

SOUTH AFRICA'S POTATO IMPORTS RISES FOLLOWING THE LAPSING OF IMPORT DUTIES: WHAT HAS BEEN THE IMPLICATIONS SO FAR?

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The marketing of agricultural products in South Africa moved from the single channels called control boards to the market-oriented regime following the promulgation of the Marketing of Agricultural Products Act (MAPA) No 47 of 1996. The market-oriented regime meant that farmers had to become independent and responsible for the decision making of their production, pricing (depending on supply and demand dynamics) and marketing. The MAPA together with the signing of the Marrakech Trade Agreement in 1995 (re-admission to multilateral trade – as a developed country), compelled the South African government to remove all forms of quantitative imports control on agricultural products and also simplified the tariff book to provide optimal protection to farmers.

The setting of the bound rates aligned to the country's commitments meant that tariffs became an important tool used to protect the country's agricultural industries after the deregulations of the sector. In recent times, industry protectionism has attracted unwanted attention and often becomes controversial at times. While discussions around these issues are important, one must understand why they are necessary for South Africa. Before the MAPA, farmers enjoyed maximum protection by the government and the state isolated them from the global market, consequently cushioning them against global competition (Chabane, 2002). The potato industry was not spared in these changes, however, like other industries technology advancement led to greater production efficiency and growth, allowing the industry to grow and create thousands of jobs over the past 26 years.

Today, the industry employs approximately 45 000 employees, and it constitutes over 40% of all vegetable crops produced in South Africa.

The potato industry used long-term (5 years) anti-dumping duties which before lapsing or expiring, the industry would apply for a sunset review (an investigation) through the International Trade Administration Commission (ITAC) of South Africa. The main aim of the sunset review is to assess whether anti-dumping duties should continue or be terminated. Noteworthy, several applications have not been successful.

The tariffs that were in place since the year 2016 offered the industry the protection necessary to unlock local investments. Though the area under production has somewhat declined over the years, yields have significantly improved. BFAP (2015) stated that potato yields at a certain period had increased by over 20%. Currently, potato-SA estimates local production at around 2.7 million tons from 2.2 million estimated in 2015. This could be attributed to the rise in yields from 34 tons/ha in 2005 to 43 tons/ha in 2015. In 2021, the tariffs that protected the industry have lapsed and both the industry and government have not decided to institute a new set of tariffs to continue protecting the industry against unfair imports, in particular those originating from subsidised countries such as Europe. What has been the impact of this so far?

Changes in the South African potato trade

It is important to denote that fresh and chilled potatoes normally dominate imports of potato related for South Africa. The Netherlands and France are the main sources (ITC, 2021). Arguable, during 2020, trade in potatoes like other products was considerably disturbed by Covid-19 restrictions from the early months to the second half of 2020. As a result, potato sales were significantly affected both domestically and abroad. Data from ITC (2021) showed that when comparing the first six months of 2021 to 2020, the country imported 1 061 tons of fresh and chilled potatoes when compared to 807 tons imported in 2020. This represented an increase of 32%, see Figure 1. This was the second-biggest import quantity since 2016 when the country imported 1 197 tons. However, in 2016 the country was hit by a severe drought which affected yields and was subsequently followed by a surge in prices. In light of this, come the end of 2021 potato imports to South Africa are likely to almost double the volumes imported the previous year.

South Africa also exports significant quantities of both fresh and chilled potatoes to the SADC region and the rest of the African continent. From January-June of 2021, the country's total exports had declined by 35% when compared to the previous year, resulting in the smallest export quantity since 2016 see Figure 1. By contrast, to the drought experienced in 2016, the 2021 season was negatively affected by frost in May and July which significantly reduced yields which added considerable pressure on prices.

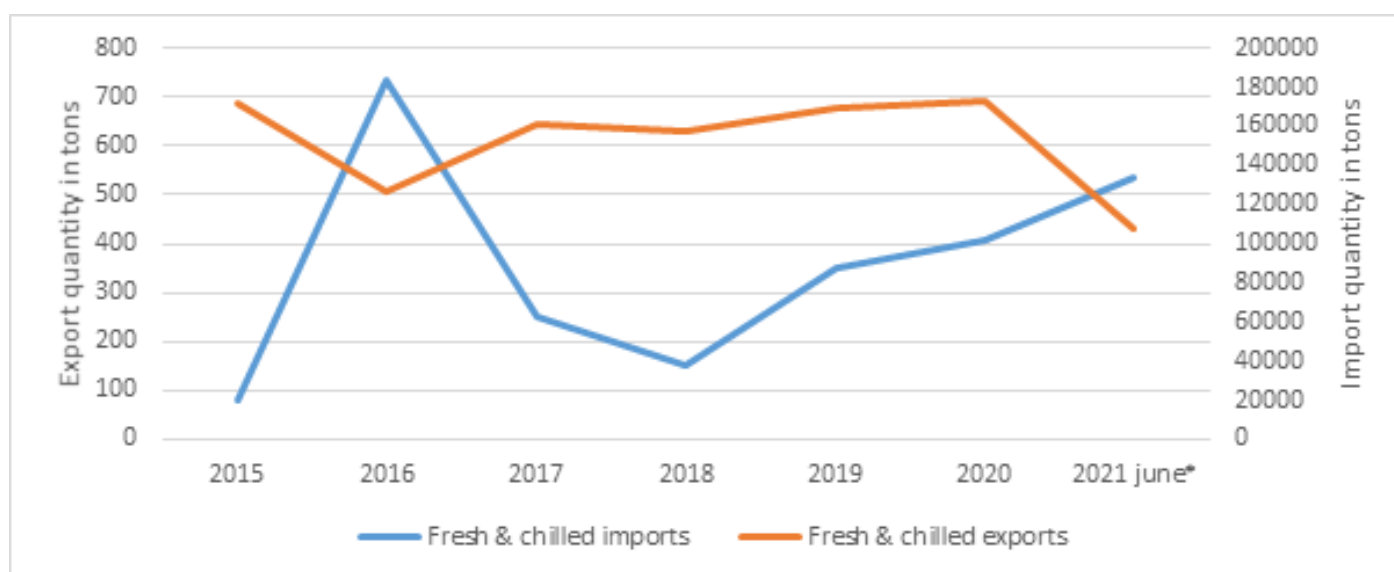


Figure 1: Trends in South African fresh and chilled potato imports and exports

Source: Data ITC, 2021, NAMC research

It is evident from Figure 1 that the current potato season has been mirrored by low export volumes and the largest imports last seen in 2016 when the country experienced the worst drought in the last century. The significant changes in potato imports could be attributed to import tariffs that have lapsed which have opened a window of large imports originating from countries such as the Netherlands and France (ITC, 2021).

What have been the implications for consumers and producers?

International trade economics postulates that holding everything constant, when import duties are used to protect local producers from the global market, local prices are likely to rise if local producers cannot sufficiently supply the local market and prices will be transmitted to consumers along the value chain. However, if import duties and other measures are not applied to protect local producers, especially when they are competing for the market with subsidies producers from other countries, it will be difficult to compete, and local producers are likely to go out of business which will have implications for jobs.

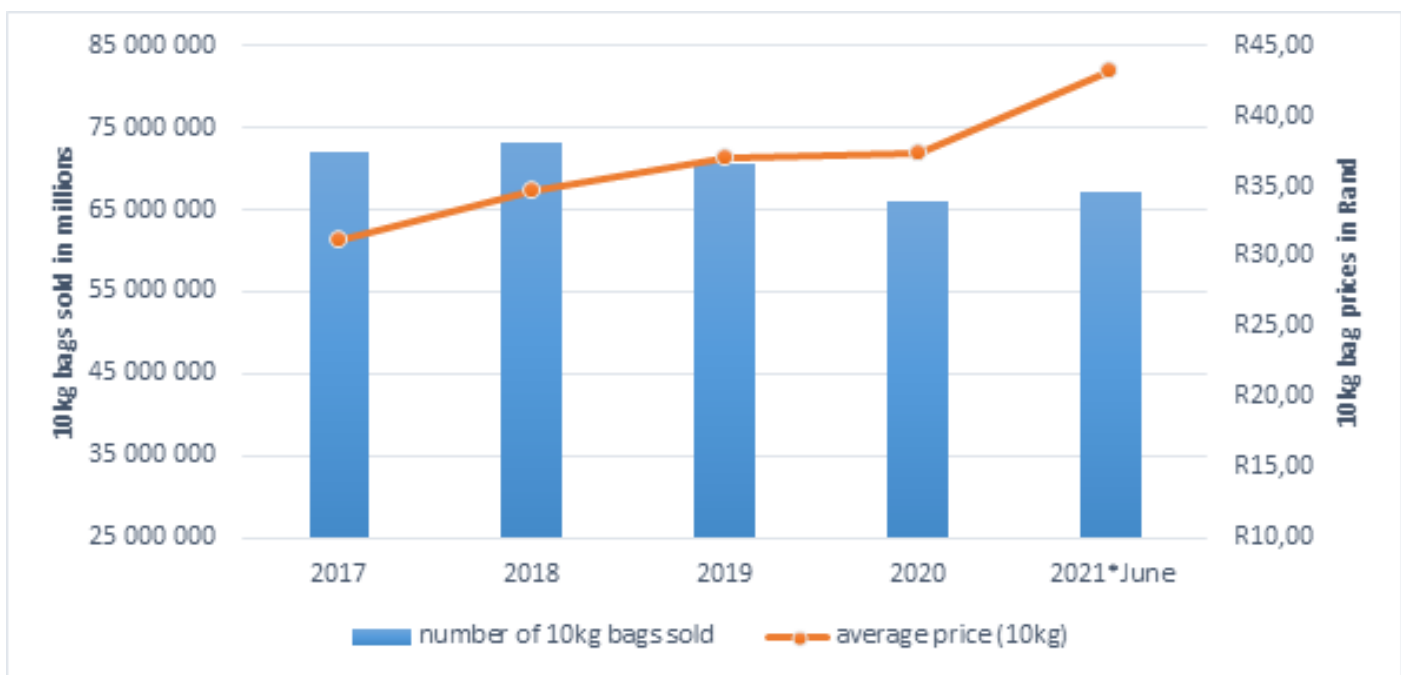


Figure 2: Trends in South African sales at the fresh produce market and prices

Source: Data Potato-SA, 2021, NAMC research

Data from potato-SA shows that on average the price for a 10kg bag of potatoes was selling at R43.15 in the first six months of 2021 from the fresh produce market when compared to R37.26 recorded for the same period in 2020 see **Figure 2**. This represented an increase of 16% which bode well for local producers as they are benefiting from better profit margins.

Retail Price Trends

To further assess the impact of the rise in potato prices for consumers, **Figure 3** presents the average retail prices for urban consumers across South Africa from January 2020 to August 2021. Based on data from Statistics South Africa (StatsSA), on a year-on-year basis, a kilogram of fresh potatoes was 4.5% higher in August 2021 when compared to the same period the previous year, while declining by 1.4% month-on-month. The highest potato prices were recorded in April 2020 which can be linked to the Covid-19 restrictions. Since then prices have improved but they remain relatively higher.

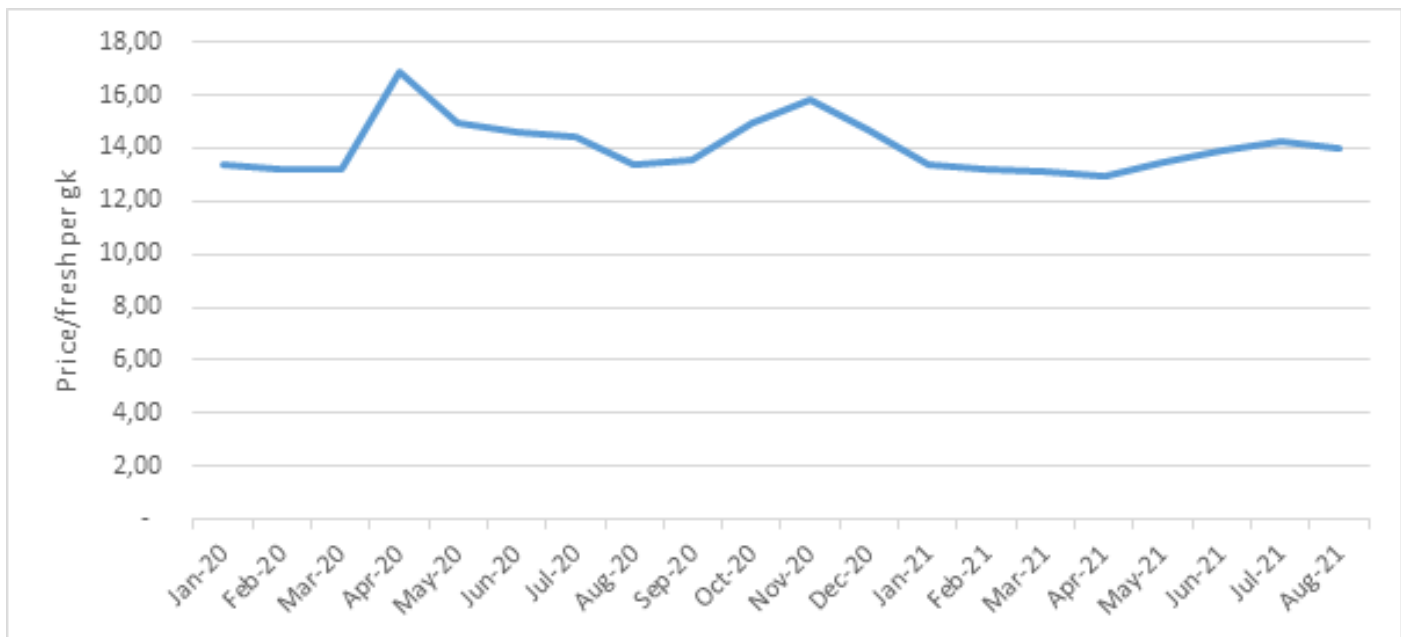


Figure 3: Trends in retail prices in urban areas across South Africa

Source: Data StatsSA (2021), NAMC Research

What could be the cause for high potato prices, if more imports are entering the country with lesser than usual exports when compared to the previous season? Firstly, 2020 supply was the lowest since 2017 during the observed period see **Figure 2** above. The low supply has extended to 2021 as shown on the 28th of September 2021 markets data published by Potato-SA. This continues to put more pressure on prices. Secondly, input costs to an extent can be intuitively linked to this rise in potato prices. Fuel prices, for example, had significantly increased during 2021 and remained elevated. Thirdly, during 2020 import duties were still in effect which might have affected potato imports when trade resumed. But as already mentioned that the Covid-19 had also a noticeable effect on trade during 2020.

Protective measures used by other countries and their effect

Developed countries across the world use various measures to protect the interest of agricultural producers. Mainly, non-tariff trade policy measures such as the Entry Price System (EPS), subsidies, and seasonal Tariff-Rate Quotas (TRQs) and other technical barriers as opposed to Ad valorem tariffs are used. However, some of these measures proved too expensive and too complicated. For example, the EPS method in the EU was found problematic with some scholars (Cioffi et al, 2011) calling for them to be abolished after Martinez-Gomez et al (2009) found that without the EPS food prices would decrease by 4.2% as they were observed to exacerbate food prices. Following are some protective measure examples used by other developed countries. Even though anti-dumping are used for good intentions and does work, Vermulst (1989) noted that the anti-dumping systems for example can have unintended consequences due to their vague use or unclear description.

Japan

In 1993, Japanese local producers complained against cotton yarns imports from Pakistan. A 15 months-long investigation showed that Pakistan's cotton was being sold in Japan at between 2.1% and 9.9% below the prices in their home soil which caused a material injury (damage) to the domestic industry. As a result, an anti-dumping (AD) duty was imposed on cotton yarns imported from Pakistan from 1995-2000. When the AD duty lapsed, a sunset review clause was used and the AD measures were terminated mid-July of 2000 (Part II of Chapter 5 Anti-Dumping Measures, undated).

Switzerland

Switzerland used seasonal TRQs during periods when there were short supplies of certain food commodities to reduce food inflation and protect producers' simultaneously. Loginova et al (2020) find that seasonal TRQs had increased food prices by more than 20% when compared to their neighbouring countries in the main harvesting period with prices for some agricultural products increased by 50%.

Australia

In Australia, the Lesser Duty tool is a prominent measure used to guard against predatory trade (Vermurlst, 1989; Productivity Commission, 20216). In 2013, Australia used anti-dumping duties to protect its domestic tomato processing industry, following immense pressure from

imports from countries such as Italy (Productivity Commission, 2016). Italy then produced around 4.5 million tons of tomatoes when compared to 184 000 tons produced in Australia. The research found that the dumped tomato imports had suppressed local prices thus locally produced tomatoes became less profitable which would subsequently affect jobs in the affected industry.

Concluding remarks

The country needs to explore all possible ways of protecting its poor consumers given its economic challenges, and producers mainly because they carry all the risks associated with production. Policymakers should be careful to develop policies that would make the country appear unreasonable protective because that might result in unintended consequences. Potato imports have noticeable grown over the past few months following the lapsing of input duties. However, this growth coincided with a season where domestic production was significantly reduced thus no visible harm can be measured or observed during this period for the industry producers. Prices are relatively high as it is due to low local supply and imports might have cushioned severe price shocks which are incurred by consumers. This can be supported by the fact that exports had significantly declined to supply the local market during the first half of 2021 as producers took advantage of the high local market prices.

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