	thousand tons								
Production	638.2	711.9	712.3	716.5	725.1	734.7	741.5	746.1	750.3
Dom. cons. of fresh apples	205.1	223.6	224.0	224.6	228.4	233.0	236.7	239.5	241.7
Fresh apples exported	266.4	298.6	297.8	300.4	302.8	305.4	306.7	307.3	308.2
	Rands/ton								
Dom. price (current)	3,035	3,293	3,714	3,987	4,210	4,432	4,702	5,021	5,399
Dom. price (constant 2000 prices)	2,059	2,054	2,124	2,157	2,158	2,164	2,191	2,237	2,301
Export price (current)	3,785	4,363	5,192	5,477	5,735	5,984	6,235	6,602	7,078
Export price (constant 2000 prices)	2,568	2,721	2,969	2,962	2,939	2,921	2,905	2,942	3,016

