agriculture, forestry & fisheries
Department: Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

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

# INTERNATIONAL *TradeProbe*

**No. 23: December 2009**

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 black tea (HS-090204)
- Agricultural support (subsidies): EU and USA – lessons for South Africa
- A review of South Africa's agricultural trade with the COMESA

## 1. TRADE PROFILE: BLACK TEA (HS-090204)[1]

**Figure 1** presents the quarterly trends in the value of South Africa's black tea exports and imports from the first quarter of 2001 to the second quarter of 2009. The value of exports was at its highest level in 2002, but showed a declining trend until 2004, where after the value of exports moved more or sideways. Since 2004 the value of imports showed a noticeable increase.

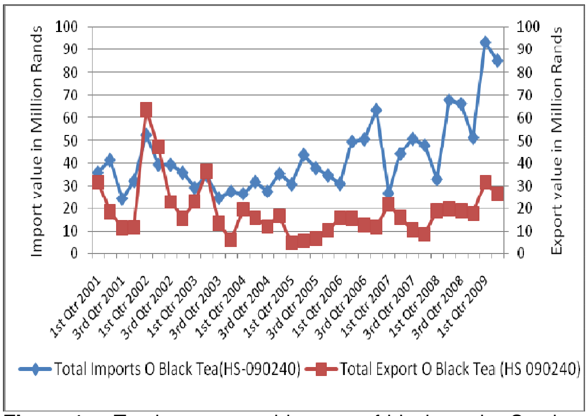


**Figure 1**: Total exports and imports of black tea by South Africa
Source: World Trade Atlas, 2009

**Table 1** gives a list of the top ten global exporters of black tea in 2008, expressed in value terms and measured in US$ thousands. In 2008, the top ten exporters of black tea accounted for 82.3 % of world exports. Sri Lanka was the leading exporter with 23.3 % share of world exports, followed by Kenya and China, accounting for 17.2 % and 12.6 % of the value of exports, respectively.

Kenya and Rwanda were the only African countries to make the list of the top ten exporters (in 2008), accounting for 17.2 % and 2.3 % respectively of world exports of black tea.

**Table 1:** Leading exporters of Black Tea in 2008 HS-090204

| **Exporters** | **Exported value in 2008 (US$)** | **Share in world exports: %** |
|---|---|---|
| **Total world exports** | **5408830** | **100.0** |
| Sri Lanka | 1259038 | 23.3 |
| Kenya | 932757 | 17.2 |
| China | 682395 | 12.6 |
| India | 560493 | 10.4 |
| United Kingdom | 321352 | 5.9 |
| Germany | 206782 | 3.8 |
| Indonesia | 158959 | 2.9 |
| Rwanda | 125454 | 2.3 |
| United Arab Emirates | 114805 | 2.1 |
| Vietnam | 87535 | 1.6 |
| South Africa (31) | 11622 | 0.2 |

Source: ITC Trade Map

**Table 2** shows the top ten global importers of black tea in 2008, expressed in value terms and measured in US$ thousands. The leading top ten importers accounted for 51.8 % of the value of world imports. The Russian Federation, the United Arab Emirates and the United Kingdom are the top three importers, representing 9.7 %, 8.6 % and 7.0 % of the value of imports, respectively. Egypt is the only African country in the top ten importers of black tea (see Table 2).

[1] This section was compiled by Ms. Heidi Phahlane (an Intern of the NAMC).

**Table 2:** Leading importers of Black Tea in 2008 HS-090204

| Importers | Imported value in 2008 | Share in world Importers: % |
|---|---|---|
| **Total world imports** | **5264584** | **100.0** |
| Russian Federation | 510872 | 9.7 |
| United Arab Emirates | 452118 | 8.6 |
| United Kingdom | 367552 | 7.0 |
| United States of America | 341056 | 6.5 |
| Iran (Islamic Republic of) | 256671 | 4.9 |
| Pakistan | 231963 | 4.4 |
| Egypt | 203367 | 3.9 |
| Germany | 181518 | 3.4 |
| Japan | 181382 | 3.4 |

Source: ITC Trade Map

**Table 3** provides the leading export destinations for exports of black tea from South Africa in 2008. The top three destinations were Mozambique, the United Kingdom and Pakistan, accounting for 21.0 %, 16.9 %, and 10.6 % of the value of South Africa's exports. respectively.

The top ten destinations for South Africa's black tea accounted for 85.5 % of the total the value of South Africa's exports of this product. Mozambique, Zimbabwe and Zambia are the only African countries on the top ten leading destinations for South Africa's exports.

**Table 3**: Leading export destinations for Black Tea exports from South Africa

| Importers | Exported value in 2008 | Shares in world exports: % |
|---|---|---|
| **South Africa's total exports** | **11 622** | **100.0** |
| Mozambique | 2 443 | 21.0 |
| United Kingdom | 1 964 | 16.9 |
| Pakistan | 1 235 | 10.6 |
| United Arab Emirates | 1 191 | 10.2 |
| Zimbabwe | 763 | 6.6 |
| Zambia | 597 | 5.1 |
| United States of America | 475 | 4.1 |
| Netherlands | 465 | 4.0 |
| China | 437 | 3.8 |
| Switzerland | 367 | 3.2 |

Source: ITC Trade Map

## 2. AGRICULTURAL SUPPORT (SUBSIDIES): EU AND USA – LESSONS FOR SOUTH AFRICA[2]

### Literature on agricultural support

Agricultural support/subsidies as categorised by the WTO Agreement on Agriculture are two-fold, namely, domestic and export subsidies. However, there are differing opinions about the effect of these subsidies on the economies of developing countries.

The supporters of subsidies argue that they help in efforts of food security in the importing developing countries, as they lead to price depression.

Those against the use of subsidies argue that subsidies lead to world prices being depressed. This in turn has a negative effect on the ability of producers in countries that do not have the financial means to subsidize their agricultural sectors to compete on international markets.

### Broad perspective

The agricultural trade environment is not free of trade distortions. Agricultural trade is still characterised by a number of trade distorting measures.

Farmers in the developed countries, especially countries of the European Union and the United States of America, receive government support (amounting to billions of dollars), resulting in distorted world prices. Meanwhile the developing countries still have high tariffs on agricultural products (creating an additional cost to consumers).

In international trade literature, there are well-documented situations to support this. Firstly, subsidies given in the developed countries affect farmers in the developing countries and secondly, the world economy is so integrated that any policy distortion is easily transferred.

In formal meetings of the World Trade Organisation (WTO), prior to the Doha Round of talks, a number of commitments were made towards reducing tariffs on agricultural products, as well as the reduction of non-tariff barriers.

A fundamental issue of importance that remains is whether or not South Africa still has room to support agriculture without contravening the agreements of the WTO.

If South Africa has such space, the second issue is whether or not there is willingness by decision makers to support the country's agriculture.

A further question is, if the country does have the space and/or willingness, how would such support be given?

On the other hand, if the country does not have the space and/or willingness, what are the likely options of protecting agriculture from imports from subsidised countries?

In an attempt to address these issues this section is organised as follows:

- Firstly, a brief background of the history of agricultural support in the European Union (EU) and United States of America (USA) is provided. The reason for the choice (EU and USA) is based on

[2] This section was compiled by Mr. Bonani Nyhodo (Senior Researcher of the NAMC)

the fact that these are the two major supporters of agriculture expressed in value terms (total amount of money).

- Secondly, a closer look is taken at the way in which these countries facilitate these support measures.

- Lastly, some concluding remarks.

**History of agricultural support – EU and USA**

The support that agriculture receives, as a sector of these economies, dates back more than 40 years.

- In the USA, agricultural subsidies date back to the 1930s (more than 70 years). Agriculture/commodity subsidies were introduced as part of the New Deal, by President Roosevelt. The reasons were that farmers accounted for one quarter of the population of the USA, the financial crisis of the great depression, the collapse of commodity prices and the fact that agriculture accounted for 10 % of the country's gross domestic product (GDP). However, at the time such an intervention was described as a temporary safety measure, to deal with an emergency (Oxfam America, 2007).

- Agricultural support in the European countries started more than 40 years ago, through the amalgamation of the Common Agricultural Policy (CAP) of the EU.

**How are these subsidies paid?**

In the EU, agricultural subsidies are financed through two funds that form part of the general budget of the union.

- The first of these funds is the European Agricultural Guarantee Fund (EAGF), which finances direct payments to farmers and measures to regulate agricultural markets such as exports funds.

- The second fund is the European Agricultural Fund for Rural Development (EAFRD), which finances the rural development programmes of member states.

It is argued that for 2009 spending on agriculture amounted to more than €40 billion. The shift within this policy area towards development in rural areas also means more spending on the environment and the fight against climate change.

Over 40 % of rural development funding (€13.6 billion) was for environmental goals. On top of that, the LIFE+ environmental protection programme grew by 19 %, reaching €317 million.

The European Commission is responsible for the management of the EAGF and EAFRD. However, the commission does not make payments. In line with the principle of shared management, this task is delegated to the member states that work through 85 national and regional agencies (accredited on the basis of a set criterion set down in the commission).

These agencies are not only responsible for paying, but they also have to check the eligibility of the aid application. The payments made by the paying agencies are then claimed from the commission to a member country, on a monthly basis in the case of the EAGF and on a quarterly basis in the case of the EAFRD. These reimbursements are subject to any correction that the commission makes under the clearance of accounts procedure.

**In the USA,** agricultural subsidies are classified under what is commonly known as the crops programme. The Farm Bill of the USA clearly specifies government support to farmers of cotton, wheat, rice, corn (maize) and a few other selected crops. The support for these sectors is directed towards research and food safety.

The USA subsidies are provided through a variety of measures such as:

- **Title 1** – Commodity programmes,
- **Title 2** – Conservation,
- **Title 3** – Trade,
- **Title 4** – Nutrition,
- **Title 5** – Research and development,
- **Title 6** – Rural development,
- **Title 7** – Research and related matters,
- **Title 8** – Horticulture and organic agriculture,
- **Title 9** – Crop insurance and disaster assistance programmes.

For each support measure there is a set of criteria to be met. These measures are administered by different agencies, e.g.

**Title 1** – the programme is administered by the USDA's Farm Service Agency. Direct payments are made available to farmers with eligible historical production of wheat, oats, upland cotton, rice, soybean, other oilseeds, barley, sorghum, corn, and peanuts (farmers enrol for this programme annually).

**Title 3** – The USDA's Foreign Agricultural Service (FAS) administers the export and food aid programmes contained in the 2008 Farm Act, except for Titles II and III of the revised schedule, which are assigned by law to the US Agency for International Development.

- **Technical Assistance for Specialty Crops (TASC) Program** provides funding to public and private U.S. organisations for technical assistance to address unique sanitary, phytosanitary, and technical barriers that prohibit or threaten the export of US specialty crops.
- **Export Credit Guarantee Program**, begun in 1982, is the largest U.S. agricultural export credit programme. By reducing financial risk to lenders, credit guarantees encourage exports to buyers in countries — mainly developing countries — where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such guarantees.

**Title 6 -** Most Federal rural development programmes provide funding directly to local entities, such as individual businesses, governments, non-profit organisations, and tribes. However, regional development programs fund projects through regional organisations, using strategies that are aimed at addressing region wide issues.

### Concluding remarks

South Africa's agricultural sector has to compete against products (on the domestic and foreign markets) that are subsidised and/or are benefitting from foreign government support programmes. Also noteworthy is that a recent study by NAMC/tralac showed that South Africa has relatively limited tariff policy space to protect its agricultural sector. In addition, South Africa has not used its support policy space allowed under the WTO. It is therefore vitally important that the issue of expanded and more in depth support to the agricultural sector is investigated in terms of (i) where such support should come from, (ii) who should manage and implement it (iii) and where the support is most urgently needed.

## 3. A REVIEW OF SOUTH AFRICA'S AGRICULTURAL TRADE WITH THE COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA) [3]

### Introduction

One of the broader objectives of the African Union (AU) talks to the concern of accelerating economic integration on the continent. In a bid to contribute towards achieving this broader objective, a COMESA[4]-EAC-SADC Tripartite Summit of Heads of State and Government were held on 22 October 2008 in Kampala, Uganda.

The Summit deliberated on strategies to deepen regional integration in Eastern and Southern Africa. The tripartite initiative emanates from the Lagos Plan of Action and the Abuja Treaty establishing the African Economic Community (AEC). The initiative is a strategic response to the AEC objective of strengthening, rationalising and consolidating the existing regional economic communities (RECs) with a view to achieving a common market covering the continent.

This article provides an overview of the current agricultural trade between South Africa and the COMESA. It is part of the preliminary assessment of the impact of the SADC-COMESA-EAC relationship on current South African agricultural trade.

[3] This section was compiled by Ms M. Moletji; Agricultural Economist , Directorate International Trade, Department of Agriculture, Forestry and Fisheries

[4] The 19 members of COMESA participating in the FTA are Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

### Agricultural trade flows

South Africa's agricultural exports to COMESA have increased from R2.9 billion in 2006 to R8.5 billion in 2008; while agricultural imports from COMESA, increased from R1.1 billion in 2006 to R1.5 billion in 2008. Agricultural exports to COMESA fluctuated over the period of 5 years, with a significant increase in 2008 (see **Figure 2**).

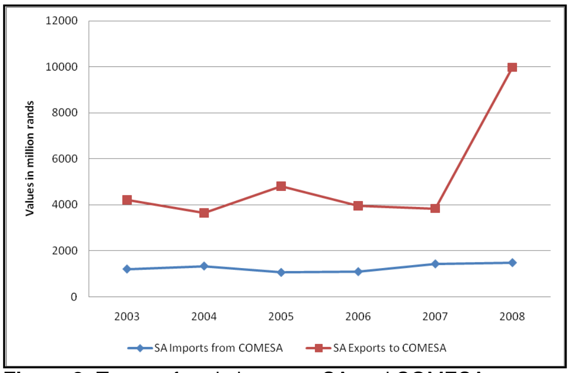


**Figure 2:** Terms of trade between SA and COMESA
Source: Trade Atlas, 2009

**Figure 3** shows that Zimbabwe is the biggest COMESA supplier of South Africa's imports of agricultural products, probably because of the SADC FTA. Zambia rates second, Malawi third, Kenya fourth and Uganda fifth.

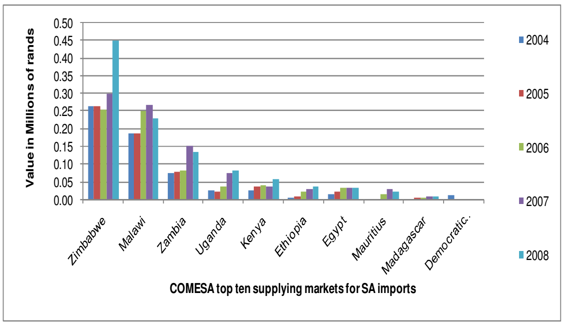


**Figure 3:** South Africa's imports from COMESA member states
Source: Trade Atlas, 2009

**Table 4** shows the agricultural products imported by South Africa from COMESA. The leading imports products are cotton, tobacco and coffee.

**Table 5** shows the agricultural exports of South Africa to COMESA. The leading agricultural exports are cereals, sugar, beverages and miscellaneous edible preparations.

**Tables 6** and **7** indicate the existing tariffs applied by South Africa and the COMESA member states to each other respectively. Relative to COMESA, with tariffs ranging from 6.93 % – 28.53 %, South Africa has the lowest levels of tariffs, ranging from 1.25 % to 9.30 %, except for tobacco and manufactured tobacco substitutes, with a tariff level of 33.01 %.

**Table 4**: South Africa's imports from Common Market for Eastern & Southern Africa (COMESA)

| Product code | Product label | 2006 (R'000) | 2007 (R'000) | 2008 (R'000) |
|---|---|---|---|---|
| 24 | Tobacco | 232 785 | 251 732 | 371 407 |
| 9 | Coffee | 189 549 | 176 156 | 215 722 |
| 23 | Residues | 15 104 | 60 528 | 100 385 |
| 7 | Edible vegetables | 51 502 | 70 693 | 75 409 |
| 17 | Sugar | 58 937 | 89 188 | 70 509 |
| 12 | Oilseeds | 51 823 | 93 901 | 37120 |
| 8 | Edible fruit and nuts | 21 627 | 30 626 | 35 465 |
| 20 | Vegetable and fruit preparations | 16 579 | 24 205 | 23 711 |
| 16 | Meat and fish preparations | 25 167 | 22 421 | 18 406 |
| 5201 | Cotton | 326 383 | 309 352 | 366 702 |

**Table 5:** South Africa's exports to Common Market for Eastern & Southern Africa (COMESA)

| Product code | Product label | 2006 (R'000) | 2007 (R'000) | 2008 (R'000) |
|---|---|---|---|---|
| 10 | Cereals | 777 238 | 184 923 | 4 203 479 |
| 22 | Beverages | 208 086 | 315 393 | 579 731 |
| 17 | Sugar | 407 719 | 448 470 | 523 126 |
| 11 | Milling products | 106 872 | 39 561 | 406 621 |
| 21 | Miscellaneous edible preparations | 204 868 | 232 218 | 361 340 |
| 15 | Animal, vegetable fats and oils | 155 860 | 140 550 | 329 509 |
| 20 | Vegetable and fruit preparations | 108 676 | 157 507 | 271 621 |
| 19 | Cereal preparations | 84 239 | 124 338 | 233 381 |
| 8 | Edible fruits and nuts | 107 127 | 137 354 | 192 943 |
| 24 | Tobacco | 174 511 | 103 995 | 139 355 |

**Table 6:** Tariffs applied by COMESA to products originating from SA

| Selected product codes | Product description | Total ad valorem equivalent tariff (estimated) |
|---|---|---|
| 8 | Edible fruit, nuts | 12.13 % |
| 10 | Cereals | 6.93 % |
| 11 | Products of the milling industry | 10.89 % |
| 15 | Animal, vegetable fats and oils | 13.91 % |
| 17 | Sugars | 11.01 % |
| 19 | Cereal, preparations | 11.77 % |
| 20 | Vegetables, fruit, nuts | 16.10 % |
| 21 | Miscellaneous edible preparations | 16.45 % |
| 22 | Beverages | 28.53 % |
| 24 | Tobacco | 20.50 % |

Source: Market Access Map, 2009

**Table 7:** Tariffs applied by South Africa against non-SADC COMESA member states

| Selected product codes | Product description | Total ad valorem equivalent tariff (estimated) |
|---|---|---|
| 7 | Edible vegetables and certain roots and tubers | 5.66 % |
| 8 | Edible fruit, nuts, peel of citrus fruit, melons | 3.32 % |
| 9 | Coffee, tea, maté and spices | 1.25 % |
| 12 | Oil seeds and oleaginous fruits; miscellaneous grains, seeds | 4.08 % |
| 16 | Meat, fish and seafood food preparations | 4.98 % |
| 17 | Sugars and sugar confectionery | 5.39 % |
| 20 | Vegetable, fruit, nut, etc food preparations | 8.73 % |
| 23 | Residues, wastes of food industry, animal fodder | 3.90 % |
| 24 | Tobacco and manufactured tobacco substitutes | 33.01 % |
| 5201 | Cotton, not carded or combed | 9.30 % |

Source: Market Access Map, 2009

## Concluding remarks

The analysis indicates huge trade imbalances in favour of South Africa despite the low import tariffs in South Africa versus the relatively high tariffs imposed by the COMESA countries. However, it is a relationship defined predominantly by exports to COMESA, with a low level of imports. South Africa exports a diverse range of value added products, whilst imports remain concentrated in commodities.