

Agrofood in North Africa: a strategic sector at nature's mercy

The agrofood sector remains one of the most important sectors for North African Economies, according to a report by Coface, the international trade credit insurance company.



Image by 123RF

Although its contribution varies across the region, in 2014 it accounted for 9.5% of total gross added value in Tunisia, 12.7% in Algeria, 13% in Egypt and 15.6% in Morocco. In 2015, the sector provided employment to 21.7% of the total labour force in Egypt, 15% in Tunisia and approximately 40% in Morocco.

In general, some of the favourable factors boosting the sector include rising populations, increasing demand for processed food, higher per capita incomes and improved production capacities.

Nevertheless, local conditions and government strategies are major influencers of the specific challenges faced by each country. In Morocco, the government has made the development of the agricultural sector a priority since 2008, ensuring continued levels of investments.

In Algeria, the government recently began promoting the importance of food self-sufficiency. Rising disposable income and changing consumer habits in Egypt have boosted domestic consumption of products from the agrofood sector.

While progress has been made, challenges remain. The greatest of these is the relatively poor infrastructure, which drives up transport costs and narrows profit margins. In some areas, challenging topographies and difficult climatic conditions make the cultivation of many types of agricultural goods almost impossible. Depressed food prices in the region could also dissuade new investments in the sector.

In the case of Algeria, the persistence of low oil prices is a further factor contributing to the risks, as the country is highly dependent on hydrocarbon revenues for providing subsidies and incentives to agrofood industries. This, in turn, is negatively impacting the sector's ability to attract the investments it needs for development.

Global food prices

Agriculture is one of the main sectors of the North African economy. International prices for major food commodities edged down in July, following five consecutive months of increases. The FAO Food Price Index (FPI) averaged 161.9 points in July 2016, slipping 0.8% (1.3 points) below the June level and 1.4% below July 2015. In the first seven months of the year, food prices declined 9% compared to the previous year. The overall decline in July was mainly due to a fall in international quotations for grain and vegetable oils.

Low global food prices represent a serious challenge for North Africa. While drought is the main threat to producing countries, El Niño (a natural phenomenon that causes an abnormal warming of sea surface temperature, resulting in extreme climate events) makes production even more difficult, due to heavy rains, flooding and extremes of hot and cold weather.

Another risk concerning natural phenomena is that of La Niña. According to the FAO, climate models are now predicting an increasing likelihood of La Niña (the opposite of El Niño) developing in 2016. If this develops, the impacts could include increased rainfall and flooding, which could hit the same areas already affected by El Niño.

Egypt's wheat production is likely to be restrained, as greater areas of land are used for the production of export-oriented crops – although improved farming methods (such as irrigation techniques in the Sinai region) are somewhat supporting wheat output.

In Morocco, the severe drought is estimated to have wiped out half of the country's wheat harvest in 2016. In the medium term, it is expected that the government will help to address the volatility of output growth.

In Algeria, where crops remain highly dependent on weather conditions, grain production is expected to grow at a modest rate over the coming years. This dependence on the weather causes large swings in output. Over the past 10 years, wheat output growth had expanded by as much as 123% y-o-y (in 2009/10) and decreased by up to 42% (in 2014/15)³.

The government's strategy to invest in irrigation and improve the use of certified seeds and fertilisers are important factors needed to achieve higher levels of grain production.

Algeria is the region's largest importer of dairy products due to its rising population and changing dietary preferences. The country is the world's third largest importer of whole milk powder and the fourth largest for skimmed milk powder. Dry weather conditions dragged down milk production in 2014/2015 and output is expected to slow further, due to low dairy prices.

Morocco is another growing importer in terms of dairy products, due to its increasing population and rising incomes. The country could be faced with a deficit in dairy production compared to domestic consumption, due to demands for higher quality milk and slow growth in farming revenues. Low dairy prices do not seem to be impacting Egypt as much as Morocco.

Egypt: economic recovery

Egypt's milk production appears to be growing strongly, on the back of rising investment from multinational companies. Private investment is expected to take the lead in terms of production growth. An economic recovery in Egypt will also support the rise in production.

Egypt has dominated sugar production in North Africa, as its government is providing subsidised prices for sugar cane to farmers (through the state-run Sugar and Integrated Industries Company). These subsidies are resulting in increased incomes for farmers and expanding sugar output. Many farmers are substituting cotton for beets in order to benefit from these subsidies.

The country's rising population and higher disposable household income are stimulating the demand for sweets, confectionary and chocolates – leading to further support for the sugar production sector. The pace of economic recovery will also continue to be an important driver of the agricultural sector.

Morocco's sugar production, as with its other agricultural products, is also volatile and dependent on weather conditions. The government's support, through the Green Morocco Plan, remains an important tool for improving yields, in the face of the country's arid climate.

Overall, weather conditions represent a major challenge because they directly impact levels of commodity prices for North African countries. Aware of this situation, the region's governments are supporting their agricultural sectors through subsidies and making the investments necessary to improve infrastructures.

Despite the adverse weather conditions that make output levels volatile, the agricultural sector represents many opportunities. Rising populations, higher disposable income and economic expansion are all giving rise to more positive sales perspectives. In the upcoming period, this may result in a more integrated, efficient and productive supply chain for the sector.

1. Food Price Index down slightly in July, FAO, August 2016
2. Egypt Agribusiness report, BMI, Q3 2016
3. Algeria Agribusiness report, BMI, Q3 2016
4. Research: Algeria, Egypt, Morocco Ripest North African Markets for U.S. Dairy, The US Dairy Exporter Blog, May 2015.

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