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Tariffs on basic foods: evolution and impacts

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Tariffs on basic foods: evolution and impacts

Neva Seidman Makgetla[1]

Abstract

South African tariffs on food increased from 2013. By the end of the decade, they exceeded the average tariff on all goods by over 1%. The result was to place a floor on some basic foods – notably wheat and chicken. Because these are wage goods, that in turn placed upward pressure on overall consumer price inflation. Why did this trend emerge, especially in light of South Africa's high levels of inequality and poverty? A political-economic analysis finds that the main mechanism was the decision-making process on tariffs, which magnified the influence of well-resourced commercial farm and food-processing lobbies.

JEL classification: O24; D63; Q18; N57

Keywords: tariffs, inequality, food, South Africa

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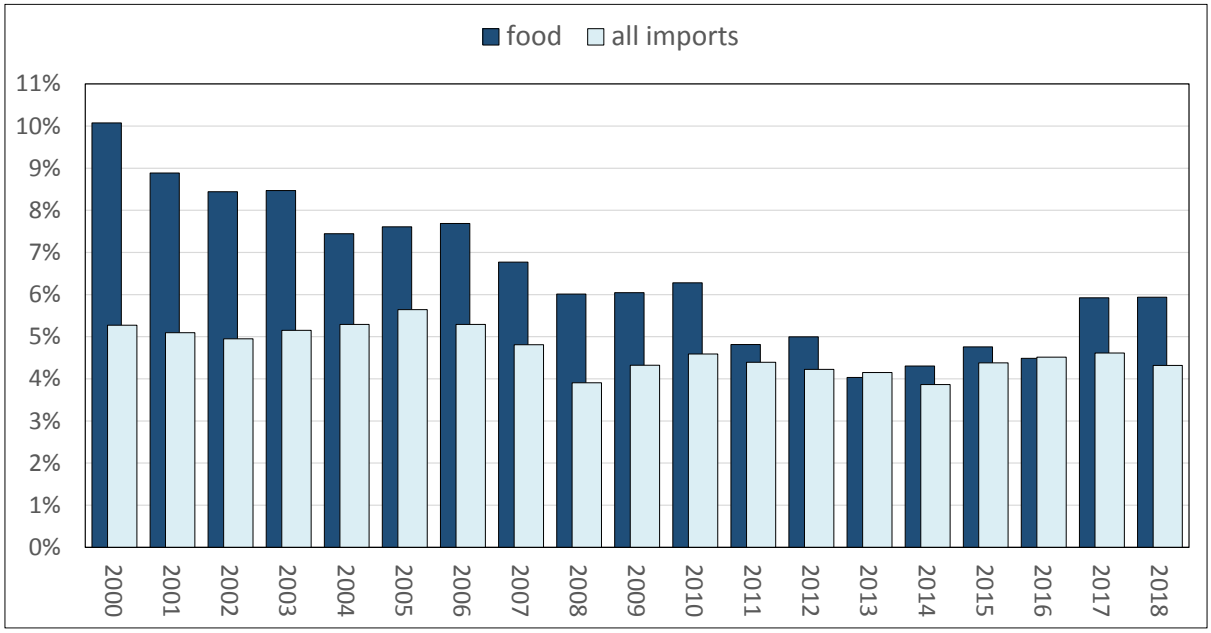
1. Introduction

The trade-weighted average of tariffs on food in South Africa declined fairly steadily from 10% in 2000 to 4.0% in 2013, but then climbed back to 5.9% in 2018, when the latest data was available. As a result, in 2017 and 2018, tariffs on food exceeded the trade-weighted average tariff for all goods by more than 1% (Figure 1).

Figure 1: Trade-weighted average of tariffs on food compared to all imports, 2000 to 2018



Source: World Bank. World Integrated Trade Solution. Interactive dataset. Accessed at www.wits.worldbank.org in May 2021.

The increase in import duties on food in the second half of the 2010s presented a paradox. By definition, the tariffs aimed to set a floor under food prices. That in turn placed a burden on lower-income consumers, who spend more of their income on food. As a result, the higher tariffs appeared to run against the national priority of alleviating poverty, which was particularly important in South Africa given its extreme economic inequality.

The increase in tariffs on food also placed a particular burden on monetary policy. Over time, the tariffs tended to increase the relative cost of the affected wage goods. That in turn risked second-round inflationary effects through the impact on wage demands. In contrast, duties on luxuries risked less of a multiplier effect on prices across the economy.

This paper seeks to explain the paradoxical increase in food tariffs in South Africa by analysing their impacts and the factors that fuelled their increase. To that end, the paper first outlines the nature of inequality in South Africa and the implications for household food budgets by income level. It then describes the evolution of duties on major staple foods for the low-income group. The third section reviews the impact of these measures on consumer prices, imports, production and employment. The final section explains the mechanisms behind the rise in tariffs in terms of the political economy of agriculture and the national trade-policy systems.

The analysis here is limited because the agricultural sector does not have a comprehensive statistical system analogous to that for manufacturing and mining. There are only very limited and inconsistent data available on major subsectors within agriculture, especially over time. Information on employment and the number of farms engaged in producing staple commodities is particularly scarce.

2. The tariff debate

Debates about tariffs as a policy to promote economic diversification and growth typically centre on the relative costs and benefits for different groups. Virtually all economists agree that tariffs are worthwhile in cases where they can promote economic diversification or tide local producers over short-term difficulties – although there are substantial differences about how long they can justifiably persist. In contrast, it is difficult to support tariffs that maintain prices for local users above the global norm solely to protect inefficient domestic producers (see Aiginger and Rodrik 2019: 201; UNCTAD 2016: 97; UNCTAD 2018: 6ff). This discourse points to the importance of understanding the impacts of food tariffs on both consumers and producers over the medium to long run, not just the immediate price effects.

The immediate aim of tariffs is to increase the price of imports relative to domestic products in order to shore up or expand the share of local producers. The obvious cost to consumers is expected to be offset by a variety of benefits to other groups, including:

- maintaining employment and production in uncompetitive industries;
- avoiding imports of sensitive or strategic products, such as medications or arms;
- giving local producers time to gear up to meet intensified or unexpected foreign

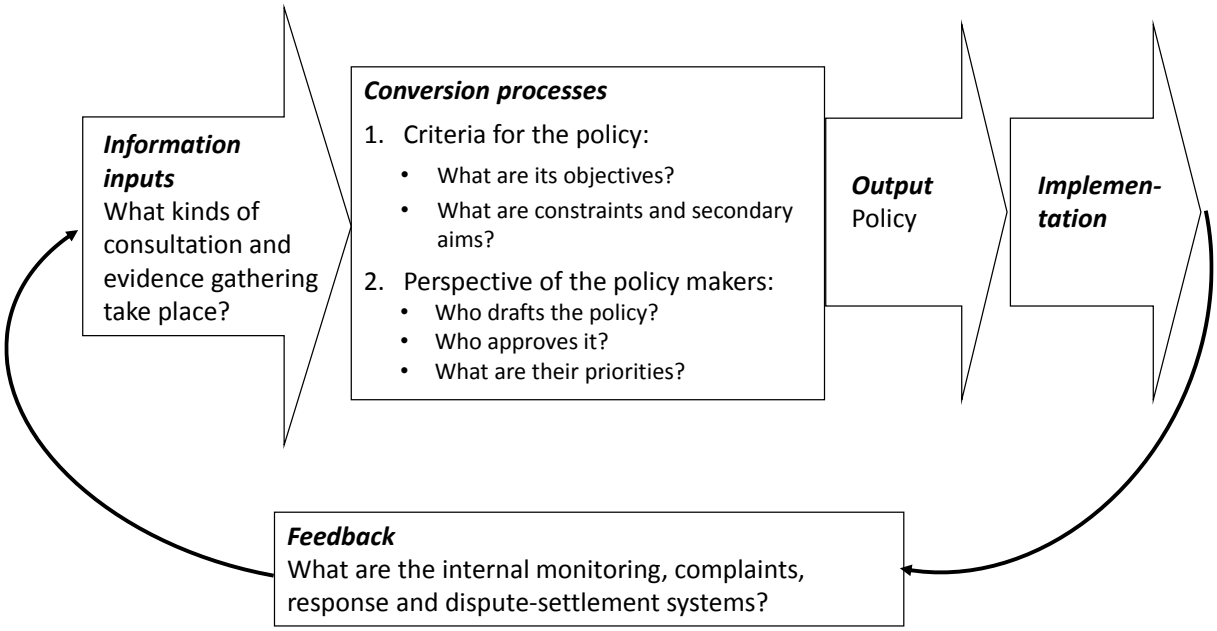
competition, or to develop new products that will ultimately be competitive internationally; and/or

- preventing dumping, where foreign producers sell goods below cost in order to drive out competitors, but subsequently increase prices.

On the whole, economists argue that the costs of tariffs are not justified (except possibly for strategic products) unless local producers will ultimately become competitive. In this view, the cost to domestic consumers inevitably exceeds the benefits to companies and workers, who could move into other industries (see Cherif and Hasanov 2019: 59–60). For specific tariffs, the impacts can be evaluated using the Socio-Economic Impact Assessment System (SEIAS) approach (see Department of Planning, Monitoring and Evaluation 2015). This exercise is undertaken in Table 1 below. As a rule, the costs of tariffs are highest where they apply to staple products over the long run; they are least where they affect luxuries or only take effect over shorter periods.

The persistence of tariffs even where they impose substantial socio-economic costs can be understood through a political-economic analysis that considers the relative power of the stakeholders in the decision-making process. In effect, this approach focuses attention on two issues. The first is the political power of the winners and the losers, which depends largely on their ability to mobilise and their access to resources for lobbying and legal challenges. The second issue is the nature of the policymaking process, which inherently empowers some groups rather than others. Figure 2 provides a schematic representation of the elements in the policymaking process that influence the relative power of stakeholders.

Figure 2: The elements of policymaking processes that affect stakeholder influence



Source: Adapted from Seidman, A, Seidman, R B and Abeyesekere, N 2001: 131.

For economic policy, a core challenge is to evaluate measures that provide substantial benefits for a small number of producers while generating diffuse and often intangible costs for other stakeholders. In these cases, vocal lobbies for the main beneficiaries often overstate the impacts, while other stakeholders do not mobilise effectively. As a result, lobbying is more likely to sway policy decisions, especially if the decision-making process does not require a rigorous quantification of costs and benefits for all groups. The challenge is particularly acute in South Africa, where economic power remains relatively concentrated in most industries. That makes it easier for companies to mobilise and resource lobbying and legal challenges to ensure favourable policy decisions.

3. Defining staple foods

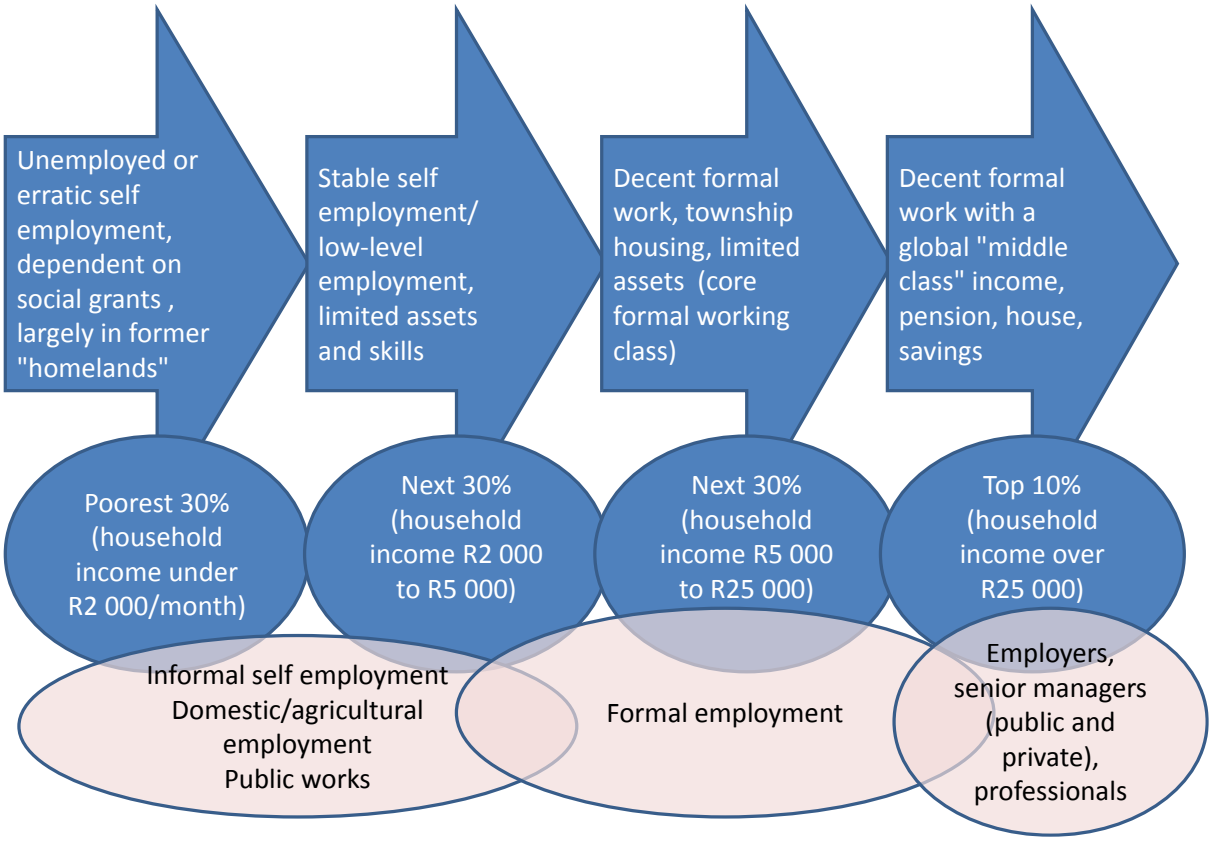
South Africa's extraordinary levels of inequality heavily affected food consumption patterns. To identify the critical foods for the poor, this section first describes inequality in South Africa and then the implications for food consumption. On that basis, it reviews the evolution of tariffs on staples for low-income households over the past decade. The analysis finds that higher food tariffs largely targeted staple foods for lower-income groups.

Long before the transition to democracy, economic inequality in South Africa was unusually deep by international standards. In the mid-2010s, South Africa was among three countries that reported Gini coefficients over .60; the majority were between .30 and .49. That said, only around 130 countries reported a Gini at all between 2006 and 2015, and some countries significantly understated the extent of inequality.[2]

Inequality in South Africa could be understood in terms of four large groups with divergent economic roles as well as incomes, as illustrated in Figure 3. The poorest 30% of households, with incomes under R2 500 or so a month in 2019, was largely excluded from the formal sector and survived principally from social grants. The next 30% of households had monthly incomes ranging from R2 500 to R6 000. They largely survived off informal work and low-level formal employment, mostly as farm and domestic workers, cleaning and security workers, and employees in light industry and retail. Still, social grants constituted the main source of income for 45% of households in this group. The sixth through ninth deciles covered the core formal working class, employed in manufacturing, mining and skill-intensive services like health and education, as well as those owning small formal businesses. Their incomes ranged from R6 000 to R26 000 a month, with almost 1.5 employed people per household. Finally, the richest decile, with earnings above R26 000 a month, averaged two income-earners per household. The majority worked as managers and high-level professionals, with substantial earnings from investments and business ownership.

[2] Angola, for instance, claimed a Gini of .3 in the mid-2010s, which would make it more equitable than France, the UK, Germany and a host of other countries, and only slightly more unequal than Sweden, Denmark and Norway. Data here are based on latest World Bank estimates of Gini coefficients for 131 individual countries from 2006 to 2015, out of a total of 217. Countries that do not report a Gini include Saudi Arabia, Qatar, Iraq, both Koreas, Myanmar, Algeria, Kenya, Ghana and Egypt as well as most very small economies and island states such as Palau and the Virgin Islands. Calculated from World Bank 2018.

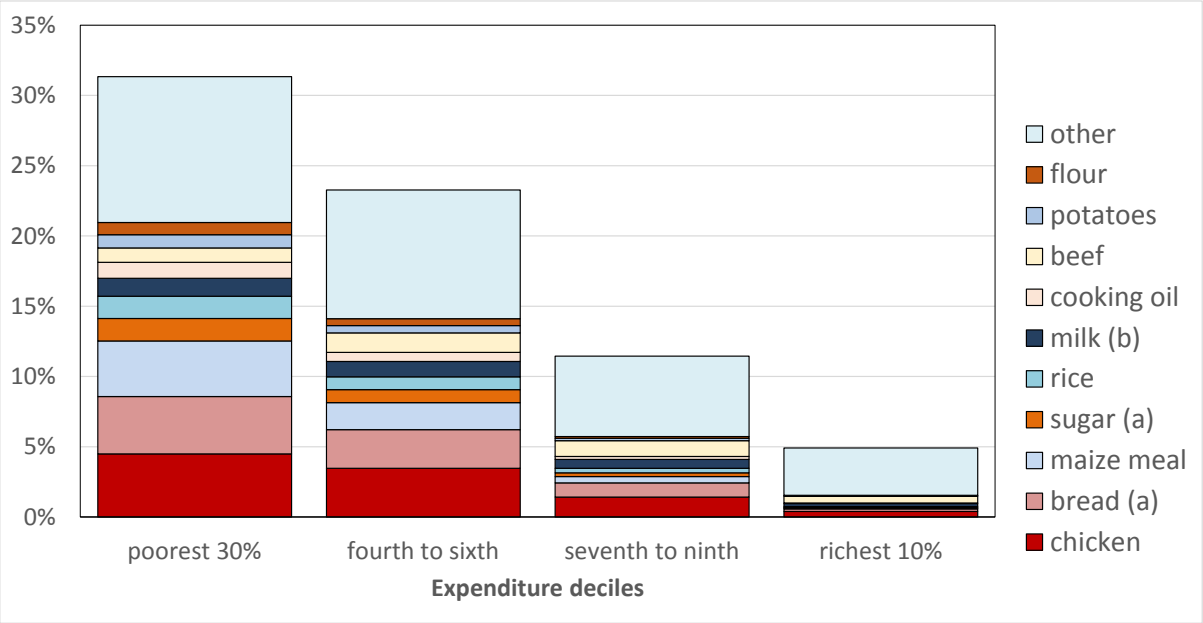
Figure 3: The distribution of income and economic roles



Source: Figures on income levels from Statistics South Africa. General Household Survey. 2019. Interactive Database. Downloaded from Nesstar facility at www.statssa.gov.za in April 2021.

Food expenditure varied widely across these four groups in terms of composition as well as amounts. As Figure 4 shows, in 2014/15 (the latest available official data), food accounted for a third of expenditure by the poorest 30% of households, a quarter for the next 30%, and a tenth for the seventh to ninth decile. For the richest 10% of households, food absorbed only a twentieth of total spending. Yet the richest decile accounted for 19% of total food consumption by value, and 45% of all other household spending.

Figure 4: Share of total expenditure by income group and food type, 2014/15

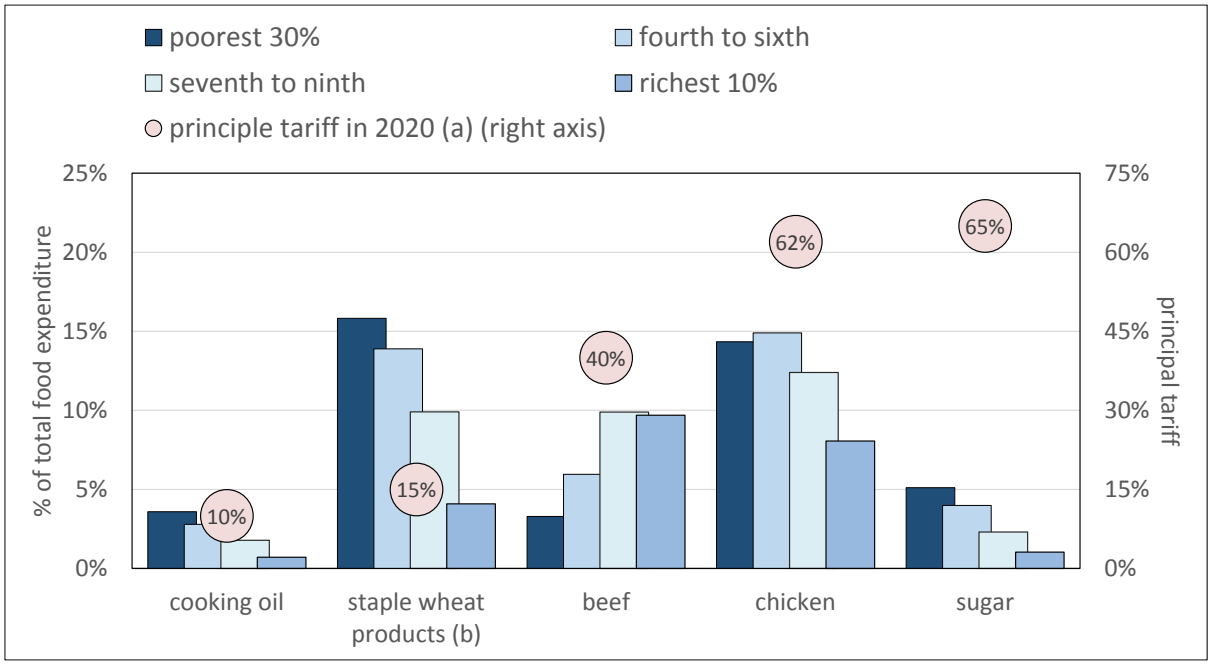


Notes: (a) Brown and white. (b) Fresh whole milk, maas and long-life milk.

Source: Calculated from Statistics South Africa. Living Conditions Survey 2014/15. Downloaded from Nesstar facility at www.statssa.org in May 2018.

As Figure 4 shows, 10 foods accounted for two thirds of food expenditure by the poorest 60% of households, compared to half for the formal working class and less than a third for the richest decile. Of these foods, poultry, wheat, beef, sugar and cooking oil faced above-average tariffs in 2020 (Figure 5). 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 and 24% for the richest decile. The other foods in the top 10 staples for the poor – maize, rice, milk and potatoes – did not have import tariffs in 2020.

Figure 5: Share of foods in food expenditure by income level in 2014/15 and principal tariffs on each food in 2020/21



Notes: (a) That is, the main tariff imposed in 2020. In many cases, including trade with members of the South African Customs Union and the European Union, free-trade agreements meant tariffs were waived for some major exporters to South Africa; in other cases, notably poultry, duties differed by country and even, in the case of dumping, by company. Wheat and sugar tariffs varied more or less on a quarterly basis as international prices fluctuated. (b) The tariff on imported flour was 50% higher than the tariff on wheat, but most flour was ground locally. In the mid-2010s, wheat accounted for around a fifth of the price of bread.

Source: Consumption by income level calculated from Statistics South Africa. Living Conditions Survey 2014/15. Downloaded from Nesstar facility at www.statssa.org in May 2018. Tariffs on sugar and wheat from ITAC. Relevant Ministerial Minutes. Accessed at tariff investigation page at www.itac.gov.za in May 2021. Other tariffs from SARS. Tariff book. Accessed at trade statistics page at www.sars.gov.za in May 2021.

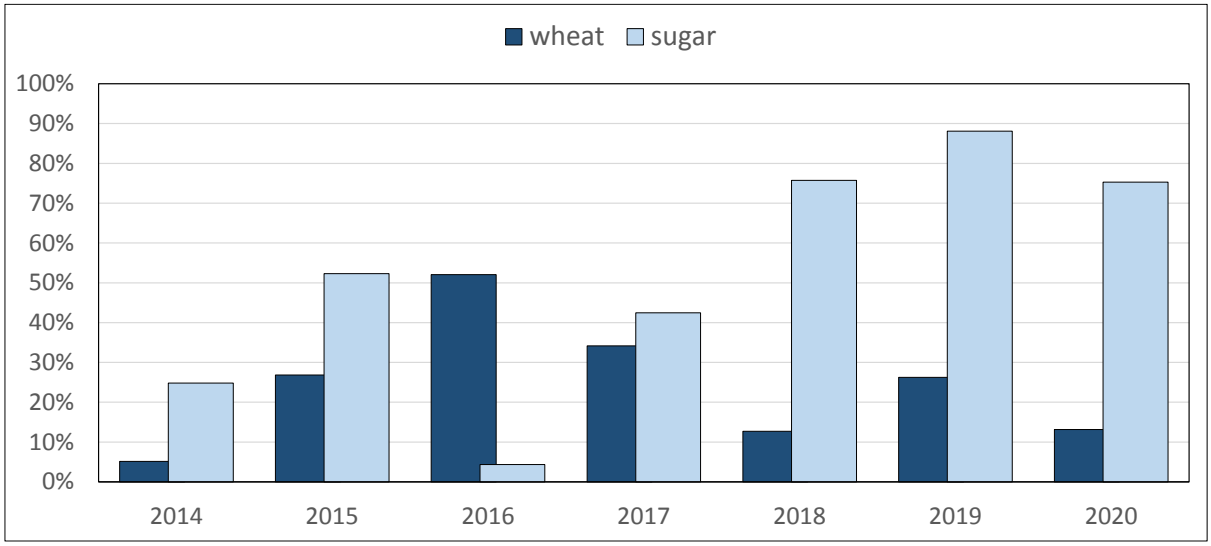
4. The nature of tariffs on staple foods

The tariffs on staple foods took a variety of legal forms, which affected their evolution over time as well as their duration. The general exclusion of agricultural products from international trade agreements enabled long-standing duties on wheat, sugar, beef and cooking oil. In contrast, tariffs on poultry relied on anti-dumping and safeguard provisions for manufactured goods under World Trade Organization (WTO) rules.

Sugar and wheat tariffs were designed to ensure that the price of imports never fell far below domestic production costs, in order to protect domestic producers. To that end, they set a reference price based on an international market, in US dollars. Whenever the foreign price fell below the reference level, a tariff was set based on a set formula.

As a result, the tariff on wheat reached over 50% in the mid-2010s before falling to near zero in 2020. In contrast, sugar tariffs fell to near zero in the mid-2010s but climbed to over 80% in 2018 and 2019 before falling back to 67% in late 2020 (Figure 6). A similar formula applied to maize, but the reference price effectively meant that tariffs were almost never applied.

Figure 6: Effective average annual tariff for wheat and sugar (a)



Note: (a) Average over time, not trade weighted.

Source: Calculated from ITAC. Ministerial Minutes. Relevant years. Accessed at www.itac.gov.za in May 2021.

The formulaic prices for wheat and sugar meant that the extent of protection for domestic producers depended on four factors.

1. The level of the reference price. A higher reference price led to higher tariffs, which were triggered whenever the price fell below it. The reference price for wheat was increased from US$215 in 2010 to US$294 in 2014, but was cut to US$279 in 2018.

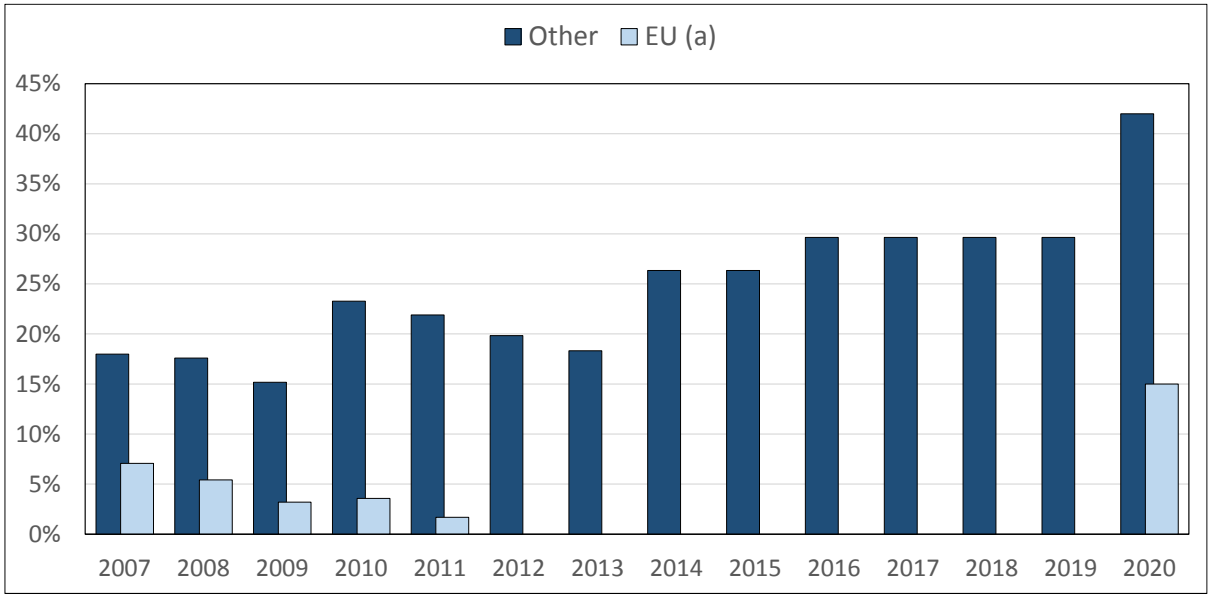
2. The exchange rate. When the rand depreciated, it effectively boosted the cost of imports even if the dollar price remained unchanged. In practice, the value of the reference price in constant rand (deflated by the Consumer Price Index (CPI)) climbed over 60% from 2010 to 2016. The reduction in 2017 still left it 40% above the 2010 level in real terms. In effect, the rand valuation of the reference price set the floor for domestic prices. (See Bureau for Food and Agricultural Policy 2020: 55)

3. The commodity cycle. The tariff effectively countered the commodity cycle by placing a floor below import prices during downturns, although it did not set an analogous ceiling during commodity booms.
4. The extent of imports from areas with free-trade agreements. From 2015 to 2020, two thirds of South African sugar imports came from eSwatini. These imports did not incur duties because eSwatini belonged to the South African Customs Union (SACU). In contrast, wheat imports came primarily from Europe, and paid the full duty.

The government instituted poultry tariffs from 2013 to prevent dumping and an import surge, rather than using a long-term formula. The amount levied varied depending on the type of poultry imported, with the highest tariffs imposed on whole frozen birds (82% in 2020) and none on fresh meat. Individual quick-frozen pieces, which constituted the bulk of chicken imports, faced a levy of 62% in 2020, up from under 20% before 2010. They were largely sold by small and informal outlets serving lower-income households.

Some major suppliers were exempted from duties as a result of free-trade agreements, although not Brazil, the largest supplier in most years. Bilateral agreements provided some relief for the EU and the US, which were relatively minor sources of chicken imports. Still, they faced import duties of between 15% and 83%, depending on the company and the amount exported. SACU members could export poultry to South Africa duty free, but were not a major source of imports.

Figure 7: Poultry tariffs, 2008 to 2020



Note: (a) EU producers also faced anti-dumping tariffs ranging from 4% to 73%, depending on the company concerned. Anti-dumping tariffs added 13% to US imports.

Source: From 2007 to 2019, ITC. Market Access Map. Interactive dataset. Accessed at www.macmap.org in May 2021. For 2020, SARS. Tariff Book. Accessed at Trade Statistics at www.sars.gov.za in May 2021.

Finally, frozen beef and cooking oil faced long-standing stable import duties of 40% and 10% respectively. These levies were introduced in the 1990s.

Ultimately, high tariffs on some staple foods largely reflected long-standing protective measures. They increased in the 2010s mostly as a result of the commodity cycle, which saw lower international prices and a stronger rand, triggering higher tariffs. The exception was poultry, the largest single food expenditure by low-income households. It was subject to a rapid escalation in anti-dumping and safeguard tariffs from the early 2010s through the early 2020s.

5. Impact assessment

Evaluating the impact of tariffs on staple foods requires an understanding of both their aims and possible unintended consequences. That is, like any impact assessment, it has to start with an understanding of the underlying theory of change. In the short run, all tariffs aim to raise prices for domestic producers by increasing the cost of imports. In effect, they remove a source of competition and the associated pressure on local suppliers to reduce their prices. That leads to an immediate social cost since it raises

consumer outlays. Proponents argue that a variety of benefits offset this cost, however, at least over time. These benefits fall into three broad categories.

- First, the tariffs could effectively give domestic producers time to improve their competitiveness rather than closing down when imports surge. That would ultimately enable them to reduce prices to consumers while competing successfully against imports. This argument justifies safeguard tariffs in particular, which under WTO rules may only last for three years.
- Second, the benefits of maintaining local production and employment may offset the cost of higher prices for consumers. In these cases, tariffs could remain in place even where there was no reasonable prospect that domestic producers could successfully compete with foreigners. The benefits of this approach are generally more obvious in the case of relative luxuries than for necessities.
- Finally, governments could impose tariffs where they considered production strategic for a country. In these cases, the argument was that without a domestic supply of necessities, the country would be vulnerable to price gouging by foreign producers or to the vagaries of international commodity markets. By extension, a modest increase in prices in the short run to sustain local production was worth the cost to consumers.

Table 1 shows the potential costs, benefits and risks of tariffs on staple foods for the main stakeholders – that is, workers and businesses in the protected value chains; low-income consumers; producers outside of the value chain; and the state. It uses the socio-economic impact assessment system (SEIAS) approach, which distinguishes impacts by different stakeholders; includes a risk evaluation as well as costs and benefits; and calls for a detailed description of costs, benefits and risks where quantification is not possible or would require excessively heroic assumptions.

Table 1: SEIAS evaluation of tariffs on staple foods

Group	Costs	Benefits	Risks
Low-income consumers	Upward pressure on prices of basic foods, which comprise a significant share of their expenditure	If affected value chains use the opportunity to improve productivity, they end up with a more reliable and cheaper supply	Higher food costs lead to higher labour costs and inflation, and ultimately slower economic growth
High-income consumers	Upward pressure on staple foods, but not a big spending item	If affected value chains use the opportunity to improve productivity, they end up with a more reliable and cheaper supply	Higher food costs lead to higher labour costs and inflation, and ultimately slower economic growth
Employers outside of farm value chain	Upward pressure on staples leads to higher labour costs, higher inflation and interest rates, and slower growth	If affected value chains use the opportunity to improve productivity, they end up with lower staple prices and labour costs in the long run	Retaliatory tariffs by trading partners
Farm owners	Upward pressure on staples leads to higher labour costs	Higher profits from bigger sales and/or higher prices, especially as staples characterised by low elasticity of demand	High prices lead to lower consumption in the long run, since elasticity increases over time. Higher inflation leads to higher real interest rates.
Farm workers	Upward pressure on prices of basic foods, which comprise a significant share of their expenditure	Avoid retrenchment by farmers unable to compete with imports	Farming of some products proves unsustainable even with high tariffs, and slower overall growth due to higher labour costs limits options for new employment
Downstream processing/sales	Upward pressure on input prices	Reliable supply; lower transaction costs with local suppliers	Farming of some products proves unsustainable even with higher tariffs, and higher costs of output reduce demand

Group	Costs	Benefits	Risks
Upstream suppliers	Higher labour costs	Stabilise demand from protected farmers	Farms end up closing, and find it harder to find new opportunities if tariffs slow overall growth
Government	Anger from consumers, who are however mostly poorly organised; conflict with trading partners	Avoid lobbying and communication campaigns by farmers' groups and their workers	Tariffs lead to higher food prices without improving productivity in medium to long run, fuelling voter anger and slowing economic growth

Source: Author.

It was not straightforward to quantify the cost to consumers of tariffs on staple foods. On the one hand, tariffs did not translate directly into higher final prices, which depended on mark-ups by producers and sellers. In the case of very long-standing and stable tariffs, like the 40% import duty on beef, it was hard to find a price that was not affected by the tariff. Sometimes importers managed to evade duties, for instance by re-categorising the goods they imported or undervaluing them to customs. In some cases, they could also shift to untariffed sources, for instance in SACU or the EU. Moreover, a stronger real exchange rate could offset the cost of tariffs for importers. On the other hand, if tariffs change relative prices, households could avoid some of the cost by substituting other goods, for instance eating more maize meal and less bread, or more eggs rather than poultry. By definition, however, in the case of food staples, lower-income households had limited scope to shift away from taxed products.

Table 2 uses a formal theory of change to show the preconditions for tariffs to achieve the first-best outcome of higher productivity in the protected industries. From this standpoint, the upward pressure on domestic prices forms a necessary intermediate step, not an aim in itself.

Table 2: A theory of change for tariffs – objectives, preconditions and blockages

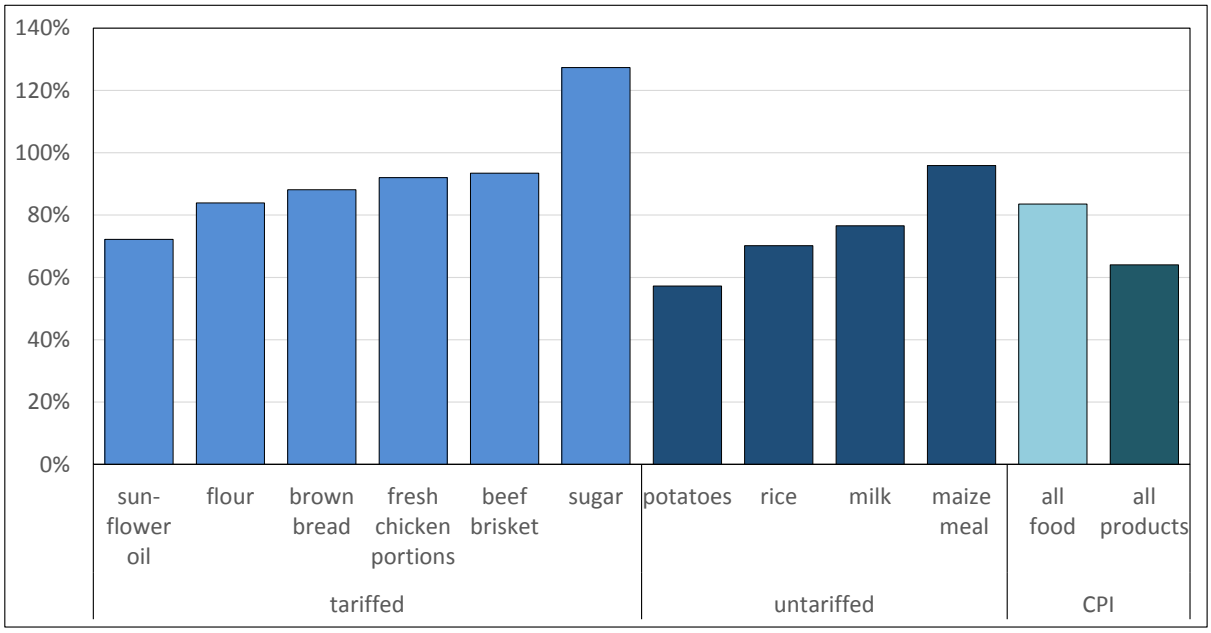
Action	Preconditions for success	Blockages and risks
Tariff introduced	Policymakers agree that benefits outweigh the costs, and WTO rules permit the tariff (as with agriculture, safeguard and dumping duties)	Policymakers see the cost to consumers as excessive relative to the anticipated benefits; WTO rules set time limits or ban tariffs
Importers raise prices	Importers maintain their margins and cannot find alternative, tariff-free sources; exchange rate does not strengthen; importers cannot evade the tariff	Importers prefer to maintain market share by reducing mark-ups, or import from tariff-free sources; exchange rate strengthens, offsetting the tariff; importers resort to smuggling or re-categorising or modifying goods to avoid tariffs
Sales of domestic products increase	Retailers and/or consumers find local producers who can compete with tariffed imports on price and quality; retailers/consumers do not substitute other goods as prices increase on tariffed products	Retailers/consumers do not increase local purchases because they cannot find enough local producers able to compete with imports even after tariffs are imposed; they find substitutes, depressing the total sales of tariffed goods
Local producers avoid closure or scale up	Tariffs succeed in reducing import competition without affecting consumer/retail demand. Increase in demand sufficient to stabilise industry.	Tariffs fail to limit purchases of imports or consumers substitute other products. Increase in demand is not adequate, for instance because of high input costs, drought or other cost drivers.
Local producers use space to improve productivity	Producers remain under pressure to improve productivity whether from competitors or government requirements, and have the resources to adopt better technologies	Local producers gain sufficient market power to charge import-parity prices, passing the full cost of tariffs on to consumers. Producers cannot access required technology due to high costs or lack of investment financing
Prices on tariffed goods decline in real terms	Local producers are able to improve productivity, do not face an increase in input costs, and do not increase profitability	Local producers cannot improve productivity or input prices increase, for instance due to exchange rate shifts, upstream market power or tariffs, or drought; they increase their profits rather than reduce prices

Source: Author.

We can model the maximum possible immediate impact of the tariff on consumers if all of the required success preconditions for tariffs described in the theory of change are met. In this worst-case scenario for consumers, the tariffs on staple foods would translate directly into price hikes. As of 2020, that would increase the cost of food for the poorest 90% of households by just over 15%. For the richest decile, food costs would rise less, by 10%, because the tariffed staples make up a far lower share of their food budgets. The total cost of living would climb by 5% for the poorest 30% of households, mostly because of the very high levies on poultry and sugar in 2020. For the fourth to sixth decile, the tariffs on staples would inflate the cost of living by 4%, and for the seventh to ninth decile, by 1.5%. For the richest decile, the cost of living would only rise 0.5%.

In the event, from 2010 to 2020, food prices rose more rapidly than the overall CPI. Prices for commodities with high tariffs rose faster than other staples, as Figure 8 shows.

Figure 8: Price increases for staple foods and overall, 2010 to 2020

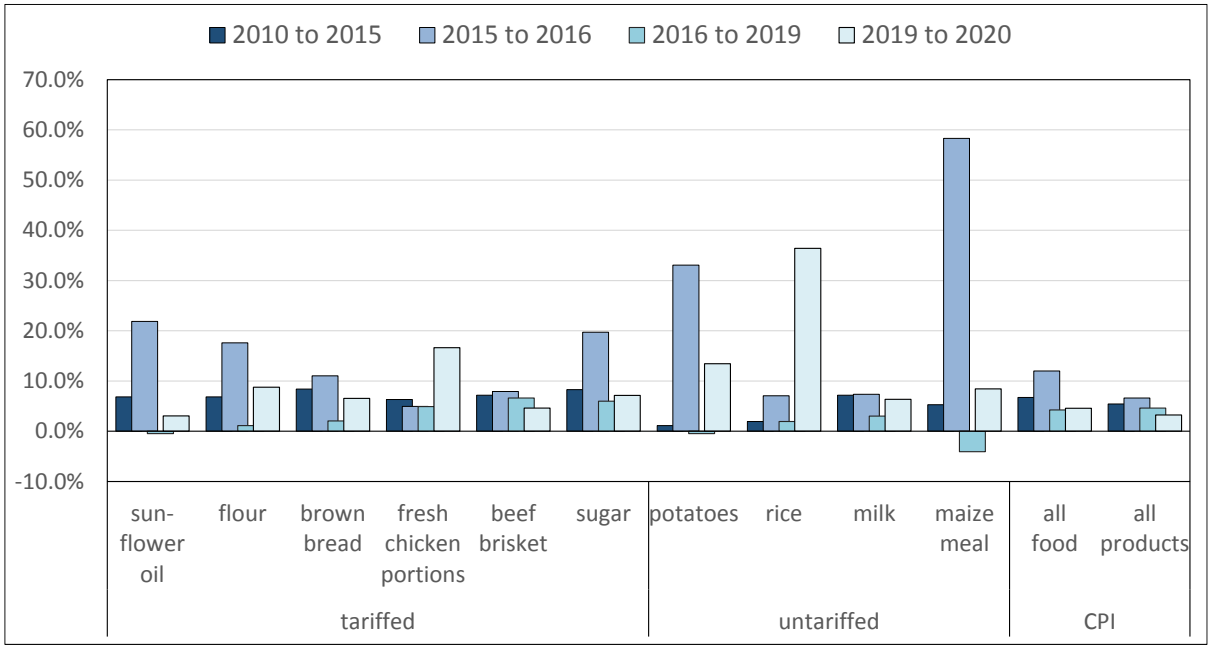


Source: Calculated from Statistics South Africa. STATSSA Food Prices. Excel spreadsheet. Downloaded from www.sagis.org.za in May 2021; and Statistics South Africa. CPI. Excel Table from 2008. Excel spreadsheet. Downloaded from www.statssa.gov.za in May 2021.

Still, while tariffs undoubtedly contributed to prices rising faster for food than for other products, they were by no means the only cause. As Figure 9 shows, food prices

increased sharply during the 2015/16 drought, even for products that were mostly imported. Maize was particularly harshly affected. Food prices also spiked during the COVID-19 pandemic in 2020. The reasons included disruptions to both domestic and international supply chains, and the difficulty of redirecting resources from restaurants to retail as higher-income consumers – the mainstay of restaurant dining – stayed home.

Figure 9: Average annual change in prices for staple foods compared to the CPI, 2010 to 2015, 2015 to 2016, 2016 to 2019 and 2019 to 2020



Source: Calculated from Statistics South Africa. STATSSA Food Prices. Excel spreadsheet. Downloaded from www.sagis.org.za in May 2021; and Statistics South Africa. CPI. Excel Table from 2008. Excel spreadsheet. Downloaded from www.statssa.gov.za in May 2021.

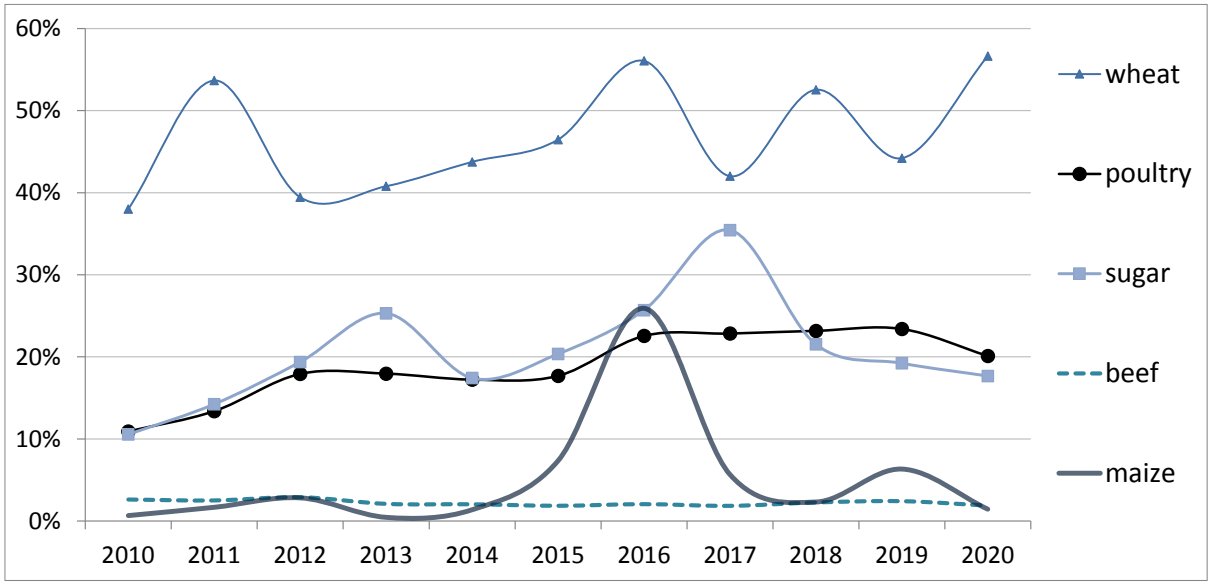
A second question is whether tariffs helped restrain imports for the affected products. Again, it proved difficult to separate out the impact of trade measures from other factors affecting economic decisions. The costs of imported food commodities were heavily affected by the exchange rate as well as agricultural conditions in South Africa and overseas. Trends in international demand also affected global prices. Moreover, before 2010 the data aggregated all SACU trade together, making it impossible to analyse imports from neighbouring countries.

Overall, as Figure 10 shows, from 2010 to 2020 imports of both tariffed and non-tariffed staple foods fluctuated substantially as a percentage of tonnage available in South

Africa. Over the decade as a whole, the share of imports tended consistently downward only for beef. Excluding 2020, which was an outlier because of the pandemic, the share of imports in local consumption climbed from 38% in 2010 to 44% in 2019 for wheat; from 11% to 20% for poultry; and from 11% to 19% for sugar. For maize, which did not face an effective tariff, imports rose from an average of 1.5% of consumption in the three years before the 2015/16 drought to 3.8% in the three years after it. Imports of beef fell from 8% in 2000 to 3% in 2011 and 2% in 2019, although the tariff remained unchanged.

The substantial fluctuations in the share of imports in domestic consumption made it virtually impossible to define reliable long-term trends. Moreover, without tariffs the share of imports might have increased more rapidly and consistently. Still, the lack of a clear downward trend in imports linked to tariffs indicates that while they set a floor under prices over time, they did not lead to a substantial increase in domestic production.

Figure 10: Share of imports in domestically available staple foods, 2010 to 2020 (a)



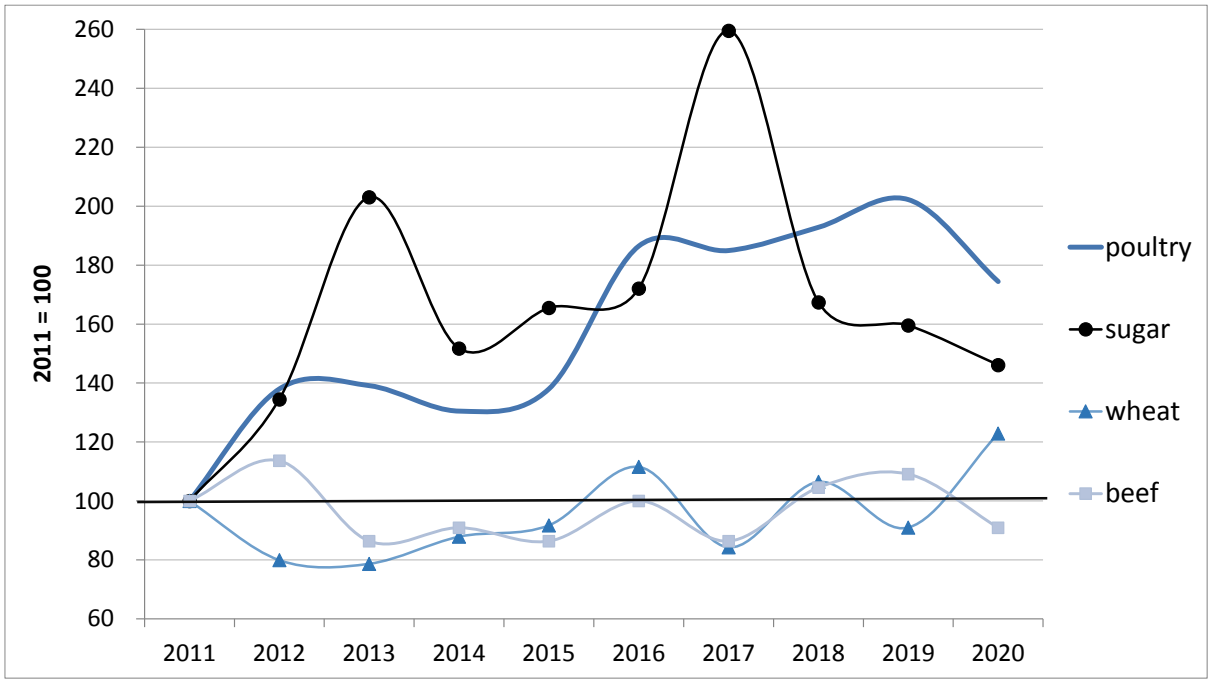
Note: (a) Domestically available stock is assumed to equal domestic production plus imports; exports are also included. Cooking oil is excluded because data are available only for oilseeds, not for production of oil by volume.

Source: Calculated from DALRR. Abstract 2021. Excel spreadsheet. Downloaded from www.dalrr.gov.za in May 2021; and ITC. TradeMap. Interactive dataset. Accessed at www.trademap.org in May 2021.

In volume terms, import trends were even more ambiguous (see Figure 11). Poultry imports generally increased over the period, despite the steady rise in tariffs. They

dipped sharply from 2019 to 2020, which could reflect the substantial increase in tariffs in that year but was likely also affected by the COVID-19 downturn. In contrast, sugar imports in tonnes initially increased and then stabilised except in the drought year of 2015. Around two thirds of sugar imports came from eSwatini, however, which meant that they were duty free. Both wheat and beef imports initially shrank, but then tended to increase for the rest of the decade. Maize imports soared during the 2015/16 drought. In 2015 and 2016, they averaged four million tonnes, 20 times the average for the preceding four years. From 2017 to 2020, they fell back to 1.25 million tonnes a year.

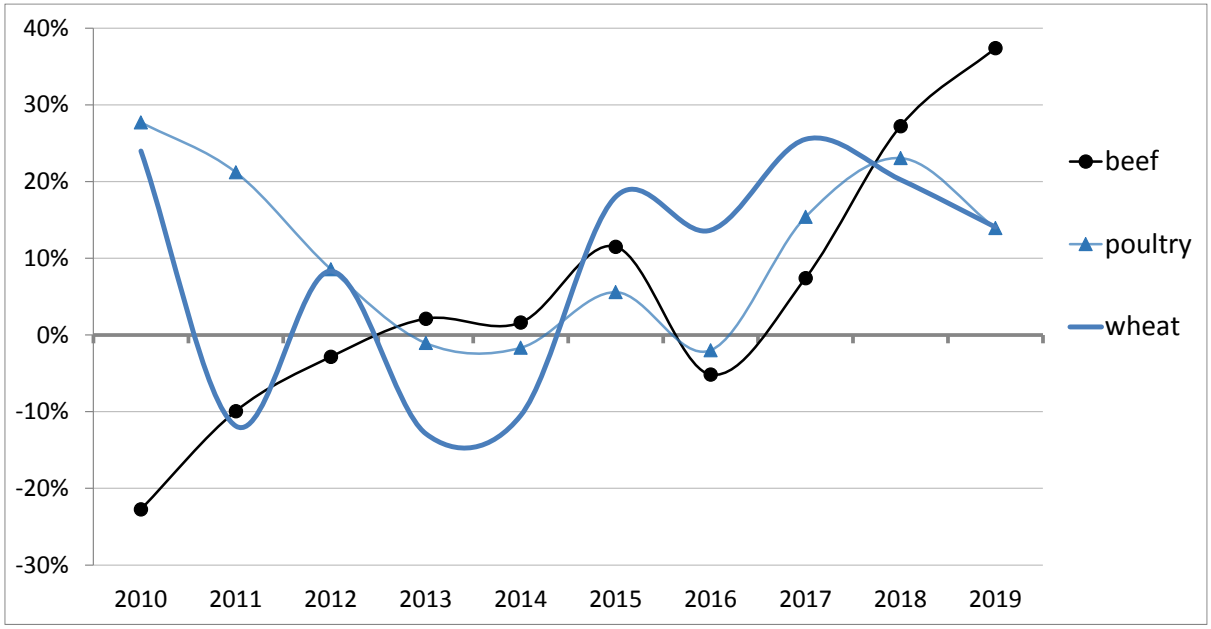
Figure 11: Indices of imports of tariffed staples in volume terms (2011 = 100)



Source: Calculated from DALRR. Abstract 2021. Excel spreadsheet. Downloaded from www.dalrr.gov.za in May 2021; and ITC. TradeMap. Interactive dataset. Accessed at www.trademap.org in May 2021.

A core justification for tariffs was that they would give local producers space to become more competitive. In practice, there was no evidence that this occurred. Data are available for wheat, poultry and beef. For all of these products, in rand terms the price for tariffed staple foods climbed faster than import prices in recent years, as Figure 12 shows. Moreover, from 2010 to 2019, the producer price for poultry and wheat rose 10% faster than the CPI in real terms. For beef, it rose 30%.

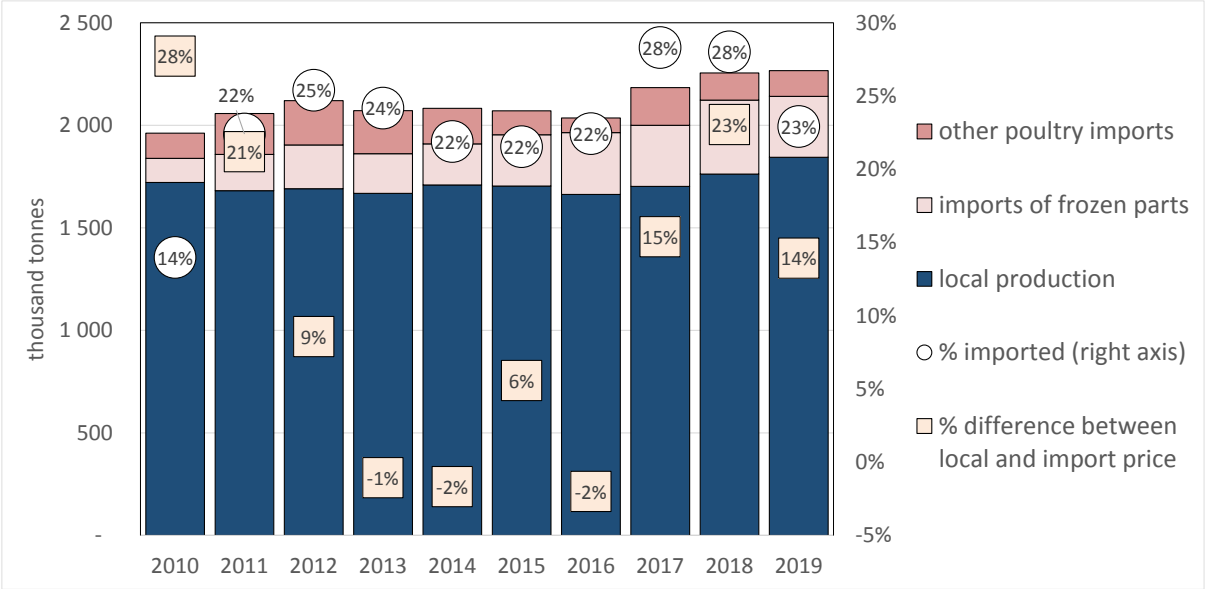
Figure 12: Difference between domestic producer price and unit price of imports (positive percentage is excess of domestic price over import price)



Source: Producer prices from DALRR. Abstract 2021. Excel spreadsheet. Downloaded from www.dalrr.gov.za in May 2021. Unit price from ITC. TradeMap. Interactive dataset. Accessed at www.trademap.org in May 2021.

For poultry, the increase in domestic producer prices relative to imports at the start and end of the 2010s coincided with a rising share of imports in local poultry consumption, as Figure 13 shows.

Figure 13: Poultry imports in thousand tonnes and as a percentage of total consumption, and difference in price between imports and local product

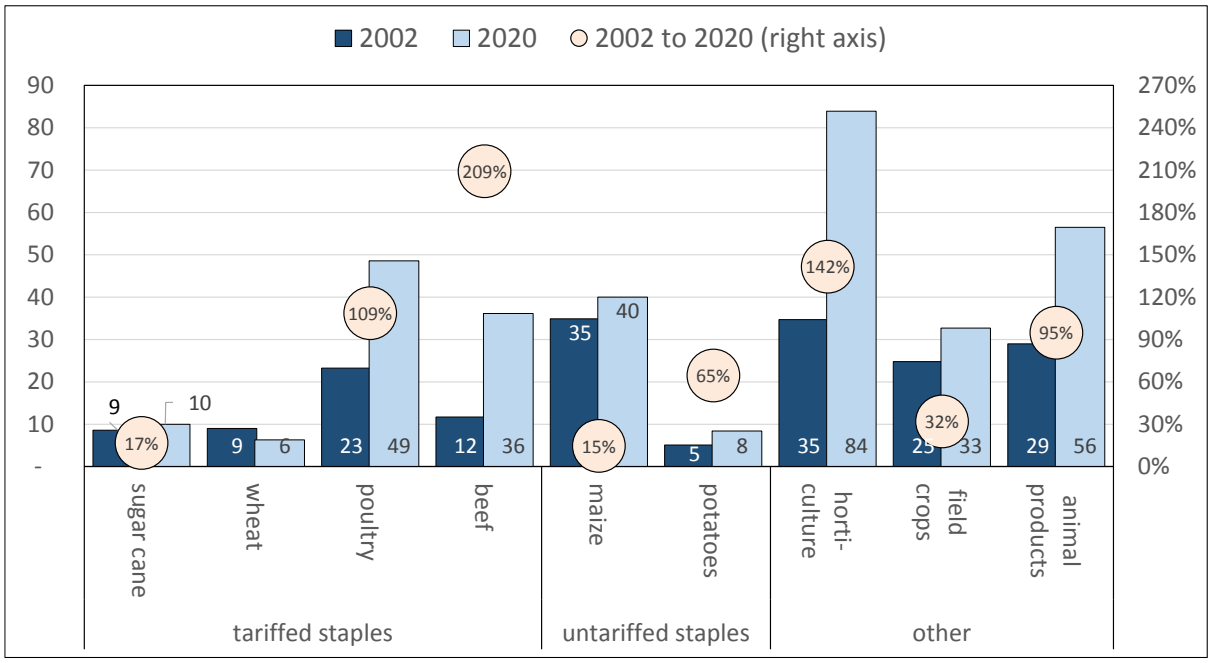


Source: Local production and producer prices from DALRR. Abstract 2021. Excel spreadsheet. Downloaded from

www.dalrr.gov.za in May 2021. Imports and unit price from ITC. TradeMap. Interactive dataset. Accessed at www.trademap.org in May 2021.

The ultimate test of competitiveness was the relative growth of protected staple producers compared to other staples and the rest of agriculture. In the event, growth in the value of production varied substantially by product from 2002 to 2020, as Figure 14 shows. Meat production expanded rapidly, whereas wheat and sugar stagnated.

Figure 14: Value of agricultural sales by major commodity in constant (2020) rand (a), seasons ending 2002 and 2020

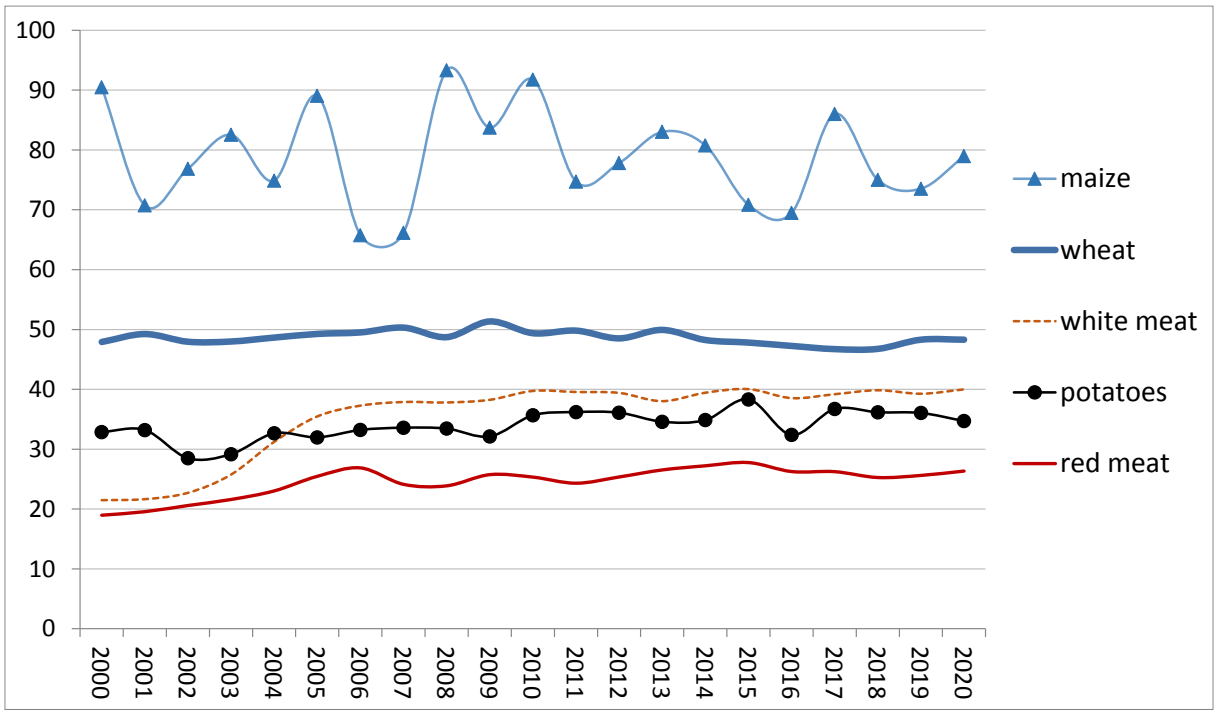


Note: (a) Deflated with CPI rebased to 2020.

Source: Calculated from DALRR. Abstract 2021. Excel spreadsheet. Downloaded from www.dalrr.gov.za in May 2021.

The differential in growth by agricultural product reflected changes in domestic demand and export capacity more than tariffs. The post-1994 era saw a shift in domestic demand away from starches to protein, fruit and vegetables, especially when the economy and employment climbed relatively rapidly during the international metals price boom that lasted from the early 2000s to 2011. As Figure 15 shows, the result was a substantial divergence in per-person consumption of staple foods. Poultry consumption doubled from 2000 to 2021, although most of the increase occurred during the commodity boom, while red meat grew 20% and potatoes climbed 15%. In contrast, per-capita consumption of maize and wheat was essentially flat.

Figure 15: Consumption of staple food per person, in kilogrammes



Source: DALRR. Abstract 2021. Excel spreadsheet. Downloaded from www.dalrr.gov.za in May 2021.

Finally, the impact of tariffs on staple foods on employment was inherently contradictory. They raised the cost of wage goods and consequently put upward pressure on pay. At the same time, they aimed in part to protect jobs on farms that produced the tariffed products.

The protected jobs were relatively limited in number as well as being poorly paid. The available data suggest that taken together, production of the main protected staples – wheat, sugar, poultry and beef – involved employment of around 300 000 workers, or over a third of all farm workers but only 2.5% of total formal employment in the late 2010s. According to DALRR estimates, wheat production had 30 000 employees; poultry 45 000; sugar 85 000; and beef 140 000.[3] Information on employment over time by agricultural product is not available. Overall, however, formal agricultural employment fell from over a million in 1990 to 500 000 in 2010, then climbed back over

[3] According to DALRR profiles of the relevant value chains from 2018. Accessed at www.dalrr.gov.za in May 2021.

700 000 through 2019.[4] Agricultural employment was relatively poorly paid, with a median income of R3 000 a month in 2019 compared to R4 000 in the rest of the formal sector. Moreover, a substantial share was seasonal or temporary.

Industry representatives and the Department of Agriculture argued that looking only at farm labour understated the impacts on total job creation since it ignored employment in food processing, retail and restaurants. From the standpoint of tariff protection, however, these linkages were not relevant. Downstream industries would be able to produce, and indeed might grow faster, in the absence of tariffs designed to raise the cost of their inputs.

In short, the available data indicate that tariffs on staple foods contributed to the relatively high food prices through the 2010s. That in turn had a particularly negative impact on low-income households, which aggravated the poverty and inequality already prevalent in South Africa. But the tariffs had at best highly varied outcomes in terms of promoting more efficient production in the protected industries. Sugar cane and wheat, in particular, saw only very slow expansion despite substantial protection against imports.

6. The political economy of tariffs

Even if they ultimately succeed in boosting local production, tariffs on staple foods have an inherently regressive effect. That poses the question of why they were so prevalent in South Africa as of 2021, despite the government's stated commitment to reducing inequality and raising living standards for low-income households. This paradoxical outcome emerged from the way agriculture was organised, on the one hand, and from the nature of decision-making systems on tariffs in government.

6.1 The organisation of the agricultural sector

South Africa was an outlier among upper-middle-income economies in its reliance on

[4] Calculated from Quantec 2021.

high-technology commercial farming, with very limited smallholder and subsistence agriculture. It gave a relatively small number of well-organised and capacitated farmers substantial influence over government policies based largely on lobbying and media campaigns as well as promises to avoid job losses and open space for black producers. From this standpoint, the tariff system partly replaced the system of domestic price supports that was eliminated in the mid-1990s with the transition to democracy, after being in place for decades.

The number of commercial farmers in South Africa stabilised at around 45 000 in the 2010s, with around a third being African.[5] The number of commercial farms was around 50% lower than in 1994. The decline largely reflected the loss of various direct and indirect government subsidies, which in the late 1990s led to extensive consolidation of farms and, in some areas, a shift into game farming.

Before the mid-1990s, domestic pricing systems and regulatory frameworks that ensured cheap water, labour and land all contributed to growth in grain and meat production for domestic and regional markets. South Africa also exported citrus and other horticultural products overseas, but these industries were constrained by resistance from consumers and foreign governments as a result of apartheid.

After 1994, commercial farming effectively split into two large groups. Most farmers engaged in production of grain, meat and sugar almost exclusively for the domestic and regional market. A minority pursued more intensive, varied and innovative horticultural production, with a focus on overseas exports as well as meeting high-end domestic and regional demand. Grain, sugar and meat producers increasingly saw tariffs as a way to maintain their market share as the economy opened up with the transition to democracy (see Bureau for Food and Agricultural Policy 2020: 22). This strategy grew in importance after the government eliminated price and other subsidies in the mid-1990s and from the early 2000s instituted a rising minimum wage for farm workers. In contrast, fruit and vegetable farmers had to compete on export markets, so

[5] Calculated from Stats SA 2019.

they had limited interest in tariffs. They looked to the state primarily to support their access to water, transport and phytosanitary measures.

Agriculture included thousands of farmers for almost all major outputs except poultry. That should in theory lead to competitive output markets with cost-plus pricing. In practice, however, import-parity pricing largely prevailed except in the main export industries, including maize as well as fruit and wine production. A core reason was that the government explicitly aimed to strengthen farmer organisations and market information after it eliminated direct subsidies. In both red meat and grain production, the government helped establish market information systems that generated detail on import-parity but not cost-plus prices. Table 3 shows the structure of farming for major products and the main farmer and market-information organisations.

Table 3: Governance for major crops

Sector	Commercial farmers (a)	Organisations
Maize	9 000 in maize Fewer than 4 000 in wheat	SAGIS was established by the state after deregulation to provide information on international and import prices (not on cost-plus prices). GrainSA produces market information, provides technical support and engages with the state on behalf of farmers. Various other organisations represent producers of specific commodities.
Dairy	Fewer than 2 000	Milk Producers Organisation
Poultry	Poultry is vertically integrated, dominated by three companies that have their own farms and also contract out some production	SA Poultry Association was established in 1904. It provides information on production and prices, and representation in engagements with government. It played a central role in lobbying for poultry tariffs in the 2010s.
Red meat	22 000	The Red Meat Industry Forum was established after deregulation to engage on regulatory frameworks and provide market information to farmers. The Red Meat Producers Organisation engages on behalf of farmers, including on tariffs and imports generally.
Horticulture	Around 8 000 farmers	Strong associations for wine, citrus and deciduous fruit producers and exporters

Sector	Commercial farmers (a)	Organisations
Sugar	Sugar company estates produce 7%; 680 commercial farmers produce 65%; less than 20 000 small outgrowers grow the rest	The SA Sugar Association is a statutory body that provides information on production and prices, and represents farmers and millers in engagements with government. SA Canegrowers represents farmers in engagements around tariffs, and campaigns against the sugar tax.

Source: Information from sector reports by Who Owns Whom, latest version for sector; webpages for associations; and DALRR value chain profiles, 2018.

High levels of concentration in the food value chain in South Africa are often associated with greater use of modern technologies, scale production, quality controls, international competitiveness, and better pay for workers. But they also contribute to the use of market power to inflate prices and campaign for higher tariffs. From the early 2000s, the Competition Commission found cartel pricing in a number of food processing industries. It charged collusion in bread baking, maize and wheat milling, grain storage, dairy, poultry and pelagic fish. The Commission did not succeed in every case, but it reached large settlements around bread and cereals, among other industries (Mncube et al. 2016: 8).

In contrast to other sectors that lobbied strongly for tariffs, commercial farmers could not count on union support. In 2019, less than 10% of farm workers belonged to a union, compared to a third in the rest of the formal economy. Workers in poultry, which was dominated by a few large companies, were better organised. In the late 2010s, their unions lobbied effectively for tariffs when employers threatened to close down farms.

Commercial farmers were, however, able to leverage support from actual and potential black smallholders, which improved their legitimacy in demanding tariff protection (see for instance Dubb 2014; PMG 2019; and Levin 2020). Virtually every farmer association promoted some kind of small producer association. They often promised to support small producers in return for tariffs, for instance through improved conditions for contract producers in sugar and poultry.

In short, tariffs on staple foods reflected the adaptation of commercial farming to

deregulation amid the opening of the economy in the 1990s. In this context, export crops focused on marketing and increasing competitiveness. Producers shifted between products fairly quickly as national and global demand changed. In contrast, where producers aimed mostly to meet demand in South Africa and the region, they often sought to limit import competition in order to sustain local production, even if that only effectively slowed a longer run decline or increased the cost of basic foods for the majority of households.

6.2 The tariff decision

In South Africa, in line with WTO guidelines, tariffs were set by an independent regulator, ITAC, in line with national policies and objectives. ITAC was expected to consider the costs and benefits for stakeholders, including consumers, before granting a tariff. In practice, however, the decision-making system effectively empowered more organised groups at the cost of those less able to engage and lobby. Moreover, it did not entail a consistent and transparent presentation of the evidence on the anticipated costs, benefits and risks of new or modified tariffs to the various stakeholders.

ITAC was required to test applications for tariffs in terms of the costs and benefits along the relevant value chain as well as for final consumers. From the mid-2010s, it argued that a developmental trade policy required higher protection for local producers, especially against unfair dumping, destabilising import surges and other forms of subsidy to foreign producers. It argued that additional factors affected agriculture, including:

- various forms of support provided to farmers in most countries, including in the global North, which reduce international prices at the cost of South African farmers;
- a perceived lack of bargaining power on the part of farmers, which ITAC argued were “price takers in the food value chain”;
- fluctuations in global prices; and
- the impact on consumers, “in particular the poor.” (ITAC 2020)

In practice, however, ITAC did not publish a systematic analysis of the impact of agricultural tariffs on the poor. 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 it or provide the main conclusions. Instead, it noted the potential for costs to consumers, but made no attempt to quantify them against the anticipated benefits (ITAC 2019: 15).

As of the early 2020s, ITAC began to argue strongly that it was insisting on a "principle of reciprocity," to ensure that businesses provided social benefits in return for trade protection. In particular, it sought to ensure increased investment and employment, but did not mention prices to domestic consumers or users. It also aimed to provide more regular reviews of tariffs going forward (ITAC 2020).

In practice, the ITAC system opened the door to well-capacitated business organisations, like those found across commercial agriculture, as well as business associations representing downstream processors. In contrast, consumer groups were typically poorly organised and lacked an advocate in the policymaking system. But the process of engagement on tariffs was highly formalised and legalistic, with extensive use of experts. It did not require that ITAC reach out to consumer groups, empower them around the potential costs and benefits of the measure, and provide space for them to voice their views.

This situation emerged around the decision to increase the tariff on poultry in 2019. A leading Johannesburg law firm lodged and advocated for the measure on behalf of the South African Poultry Association. The Association also submitted commissioned research from business consultants. As noted, ITAC commissioned but did not publish a report by the National Agricultural Marketing Commission. Opposition to the application came from retail and restaurant chains as well as an importers association. No civil society or advocacy groups participated.

While the ITAC report approving the tariff increase summarised the arguments for and against, it did not provide any evidence to test them or seek to quantify the costs and benefits for different groups, including low-income households. It noted that the poultry producers had committed to raising production, investment and employment between 2019 and 2021. It did not, however, specify either targets for these commitments, or include any promise to avoid price increases for downstream users (see ITAC 2019).

In short, while the ITAC process aimed to give voice to stakeholders, it effectively included only relatively well-resourced and -capacitated formal business groups. That in turn meant that lower-income households were effectively excluded from the deliberations. Moreover, because ITAC did not seek to quantify or define in detail the costs and benefits to consumers as well as producers, it did not have to justify its decision to adopt the higher tariff on a staple food for working class and poor households.

7. Conclusions and policy implications

Significant and long-standing tariffs on most of the main staple foods for lower-income households in South Africa constituted a regressive tax that contributed to higher costs without visibly promoting more sustainable and competitive production of basic necessities over the past decade. The limited extent of statistics on agricultural subsectors (in contrast to both manufacturing and mining) prevented a more detailed analysis than the one provided here. Still, the available information on the extent and aims of tariffs on staple foods underscores the need for policy reforms. These reforms include the following.

First, all tariffs on staple foods – specifically wheat, sugar, poultry, red meat and cooking oil – should be urgently reviewed in terms of their impact on both consumers, by income level, and producers. The analysis should use the SEIAS approach outlined in section 3, which requires

- evaluation of costs, benefits and risks for different stakeholder groups; and
- detailed description of impacts where quantification is not possible.

Second, ITAC should require commitments from tariff beneficiaries to increase prices only in line with CPI for the duration of the tariff, unless those beneficiaries can provide evidence of extraordinary circumstances.

Third, ITAC should publish the evidence it uses to justify increases in tariffs on staple foods in far more detail, with an estimate of the likely costs and benefits provided in a SEIAS approach.

Finally, government should review both the wheat and poultry industries, which are the most important tariffed wage goods, to determine an end-state that does not depend on high tariffs to survive.

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