Democratic government (1994 onwards) posture to agricultural subsidies in South Africa – is this an inherited problem or own creation

B Nyhodo

- *Whose decision was it to liberalise agricultural trade at the rate we did, was it the democratic government policy direction or the policies of the apartheid government?*
- *Was it wise for South Africa to take developed country commitments following the signing of the Uruguay Round Agreement and the subsequent deregulation of the marketing environment?*
- *What can be done to reverse the losses that may have come from the two policy changes while not reversing the gains?*

INTRODUCTION

Correctly or incorrectly, commentary about agriculture in South Africa normally compares South Africa to the European Union (EU) and/or United State of America (USA) and lately either Brazil, Argentina or Chile, China, Indonesia or India. Whether or not that comparison (in terms production capacity, productivity and trade openness/protection) is justified, is not a matter of focus for this piece. This piece looks specifically at South Africa's agricultural support or lack thereof provided or not to the agricultural sector in perspective of the same sector in the EU and USA. From a helicopter view it seems South Africa was very fast to reduce subsidies and reduce tariffs while the EU and USA took moderate stances. Either than the preferential access under the Trade, Development and Cooperation Agreement (TDCA) and Africa Growth Opportunity Act (AGOA) it is very difficult to access the European and USA market for agricultural products on the basis of stringent sanitary and phytosanitary (SPS) measures. South Africa acted decisively; following the re-admission to the multilateral trading negotiations (then General Agreement on Tariff and Trade - GATT and now World Trade Organisation – WTO) and concerning is the fact that South Africa re-joined as a developed country (having recognised herself as a developed country from the formation as a founding member). The re-admission was then followed by rapid heavy removal of the tariff protection on agricultural products (tariff structure simplification) and the removal of subsidies as well as a change of the marketing regime (deregulation of the market). This article ponders the question: What has been happening in the EU and USA pertaining to support to agriculture?

The Producer Support Estimates - PSE (calculated as a percentage of gross farms receipts) for the OECD declined from 35% in 1999 to approximately 18.8% in 2011, a smooth decline has been experienced over this period. In Figure 1 below it can also be seen that PSE for both USA and the EU have been on decline from about 25% and 38% in 1999 respectively (OECD, 2012). Figure 1 provides information up to 2010 and a reconsideration of the calculation of agricultural support to the decoupled method emerged. For the purposes if this article the PSE information was used.

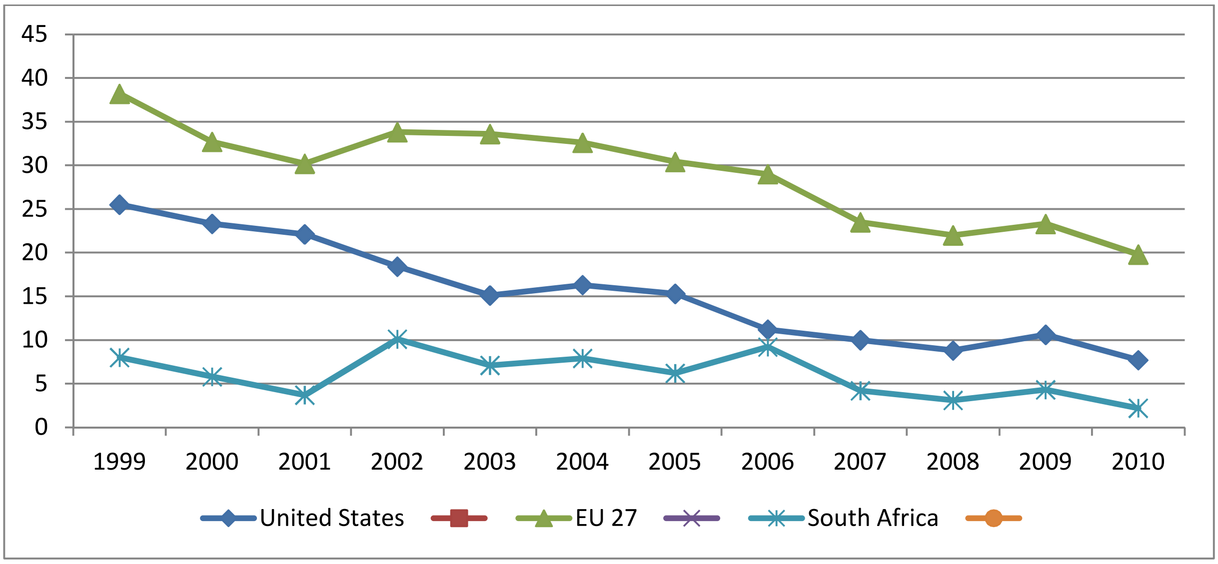

Figure 1: Producer Support Estimate (1999 – 2010)

Source: OECD (2012)

COUNTRY OVERVIEWS (UNITED STATES OF AMERICA, EUROPEAN UNION AND SOUTH AFRICA)

Agricultural support in the USA outlined by *OECD (2006) shows that the producer support estimate stood at 20% for the USA agriculture in 2005.* According to Burton Folsom Jr, America has moved from a position of not supporting agriculture before 1930 to a highly supported sector post the Great Depression. In this, Burton Folsom Jr noted that even during the time when America's unemployment reached unprecedented levels of 18 percent in the mid 1890s government focused on cutting budgets (under Secretary J. Sterling Morton). Then the appetite for agricultural support emerged following the Great Deppression and has not changed since then. The subsidisation of agriculture is argued to have come up with unintended consequences such as the low prices of wheat and cotton as a result of flooding of farmers towards production of these products, which in turn resulted in government having to buy and sell to global markets (food aid). This then led to the promulgation of the Agriculture Adjustment Act that legislated the payment of farmers not to produce and fixing of prices (setting the floor price).This Act (Nestle, undated) was promulgated for production control and later ruled to be unconstitutional in 1936 by the Supreme Court. In 1938 amendments to that Act were made to ensure that it complied with the Court Ruling and ended up including Conservation Law and new Commodity Act. Then the Farm Bill was promulgated, and has evolved tremendously (increased in value) from the 1930s, from food aid to include food stamp programme recently. Even with the most recent review of the Farm Bill support seem to have shifted towards environmental issues.

Agricultural support in the EU presented by the *OECD (2006) outlines that the producer support estimate for the EU was 34 percent in 2005 with the highly supported products being sugar (23%) and sheep meat (13%).* After the Second World War it is argued that Europe depended mainly on food imports and food aid from America and during this period the EU suffered from hunger and malnutrition. The Common Agricultural Policy (CAP) was introduced in the early 1960s (first implemented in 1963) was aimed at increasing Europe's self sufficiency and increase food production (through increased labour and land productivity) – and according to Reichert (2006) the CAP has met all original objectives. The formation of export subsidies, in EU, followed the rapid increases in production resulting in conflicts with traditional food exporters and importing countries. In the early 2000 the review of CAP resulted in the extension of the objectives to cover environmental and consumer protection an extension that seem contradictory to the original objectives. This led to the establishment of the European Agricultural Fund for Rural Development to fund the bulk of rural development initiatives with a quarter of available funds set aside for agriculture. The argument, in 2006, was that the EU continued to export at prices lower than production prices especially in grains and milk products displacing farmers of their domestic markets in importing countries.

Agricultural support in the South Africa presented by the *OECD (2006) show that South Africa's producer support estimate stood at 5 percent in 2005.* The Reconstruction and Development Programme (RDP) in articulating South Africa's trade policy argues for the alignment of the country's trade with GATT, thus: simplifications of the tariff structure and revision of the export incentives. In arguing for support to the commercial sector (that was identified as very important) the document calls for the removal of unnecessary levies and unsustainable subsidies (maybe this is where a decision to remove the support started). Understandably, the document also advocated for the shift of support from commercial farmers (noted as expensive and inefficient – free market argument) including the reformation of the marketing boards (deregulation) - to small-scale farmers. Interestingly, RDP policy document argues that for every additional unit of capital investment in the agricultural sector yields higher job opportunities (labour multiplier) than any other sector (except construction) – and yet the budget allocation to Department of Agriculture, Forestry and Fisheries (DAFF) is still less than 1% (at about R6 billion) of the National budget (standing around R1 trillion) to-date (National Treasury, 2015). This is in spite the Continental Commitment under Comprehensive Africa Agriculture Development Programme (CAADP) of allocating 10% of National Budgets to agriculture to achieve 6% growth (NEPAD Foundation, 2015).

CONCLUDING REMARKS

The overall support to agriculture in the USA and EU was not completely removed following conclusion of the Uruguay Round Agreement on Agriculture (URAoA). Meanwhile South Africa reduced the support drastically through tariff structure simplification and reduced applied rates. The views of the RDP on agricultural subsidies seem to be in line with the subsequent government policies. While other countries seem to have found better/alternative ways to comply with the WTO agreement, South Africa reduced its support to agriculture (a sector not associated with goodwill in the mid 1990s).

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