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National Agricultural Marketing Council
Strategic positioning of South African Agriculture in dynamic global markets

INTERNATIONAL *TradeProbe*

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The ***TradeProbe*** is a joint initiative by the NAMC and the Department of Agriculture, Forestry and Fisheries Directorate International Trade. The aim of this initiative is to create knowledge of trade-related topics by discussing/reporting trade statistics, inviting perspectives from people working in related sectors, reporting on trade-related research, and stimulating debate.

THIS ISSUE OF TRADEPROBE COVERS THE FOLLOWING TOPICS:

- Trade profile of Avocados (HS-080440)
- The agricultural trade reforms in the EFTA states
- United Kingdom (UK) vegetables – market overview and trade potential

1. TRADE PROFILE- AVOCADOS (HS- 080440)[1]

Table 1 lists the top ten global exporters of avocados in 2008, expressed in value terms measured in US$ thousands. It is worth noting that the top ten exporters of avocados accounted for 85 % of the world's exports in 2008.

Mexico was by far the leading exporter followed by Chile and Spain, accounting for 45 %, 9 % and 9 % of world exports, respectively. South Africa was the only African country to make the list of top ten exporters, accounting for 2 % of the world's avocado exports in value terms.

Table 1: Leading exporters of Avocados in 2008 (HS-080440)

Exporters	Exported value in US$ thousands (2008)	Share in world exports: %
World exports	1456850	100
Mexico	662056	45.4
Chile	128619	8.8
Spain	125842	8.6
Netherlands	110782	7.6
France	49744	3.4
Israel	42480	2.9
New Zealand	33212	2.3
South Africa	**31712**	**2.2**
USA	29850	2.0
Dominican Republic	25742	1.8

Source: ITC Trade Map

[1] This article was compiled by Ms. Heidi Phahlane, Intern (MERC) at the NAMC

Table 2 presents the top ten leading importers of avocados in 2008. They accounted for 89 % share of the value of world imports of avocados. The United States of America (USA), France and the Netherlands were the top three importers, representing 42 %, 15 % and 9 % share of the value of imports, respectively. Notably, there was no African country in the top ten importers of avocados.

Table 2: Leading importers of avocados in 2008 (HS-080440)

Importers	Imported value in 2008 in USD thousands	Shares in world exports: %
World imports	1502314	100
USA	623271	41.5
France	224414	14.9
Netherlands	127224	8.5
United Kingdom	74255	4.9
Japan	73390	4.9
Canada	63512	4.2
Germany	44866	3.0
Spain	40062	2.7
Australia	31742	2.1
Sweden	31413	2.1

Source: ITC Trade Map

Table 3 shows the leading five export destinations of avocados exported by South Africa in 2008. The top three destinations were the Netherlands, United Kingdom and France respectively accounting for 60 %, 21 %, and 10 % share of the value of South Africa's exports of avocados.

Table 3: Leading export destinations for avocados exported by South Africa in 2008

Importers	Exported value in 2008 in USD thousands	Shares in South Africa 's exports: %
South Africa- total exports	33334	100.0
Netherlands	18967	56.9
United Kingdom	6895	20.7
France	3371	10.1
Spain	1355	4.1
Belgium	283	0.8

Source: ITC Trade Map

2. AGRICULTURAL TRADE POLICY REFORMS IN THE EFTA STATES[2]

2.1 Introduction

In order to exploit the full benefits of open trade, countries are called upon to implement measures to reform agricultural policies that are highly protective or supportive of the sector. In simple terms, this means reducing support to farmers and lowering protection and trade barriers.

Among the policy instruments used is the conversion of non-tariff barriers to tariffs (a process called tariffication), the reduction of tariffs, and the elimination of non-tariff barriers to trade. An effective trade policy is central to the integration of developing countries into the international economic system and the growth that this will generate (Tarr, 2000)[3].

The 2007 report of the Organisation for Economic Co-operation and Development[4] (OECD) was the main source of information for this article, as it reports on changes to the estimates of support to agriculture over certain periods for the European Free Trade Association (EFTA) states. One of the commonly used measures of support is the Producer Support Estimate (PSE), which estimates the monetary value of transfers to producers resulting from agricultural policies.

A PSE of 30 % means that 30 % of gross farm receipts is derived from government intervention. Switzerland, Norway and Iceland are reported to have the highest levels of support, all higher than 60 % in 2004-06.

The support based on commodity output constitutes the largest share of the PSE. Support based on commodity output is made up of market price support and payments based on output, with market price support constituting the most significant contribution.

Although similar, the EFTA states do not have a common agricultural policy, and each state is therefore considered individually. The proposal in the agricultural policy implemented for 2008 to 2011 (AP 2011) is to continue to move away from market price support measures towards direct payments to farmers.

According to Tarr (2000), tariff policy is the centrepiece of trade policy in a market system. He argues that tariffs are, with very few exceptions, the only acceptable policy tool for protection under the GATT/WTO. Developing countries remain concerned about high levels of tariff protection and other forms of support such as export subsidies for agriculture in developed states.

This article is an attempt at understanding the agricultural trade policies and practices of the EFTA states, as well as their initiatives towards trade liberalisation.

2.2 Switzerland and Liechtenstein

The agricultural sector is still subject to substantial state intervention in Switzerland and Liechtenstein (Switzerland and Liechtenstein together form a Customs Union). Agriculture remains the most highly protected sector, with an average tariff of 22 %. The main policy instruments used to support agriculture in Switzerland are border measures (market price support) and budgetary payments.

Import measures consist of relatively high tariffs for most products and a system of tariff rate quotas (TRQs) to support prices on the domestic market. Tariffs are particularly high in the meat and dairy subsectors. The level of domestic support has remained high by international comparison (Trade Policy Review, 2008).

The level of support as measured by % PSE remains very high, although there has been a gradual drop in the level of support since 1986-88. The level of support to producers as a percentage of gross farm receipts declined from 77 % in 1986-88 to 66 % in 2004-06, which remains double the average level of support in the OECD. The average level of support in the OECD was just less than 30 % in 2004-06. The 2006-08 PSE in Switzerland and Liechtenstein was 60 %, while the average level of support in the OECD being 23 %.

The share of the most production- and trade-distortive forms of support, i.e. those linked to commodity outputs or variable inputs, fell from 90 % in 1986–88 to less than 60 % in 2004-06. Transfers provided directly to commodities, referred to as producer single commodity transfers (SCTs), were 86 % of total PSE in 1986-88, dropping to 57 % by 2004-06. This varied from 35 % for wheat to 80 % for poultry.

Other commodities having the highest relative levels of support were eggs and sugar. Total support to agriculture was 1.6 % of GDP in 2004-06. The key feature of Switzerland's new agricultural policy, AP 2011, is a further 50 % reduction in market price support, with the savings thus being used for direct payments.

In the SACU-EFTA Free Trade Agreement (FTA) Joint Committee report of 03 February 2009, Switzerland confirmed that it does not apply any export subsidies to its basic agricultural products exported to SACU under the terms of the agreement. It further indicated that it would reform its domestic support structure to less trade-distorting support measures.

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[2] This article was compiled by Mr X Nqaba, Senior Agricultural Economist in the Directorate: International Trade, DAFF

[3] Tarr, D.G. (2000). *On the design of tariff policy: A practical guide to the arguments for and against uniform tariffs*. Washington, DC: World Bank.

[4] Organisation formed in 1961, with the aim to bring together the governments of countries committed to democracy and the market economy from around the world in order to support sustainable economic growth, boost employment, raise living standards, maintain financial stability, assist in the economic development of other countries, and contribute to growth in world trade.

2.3 Norway

The level of support to producers as measured by % PSE has declined somewhat from its 1986-88 level, which stood at 71 %. There has also been a move away from market price support and output payments and a modest reduction in the level of support.

Norway still offers a relatively high level of assistance to the few agricultural goods that it produces, with support to agriculture estimated to be the highest within the OECD (at more than 66 % of the value of gross farm receipts in 2004-06).

The share of the most production- and trade-distorting forms of support in the PSE fell from 78 % in 1986-88 to 55 % in 2004-06, i.e. accounting for slightly over half the support. The PSE in 2006-08 was 62 % compared to the average of 23 % in the OECD.

The share of transfers provided directly to commodities (SCT) in the total PSE decreased from 64 % in 1986-88 to 54 % in 2004-06. It was low for sheep meat at 5 %, for eggs at 34 %, between 40 and 60 % for common wheat, barley, oats, milk and pig meat, and around 60-70 % for poultry and wool. Total support to agriculture as a percentage of GDP fell by two thirds after 1986-88, to 1.1 % in 2004-06, in line with the OECD average.

Like Switzerland, border measures and budgetary payments are the main policy instruments supporting agriculture in Norway. Market price support, in the form of wholesale target prices, is provided for most commodities. These target prices and most payments are negotiated annually between the government and producer representatives. Tariffs for the vast majority of products are set between 100 and 400 %, although there is a system of "open periods" for imports at reduced tariff rates when domestic prices rise above threshold levels.

2.4 Iceland

Agriculture contributes a small and decreasing share to total GDP and employment in Iceland. The share in GDP dropped from 5 % in 1986-88 to 1.6 % in 2004-06. The main agricultural activities in Iceland are cattle and sheep farming, which account for about two thirds of the value of agricultural output. Support to the agricultural sector is mainly provided through border measures, payments based on output, and production quotas.

The level of support to producers dropped from 77 % in 1986-88 to 66 % in 2004-06, twice the OECD average. The share of most distorting payments in the PSE fell from 99 % in 1986-88 to 78 % in 2004-06. The share of transfers provided directly to commodities (SCT) made up 92 % of the total PSE in 1986-88 and increased to 93 % in 2004-06, with milk, poultry and eggs being the most highly supported commodities, followed by sheep meat and wool.

The majority of this support is for the sheep and dairy sub-sectors. The average MNF-applied tariff for agricultural products (18.5 %) is many times higher than that for other products. Tariff quotas apply in practice, with out-of-quota rates up to 306 % (Trade Policy Review, 2006). Only a limited quantity of imports competes with the major domestically produced commodities.

According to the OECD report, overall there has been some progress in policy reform since 1986-88.

3. UNITED KINGDOM (UK) VEGETABLES – MARKET OVERVIEW AND TRADE POTENTIAL[5]

3.1 UK vegetable market forecast

According to the latest Euromonitor report, in 2008 the fresh vegetables sector in the UK felt the pinch of the fluctuation in exchange rates and increasing consumption, forcing this sector to raise its prices. The only category to perform well was tomatoes, registering a 2 % growth in volume due to the tomato's importance as a staple in the British diet.

The growth in the vegetable market is also expected to remain low in the coming years, with the forecast at 0.9 % annual growth in total volume from 2008 to 2013. Even so, there are environmental challenges (heavy rains and lack of sunshine) in Europe that could harm the vegetable crops and pose a threat to the potential growth in sales over the forecasted period.

Another challenge is the proposition to change the use of pesticides in the EU, which was agreed upon in December 2008. The European parliament has voted to ban the use of at least 22 chemicals, which are deemed harmful to human health, and also to tighten the rules on pesticide usage. All these factors could potentially reduce the amount of fresh produce available and raise the prices thereof.

3.2 UK vegetables Imports

In 2008 the UK was the third largest world importer of vegetables, importing to the value of US $ 4.4 billion from the world. This showed very slight (less than 1 %) annual growth from the previous year (2007). The chief importer in this category was the USA followed by Germany, importing vegetables to the value of US$ 6 billion and US$ 5.5 billion, respectively.

In 2008 the UK imported only 9 % of the world's vegetable exports, but over the seven-year period of 2001-2008 the UK's imports grew by 11 % above the USA and Germany with an annual growth rate of 9 % and 8 %, respectively.

In 2008 two categories, namely tomatoes, fresh and chilled (HS 070200) and peppers of the genus capsicum (HS 070960) accounted for most of the UK's vegetable imports. These vegetables combined con-

[5] This article was compiled by Ms. L. Magagane, Agricultural Economist in the Directorate: International Trade, DAFF

stituted 26 % or US$ 1.2 billion of the total UK imports of vegetables from the world. The Netherlands (41 %), Spain (40 %) and Poland (5 %) dominated the supply of tomatoes to the UK with a total market share of 86 %, leaving 14 % for the rest of the suppliers (see **Figure 2**). South Africa suspended its supply of tomatoes to the UK in 2006 after a continuous decline in the supply value. Between 2001 and 2005 South Africa registered a 43 % annual decline in the supply of this category to the UK.

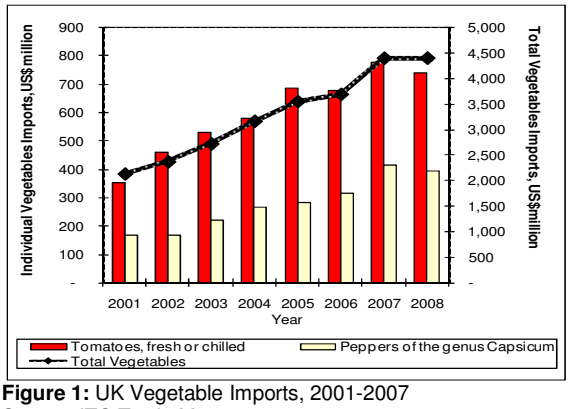

Figure 1: UK Vegetable Imports, 2001-2007
Source: ITC Trade Map

As for peppers of the genus capsicum, the Netherlands still occupied top position with a 65 % share of this market, followed by Spain with a 16 % share and France with a mere 5 % share.

These countries' exports combined accounted for an 87 % share of the UK's imports in 2008. South Africa occupied 35th position in the supply of this category, with a share below 1 %. South Africa has nevertheless been able to increase its exports of this category to the UK market.

3.3 South African exports to the world

From **Figure 2** it is evident that in 2008, South Africa exported half of its vegetables to the SADC, 31 % to the EU and 19 % to the rest of the world.

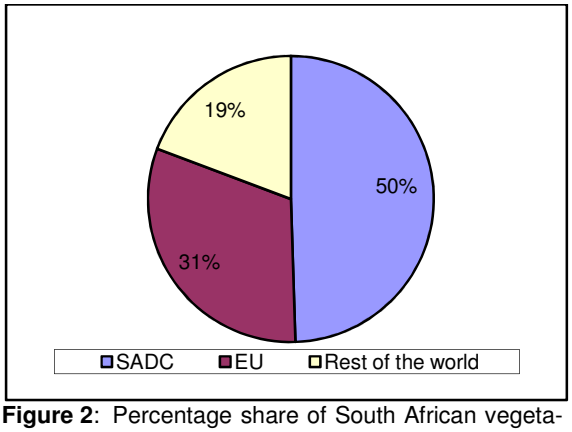

Figure 2: Percentage share of South African vegetable exports to the world
Source: World Trade Atlas

The distance between South Africa and the SADC and the extremely perishable nature of vegetables could have been some of the reasons why the SADC received 50 % of South Africa's vegetable exports.

3.4 South African exports to the UK and the World

South Africa exported vegetables to the value of around US$ 6.7 million to the UK in 2008, up from around US$ 5.8 million in 2007, which represent a 16 % year-on-year growth. Exports to the UK registered an annual growth rate of 14 % from 2001 to 2008, which was higher than the 11 % growth in South African exports to the rest of the world during the same period. The UK was the recipient of less than 1 % of South Africa's vegetables in 2008.

Figure 3 depicts some fluctuation in South African vegetable exports to the UK, with constant growth in the total exports of these categories to the rest of the world. In 2008 South Africa performed well in three vegetable categories, which became the chief contributors to the total vegetables exported to the UK.

The top three products were vegetables, fresh or chilled nes – not elsewhere specified - (35 %), Brussels sprouts, fresh or chilled (16 %) and onions and shallots, fresh or chilled (11 %). Combined they registered 62 % of the total vegetable exports to the UK in the same period.

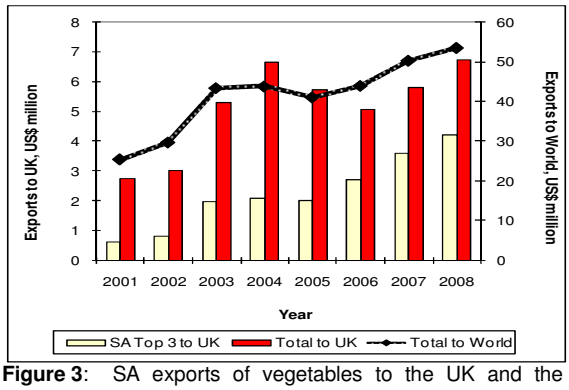

Figure 3: SA exports of vegetables to the UK and the World respectively (2001-2008)
Source: ITC Trade Map

3.5 Trade potential of South Africa in the UK

A symmetric Export Specialization Index (ESI) for agricultural products (WTO definition) was constructed between South Africa and the UK. This index reveals that South African vegetables have a specialization potential if values are between 0 and 1 and a comparative disadvantage if the values are between 0 and -1 in the UK market (**Table 4**). In all cases, South Africa has a specialization advantage, ranked from large to small.

From **Table 4** it is evident that vegetables and mixtures dried, but not further prepared nes (HS 071290), Sweet corn, frozen (HS 071040), and Brussels sprouts, fresh or chilled (HS 070420) recorded growth rates higher than 40 % over the period under review. All these vegetables recorded a positive ESI which indicate their respective comparative advan-

tage in the UK market. These categories registered both a positive annual growth and ESI score. A trade analysis for these three categories follows.

3.6 Trade analysis

Exports of vegetables and mixtures dried, but not further prepared nes (HS 071290) to the UK market grew the fastest among all the vegetables exported during this period. This category experienced significant export growth of 73 %, which is higher than the 12 % annual growth of the UK's demand for the same category over the same period under review.

Export of this category to the world also performed well with a 20 % annual growth. This category occupied the 10th position in the total South African exports to the UK and the 15th position in the supply to the world market. South Africa occupied the 23rd position in the UK market with a share of less than 1 % behind France (22 %), China (15 %) and Turkey (14 %).

Theoretically South Africa could have exported US$ 988 000 to the UK in 2008. France is the main supplier and main competitor in the UK market. France enjoys a zero duty as part of the EU common market. South Africa's other main competitors in this market, namely China and Turkey, face a 7.23 % and 0.24 % duty respectively while South African exporters face a 0.78 % duty under the Trade Development and Cooperation Agreement (TDCA) with the EU.

Another category that performed well was Sweet corn, frozen (HS 071040). This was South Africa's 9th largest vegetable category exported to the UK in 2008 with a value of US$ 189 000. This category experienced a 52 % growth in value exported to the UK per annum over the 7 year period. This category however showed recorded less than 1 % annual growth between 2001-2008 to the world.

The UK's demand has risen with 3 % (annual growth) in the same period. The UK's market was dominated by the following suppliers: Hungary, Belgium and Israel with 35 %, 23 % and 9 % share, respectively. In theory South Africa could have exported some US$ 76 000 extra to the UK in 2008. A 11.84% tariff is applied under the Trade Development and Cooperation Agreement (TDCA) with the EU, whereas Hungary and Belgium enjoyed zero duties.

Brussels sprouts, fresh or chilled (HS 070420) was South Africa's 2nd largest vegetable exported to the UK in 2008 with a value of US$1.1 million from US$ 497 000 in 2007. This represents a 123 % growth year-on-year. This category contributed 15 % to total South African exports to the UK in the same year. Over a 7 year period (2001-2008) the growth in the value of exports of this product to the UK was 45 %.

South Africa had an 11 % share (US$ 1.4 million) in imports by the UK, i.e. the 2nd position in terms of the value of imports of this product. The Netherlands accounted for 75 % (US$ 10.2 million) of imports of this product. During the same period the UK's demand for this category increased by 17 %. Theoretically South Africa could have exported another US$ 328 000 to the UK in 2008.

South African exporters face a 1.2 % duty (in terms of the TDCA) whereas the Netherlands attracts a zero duty as a member of the EU.

Table 4: Annual growth and symmetric export specialization index of South African vegetables in the UK market, 2008[6]

HS Code	Description	Annual Growth Rate (%)	Symmetric ESI score	Theoretical potential exports (US$'000)
070990	Vegetables, fresh or chilled nes	26	0.68	2 339
070420	Brussels sprouts, fresh or chilled	45	0.96	328
070310	Onions and shallots, fresh or chilled	38	0.38	6 839
071420	Sweet potatoes, fresh or dried, whether or not sliced or pelleted	23	0.84	874
070610	Carrots and turnips, fresh or chilled	14	0.79	1 907
070390	Leeks and other alliaceous vegetables, fresh or chilled	34	0.70	229
070920	Asparagus, fresh or chilled	11	0.53	61
070490	Cabbages, kohlrabi, kale and sim edible brassicas nes,	-7	0.35	485
071040	Sweet corn, frozen	52	0.25	76
071290	Vegetables and mixtures dried, but not further prepared nes	73	0.01	988

Source: ITC Trade Map and Directorate International Trade calculations

[6] The export specialization index is a modified RCA index, in which the denominator is usually measured by specific markets or partners. It provides product information on the revealed specialization in the export sector of a country and is calculated as the ratio of the share of a product in a country's total exports to the share of this product in imports to specific markets or partners rather than its share in world exports.