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

agriculture
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TradeProbe is a joint initiative by the NAMC and the Department of Agriculture's 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.

Covered in this issue are:

SECTION 1 – TRADE PROFILES

1.1 Potatoes

Potatoes have been part of the dietary staple food of mankind since its domestication; it is estimated that potatoes have been part of the human diet since the late 1700's. In South African potatoes are forming an important part of the main diets as is the case for most vegetables.

The Food and Agricultural Organisation (FAO) database of the United Nations shows that global production of potatoes, in the past 15 years ending 2005, increased by about 15 %. The major producers include China, the Russian Federation, India and Ukraine. In South Africa the production of potatoes increased as well. In 2006 South African ranked number 21 as a world exporter of potatoes. The Monitor Group Report acknowledges that South Africa's potato export share compared to other countries is small but has considerable room to improve. This report also notes that the direct and indirect employment multiplier of potatoes can make a significant contribution to South Africa's high unemployment rate.

Table 1 presents a list of the top ten global exporters of potatoes in 2006 expressed in value terms. The top three world exporters were Netherlands, France and Germany with 21, 18 and 7 % share of world exports, respectively. Egypt was the only African country in the top ten list standing at number 10. As mentioned, South Africa ranked number 21 with an export value of US$21 280 representing less than 1% of world exports.

Table 1: Leading exporters of potatoes (HS – 0701) in 2006

Exporters	Value exported in 2006, in US$ thousand	Share in world exports, %
World est.	2 693 571	100
Netherlands	577 964	21
France	489 915	18
Germany	215 170	7
Belgium	164 019	6
Canada	142 719	5
UK	138 867	5
USA	135 155	5
Israel	126 875	4
Spain	102 907	3
Egypt	101 478	3
South Africa (21st)	11 547	<0

Source: ITC calculations based on COMTRADE statistics

Table 2 shows the top ten leading importers of potatoes globally in 2006. In 2006 Belgium was the biggest importer with 9 % of the value of global imports, followed by Spain, Netherland and Germany with an 8 % share of the value of global imports each. World import shares are fairly evenly distributed. The top ten importers of potatoes represent less than 60% of world imports of potatoes and there is no African country in the top 10 list.

Table 2: Leading importers of potatoes (HS – 0701) in 2006

Importers	Value imported in 2006, in US$ thousand	Share in world imports, %
World est.	2 625 519	100
Belgium	247 709	9
Spain	229 872	8
Netherlands	218 021	8
Germany	216 308	8
United Kingdom	163 321	6
Italy	162 166	6
USA	127 993	4
Russia	96 126	3
Canada	83 797	3
France	82 124	3

Source: ITC calculations based on COMTRADE statistics

Table 3 shows the top ten export destinations for potatoes exported by South Africa in 2006. The table clearly shows that potatoes from South Africa mostly go to the African markets. The leading importer of potatoes from South Africa was Angola. About 64 % of potatoes exports from South Africa in 2006 went to Angola. The second largest export destination of potato exports from South Africa was Mozambique.

Table 3: Leading importers of potatoes exported by South Africa

Importers	Exported value 2006 in US$ thousand	Share in South Africa's exports, %
World est.	11 547	100
Angola	7 374	64
Mozambique	2 431	21
Zambia	569	5
Ship stores and bunkers	260	2
Netherlands	208	2
Ethiopia	142	1
Saint Helena	91	1
Malawi	90	1
Zimbabwe	74	1
DR Congo	37	0

Source: ITC calculations based on COMTRADE statistics

The top three exporters of potatoes to Angola are presented in **Table 4 (**this gives an indication of competition faced by South Africa in Angola). These exports represent 99 % of imports of this product into Angola. South Africa is by far the leading exporter of potatoes into Angola with a 73 % market share. The Netherlands was the second biggest source of Angolan potato import with a 25 % market share. Portugal represented about 1 % of Angolan imports of this product.

Table 4: Leading import origins for potatoes imported by Angola (HS code – 0701)

Country	Imported value 2006 in US$ thousand	Share in Angola's imports, %
South Africa	7 374	73
Netherlands	2 518	25
Portugal	80	1

Source: ITC calculations based on COMTRADE statistics

SECTION 2 – CONTRIBUTED ARTICLE

2.1 New Competition for South Africa in the US Market: *What's in store with New Partnership Development Act (NPDA)?*[1]

The Africa Growth and Opportunity Act (AGOA) is a non-reciprocal programme implemented by the United States (US) that provides duty-free and quota-free market access to qualifying sub-Sahara African countries. South Africa's agricultural exports, under this arrangement have doubled since 2000, covering 180 out of approximately 1000 agricultural lines. These include citrus fruits, frozen juices, grapes, raisins, wine, tobacco and canned fruits at the top of the list. There is an opportunity to invest in a wider range of products that can be exported to the US.

In October 2007, the US Democrat representative Jim McDermot presented legislation, under the name of "New Partnership Development Act (NPDA)" to Congress. The purpose was to extend the AGOA benefits to some non-African qualifying Least Developed Countries (LDCs). This means that, if the Act is passed, the market access under the current AGOA programme will be shared with countries such as Afghanistan, Cambodia, Lao PDR, Bangladesh, Yemen, Haiti etc. The NPDA also makes provision for unilateral assistance to the participating countries to promote infrastructural development, human capacity building, and to manage trade more efficiently.

The incorporation of new LDCs in the program of unilateral market access will create new competition for the current AGOA beneficiaries. The Department of Agriculture has conducted a preliminary study to examine the South African agricultural exports to the US that would be impacted by competition from Asian, Caribbean and Pacific LDCs. This study is still in progress; however its preliminary findings are useful for industry's competitive positioning.

The study highlighted the following possibilities in terms of both opportunities and challenges:

a) The Asian LDCs' agricultural exports are dominated by fruits (such as grapes, citrus and banana), vegetables, tobacco, coffee, cotton and cereals (such as rice). The countries studied in this group are: Lao PDR, Yemen, Cambodia, Bangladesh, and Afghanistan. Raisins from Afghanistan, cigarettes and fresh chilled vegetables from Cambodia, Yemen and Lao PDR will compete with some of the top exports products of South Africa. Fresh grapes of Afghanistan and Bangladesh may reach the US market outside of South Africa's season.

b) The Caribbean and Pacific LDCs are small economies with a limited range of exports. Countries of this group are Haiti, Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu. Cereals (such as wheat), fruits (such as guava), essential oils, cocoa beans and coffee were the main agricultural exports of Haiti in 2005 and 2006. The Pacific countries combined are exporters of specialty food preparations. They may potentially compete with similar products from South Africa.

c) Fifteen products out of South Africa's top 20 agricultural exports to the US in 2007 were eligible under AGOA. Some product lines overlap with the main agricultural export products of the non-African LDCs that could be incorporated in AGOA. However, exports of these products are not significant and overlap with some of SA's less important exports to the US, i.e. those valued at less than US$500 000 in 2007.

This analysis was done by comparing the South African list of top exports to the US (≥ $ 500 000) with the list of agricultural exports of the qualifying non-African LDCs.

[1] Zithulele Balindlela; Economist, Directorate International Trade, Department of Agriculture

This is based on the assumption that with the duty-free, quota-free market access provided to them, these countries will have a reasonable incentive to divert some of their existing exports to the US and invest more in production of these products where they have built capacity and expertise. Some of these countries are already trading with the US on preferential terms, i.e. Cambodia, Leo PDR, Haiti and recently Afghanistan.

2.2 More trade distortions with 2007 US Farm Bill[2]

The new US Farm Bill was passed in May 2008, replacing the 2002 Farm Bill. The US Farm Bills are known for their distorting effects on international agricultural trade. The new Bill is far from rectifying this as was promised during the Doha deliberations to date. The US continues to maintain programmes authorised in the 2002 Farm Bill which provide support to the agricultural sector based on acreage and for selected commodities. It also introduces a new livestock producer's basic market protection for all livestock including poultry.

Sugar Industry: The US continues to support sugar at $396.00/ton for cane sugar. The cane sugar subsidy is subject to a 5 % increase in 2012. The new Bill changes the overall share quota from a fixed to a variable amount of minimum of 85 % of domestic consumption.

Dairy Industry: The Bill extends the Milk Income Loss Contract programme (MILC) at the same level until 2012. It also maintains the price support of milk at about $200/ton. The United States Department of Agriculture (USDA) estimates this to add up to $793 million in dairy payments over a ten year period. The Bill also extends the Dairy Export Incentive Programme (DEIP) until 2012. The DEIP assists US dairy exports to compete with dairy products of "other subsidizing countries".

Increased Direct Payments (see Table 5): The Direct Payment programme is part of the Direct and Counter-cyclical Program (DCP) which provides payments to eligible producers on farms enrolled with DCP during the 2002-07 crop years. The counter cyclical programme provides coverage when the effective price is less than the target price of the commodity eligible for direct payment. However, there is a new revenue based counter cyclical programme called Average Crop Revenue (ACR) which will commence in the 2009 crop year. It is a state revenue guarantee for participants based on a 5 year state average yield and the 2 year national average price. The ACR provides payments to producers for commodities when the actual state revenue for the commodity is less than the guaranteed revenue. The increased direct payment rates are estimated to pay farmers an additional $5.5 billion over ten years (2008-2017).

Loan Rates are used for enhancing the basic safety net for a range of eligible commodities that include wheat, barley, oats, oilseeds, graded wool and honey. The amount of loan per ton of production (loan rates) for 2008 and 2009 are the same as in 2002 Farm Bill. However, between 2010 and 2012 the rates are raised. Noticeable increases, in wheat by a margin of $6.97, oilseeds by a margin of $17.13 and wool by a margin $330.40. The loans were consistently extended to more products in every successive Farm Bill since the 1990s.

Table 5: Direct payment rates

Crop	2008-2012 (US$/ton)	USDA Proposal 2010-2012 (US$/ton)
Wheat	19.08	20.55
Corn / Maize	11.01	11.79
Sorghum	13.76	14.55
Barley	11.01	11.92
Oats	1.68	2.10
Upland cotton	146.92	244.05
Rice	51.76	55.50
Soybeans	16.50	18.35
Peanuts	36	38.61
Other oil seeds	17.62	18.87

Source: USDA (House Committee on Agriculture), 2008

Concluding remarks

The new US Farm Bill increases the overall agricultural support of the previous Bill, in particular from 2010 to 2012. The 2007 Farm Bill will continue to have distortings affect on trade as it still maintains its three strong agricultural support programmes, being direct payments, Counter-cyclical programme and Marketing loans. Also important is that the 2002 Farm Bill direct payments, counter-cyclical payments and loan rates are kept constant for the first two years of the program and then raised from 2010-2012. The current boom in agricultural commodity prices and the estimated likeliness that prices will remain firm, but stable, in the medium run makes it less probable that counter cyclical payments will be used. The ACR may be triggered by normalizing prices over the next two years.

For further information, please visit the following websites:

- http://agriculture.house.gov/inside/2007FarmBill.html
- http://www.twnside.org.sg/title2/wto.info/twninfo20080522.htm
- http://www.networkideas.org/themes/agriculture/may2002/ag17_US_Farm_Bill_2002.htm
- http://www.ers.usda.gov/Publications/AP/AP022/

2.3 Africa's Trade Record[3,4]

Africa is a marginal player in the global economy. Its share in world exports declined from 5.4 % in the 1960's to 2 % in 2000 (Economic Report on Africa, 2007), but there was a slight improvement in 2006 to 3 %. The pace of regional trade integration shows that intra-African trade accounted for just less than 10 % of the continent's total exports. Between 1996 and 2005, African exports to the world have grown faster than

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[2] Zithulele Balindlela; Economist, Directorate International Trade, Department of Agriculture

[3] Sipho Maluleka, Assistant Director, Directorate International Trade, Department of Agriculture

[4] EC. (2008), Economic Commission for Africa, *Economic Report on Africa,* United Nation. Addis Ababa
OECD, (2001). Obstacles to expanding intra-African trade. *Development Centre Working Paper No. 169*
UNCTAD, 2007. Regional Cooperation for Development, *Trade and Development Report*, Geneva. Switzerland.

trade within the continent. The least integrated regional economic communities (RECs) appear to be the Central African Economic and Monetary Community (CEMAC) and the Arab Maghreb Union (AMU), where exports to the rest of the world are also growing much faster than within the region. West Africa (ECOWAS), Southern Africa (SADC) and East Africa (COMESA) are somewhat more integrated and there is less differences between growth of total exports and intra-regional trade.

In order to foster diversification and increase the intensity of intra Africa trade, African countries should step up their efforts to foster regional trade integration. Tariffs, as well as other barriers such as deficient physical and institutional infrastructure, have to be addressed. Intra Africa-trade is still a small fraction of total African trade flows and intra regional trade growth is on average at 9 % compared to overall growth rate of 12 % of total exports. Most African trade flows are with industrialized countries, particularly the European Union, which accounted for more than 40 % of African exports.