



Tariffs on basic foods: Evolution and impacts

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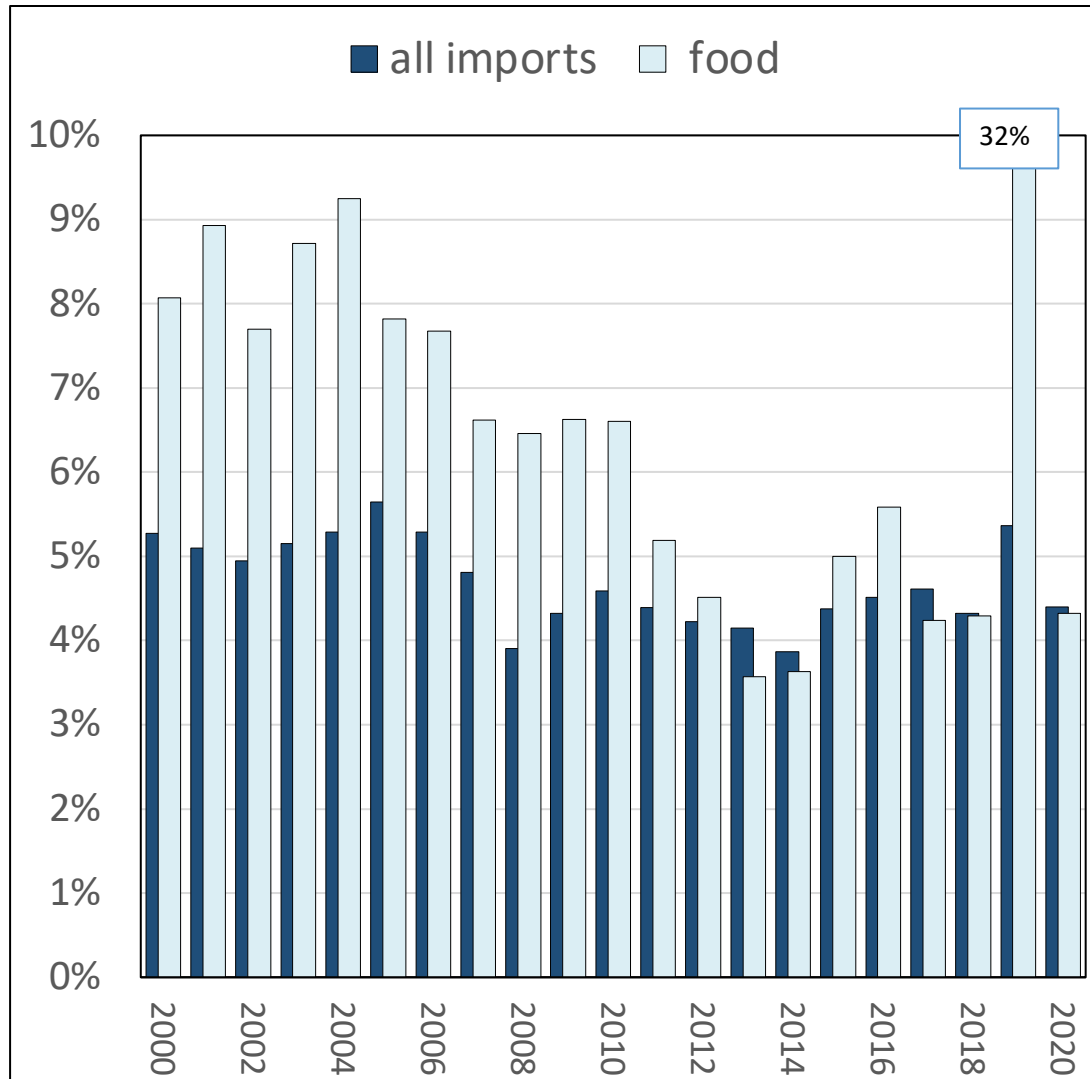
Neva Seidman Makgetla

ERSA Webinar

19 July 2023

Rising tariffs on food in SA

- Average tariffs have been climbing
 - Declined from 10% in 2000 to 4,0% in 2013
 - In second half of 2010s, fluctuated significantly but generally somewhat higher, with a huge spike in 2019/20, apparently mostly due poultry
 - Master Plans for poultry and sugar rely on significant tariffs for the foreseeable future
- Food tariffs lower than average for all products in only four years from 2000 to 2020
- Question is why, given impact on poor, as well as on monetary policy?
- Methodology:
 - Impacts
 - Mechanisms
- NB constrained by lack of data on agricultural subsectors

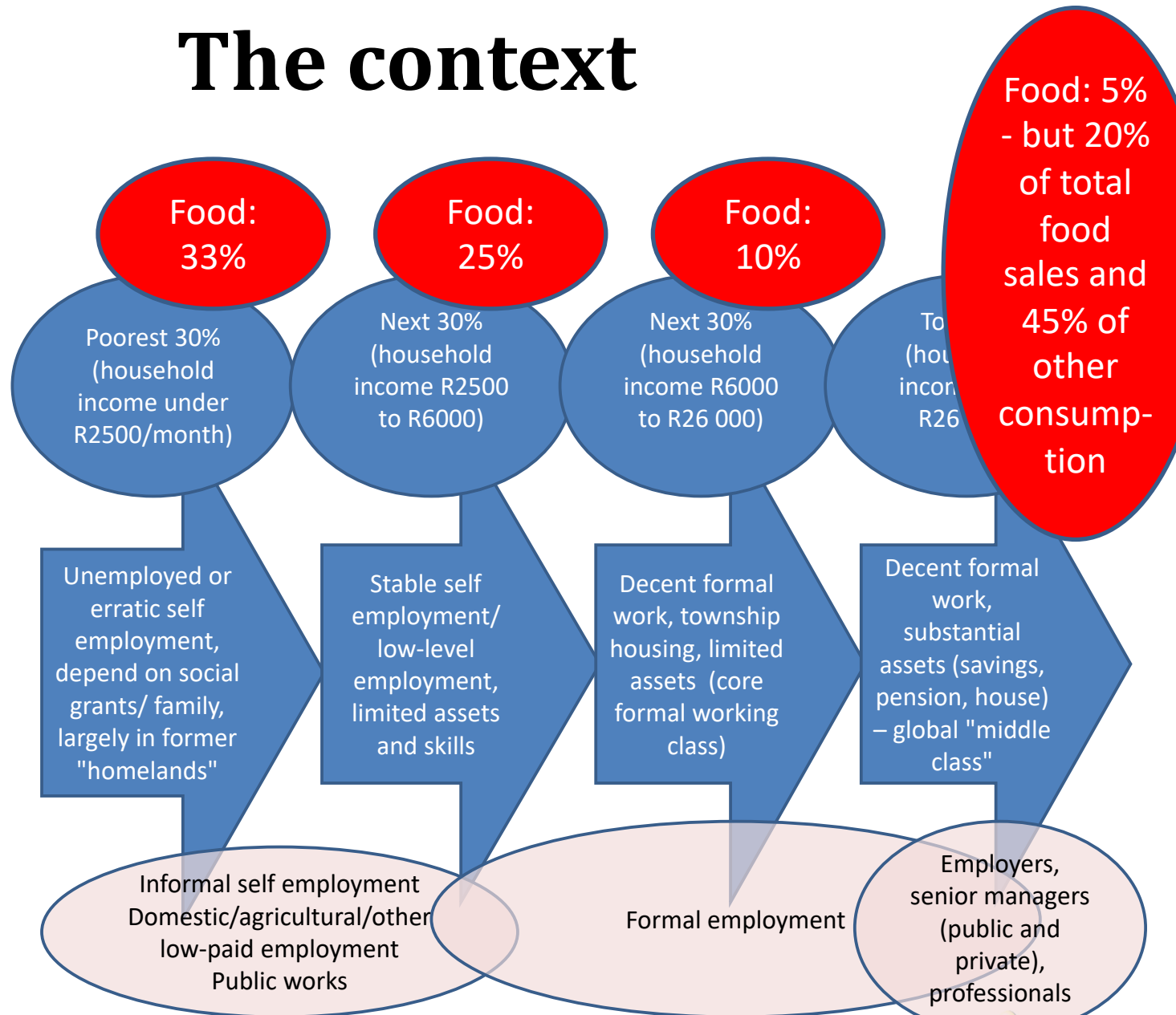


Tariffs as contested policy

- Like any economic measure
 - There are winners and losers
 - Impacts change over time
- In a democracy, usually have to argue that somehow benefit the majority in the long run at least
- The lobbying problem: Always a problem to avoid policies where
 - Costs for majority are broadly spread and often intangible
 - Benefits to a minority are large and visible
- Costs of tariffs are obvious – they raise the price to consumers/users
- Potential benefits:
 - Save investment and jobs in non-competitive industries (NB BFAP findings relate only to feed use, not to overall productivity)
 - Avoid import dependency for sensitive products (medicines, arms)
 - Give local producers time to adapt to new foreign competition, or to develop products that will become competitive
 - Prevent dumping
- Obviously easier to support if will lead to long-run competitiveness
- But often get through anyways because of strong lobbies and limited voice for majority
 - Working-class consumers are generally not organised, so discourse biased toward high-income products (finance, petrol, housing)
 - In Master Plans, no consumer representatives in engagements

The context

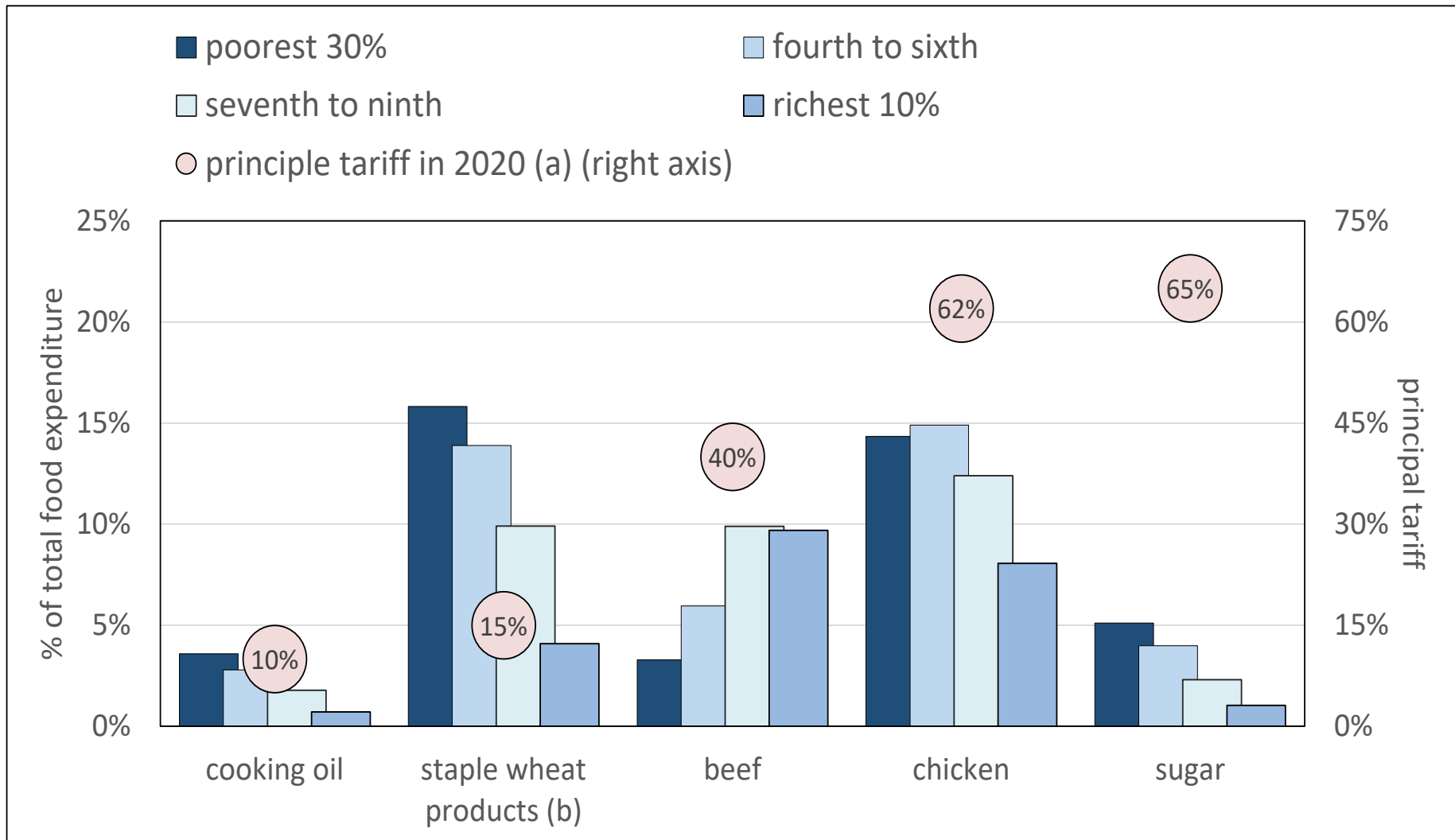
- SA is deeply inequitable by global standards
 - But many countries don't report at all, especially petrostates
- Understand SA's inequality in terms of four groups



Staple foods and tariffs

- 10 foods accounted for
 - two thirds of food expenditure by the poorest 60% of households
 - half for the formal working class
 - less than a third for the richest decile.
- Four largest = chicken, bread, maize meal and sugar
- Of the top 10 foods
 - poultry, wheat, beef, sugar and cooking oil faced above-average tariffs in 2020
 - The tariffs ranged from over 50% for poultry and sugar to 10% for cooking oil.
- Products with above-average tariffs accounted for over 40% of food consumption by the poorest 60% of households
- That compared to
 - 36% for the formal working class
 - 24% for the richest decile.
- The other foods in the top ten staples for the poor – maize, rice, milk and potatoes – did not have import tariffs in 2020.

Consumption of major foods by income group and tariff level



The legal framework

- Agricultural products are mostly excluded from WTO rules
- South African sugar and wheat tariffs set a floor on import prices by kicking in when an international reference price falls
- Poultry tariffs to prevent import surges and “dumping” – i.e. sale of legs and thighs as by-product of breast production
- Long-standing duties on beef and cooking oil (from the 1990s)
- All the tariffs have exclusions under bilateral agreements, but dumping duties imposed in some cases

Impacts

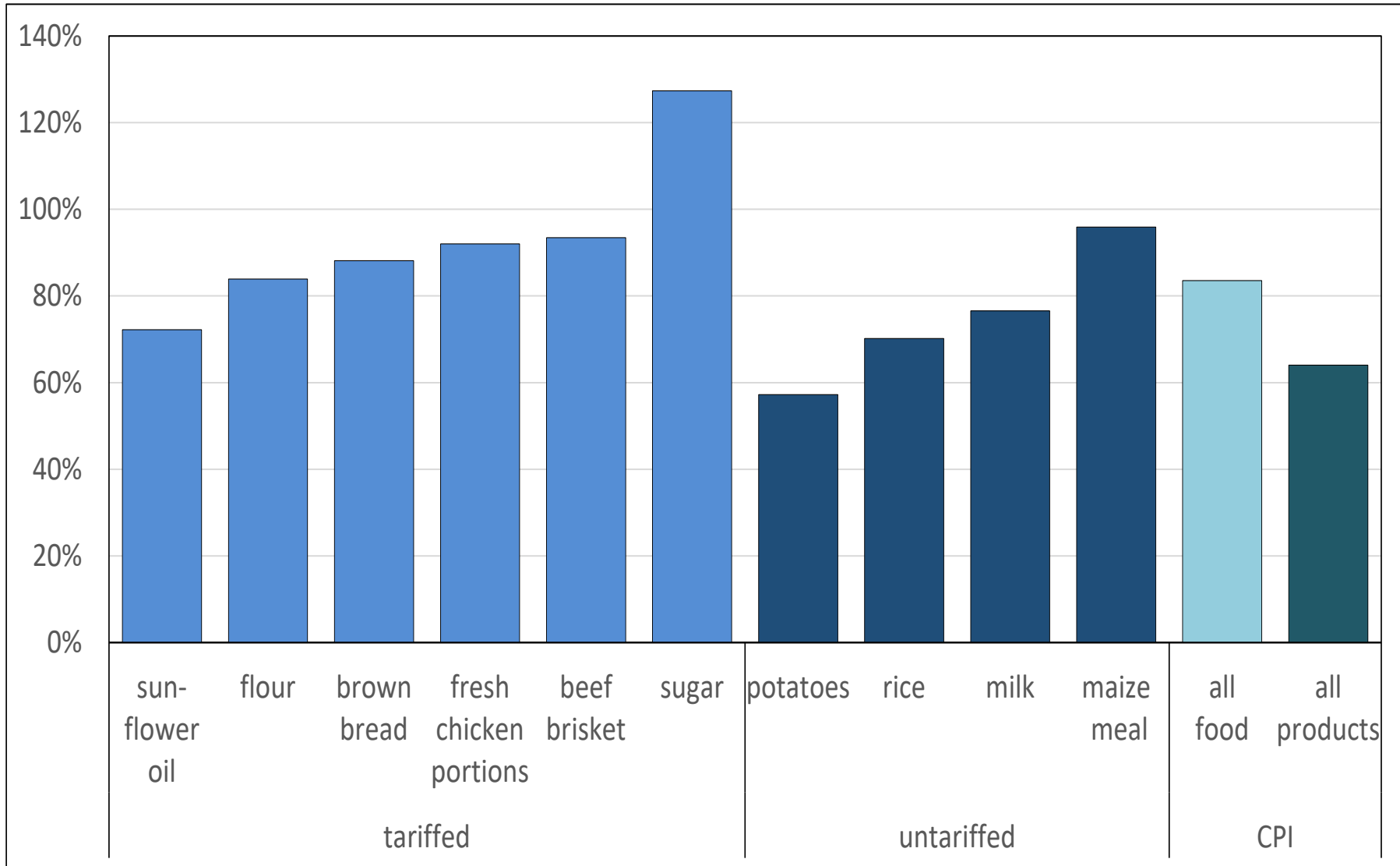
- Benefits:

- Stabilise agricultural prices for producers, in hopes they will
 - Maintain and even expand production
 - Ultimately become competitive
- Sustain smallholders in sugar (largely fictional)
- Retain local production of wheat and cooking oil

- Costs:

- Higher prices for staple foods in short run
- Misallocation of agricultural land and water to uncompetitive producers
- Enable large poultry companies to avoid adaptation to new realities

Price increases for foods and CPI, 2010 to 2020



The political economy of food tariffs

- Around 45 000 commercial farmers, with about a third now Black
- Often large processing companies (sugar and grain millers, poultry companies)
- Outlier for upper-middle-income economies in
 - reliance on high-technology commercial farming
 - very limited smallholder and subsistence agriculture
- Gives a relatively small number of well-organised and capacitated farmers and first-stage processors substantial scope for:
 - Lobbying and media campaigns
 - Agreements to avoid job losses and promote transformation in exchange for tariffs
- From this standpoint, the tariff system partly compensated for the elimination in the mid-1990s of other supports for commercial farmers
- Contrast to horticulture
 - Export dependent
 - Shifts between products and technology as demand and competition change

ITAC decision-making systems

- From the mid-2010s, ITAC argued that a developmental trade policy required higher protection for local producers, especially where
 - Dumping;
 - Destabilising import surges;
 - Subsidies to foreign producers.
- For agriculture, also emphasised:
 - Need to offset state support to farmers especially in the global North but also Brazil
 - Argument that farmers are price takers in food VC (is that true in SA?)
 - Fluctuations in global prices
 - The impact on consumers, “in particular the poor.” (ITAC 2020)
- In practice, did not publish in-depth evidence to support tariffs, including the impact on the poor.
- E.g.: For the increase in the poultry tariff in 2019,
 - It did not publish a cost-benefit analysis of any kind.
 - It noted it had commissioned a study by the National Agricultural Marketing Commission, but did not publish either the study or its main conclusions.
 - It noted consumers might bear a cost without public quantification of either costs or benefits
- Open hearings opened the door to well-organised business associations without soliciting consumer inputs

What would help

- Review all food tariffs in terms of impact on working-class households as well as benefits to producers
- Make staple food tariffs contingent on holding domestic price increases to inflation only (as in Sugar Master Plan)
- ITAC should publish details on analysis of costs and benefits, including quantification of costs to working-class households
- Review strategies for wheat and poultry to find end-state that does not rely on tariffs for survival



Re a leboha!

Final comments

- Creative destruction vs infant industries
- Concern is that process doesn't ensure a real CBA, and that consultation – whether ITAC or MP – can end up opening the door to lobbying rather than genuine partnerships to build a more competitive economy
- Worry that every master plan except auto seems to start with a call for higher tariffs rather than measures to improve production
- as said, absolutely there is a need for tariffs in many cases, even for very long periods, but can't become the easy fall back for industrial policy as (a) may end up with long term social subsidy for industries that cannot revive and (b) ultimately raise costs across the economy relative to other countries, harming all industries.