INTERNATIONAL MARKETING DEVELOPMENTS AND THE EFFECT ON SOUTH AFRICAN AGRICULTURE

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The global agricultural marketing environment is changing rapidly. Coupled with the advance in technology, a borderless society is emerging that necessitates a rethinking of traditional agricultural policies. This paper analyses this trend by presenting an overview of issues currently affecting agricultural trade, both globally and in South Africa. The latter has undergone a significant deregulation and liberalisation process of its own. Coupled with global trends towards even further deregulation, especially during the 1999 round of multilateral trade negotiations, agricultural industries and economists will be required to focus their attention in this direction. While the former need to devise strategies that will enhance their international competitiveness within a deregulated environment, the latter will have to become involved in the policy debate surrounding this issue. This necessitates, however, on both sides, an improvement of theoretical knowledge of international trade, as well as an understanding of global issues.

INTRODUCTION

With the end of the millennium only two years away, it becomes important to realise that the global environment is changing rapidly. The advancement of technology has reduced distances significantly, challenging the traditional...
agricultural trading system. Pressure is being exerted on all countries to liberalise their respective agricultural systems to create increased opportunities for trade in agricultural products. In addition, agriculture has become a priority on the agenda of the World Trade Organisation (WTO) and it can be expected that this will remain for some time to come.

South Africa cannot escape these developments. Not only have domestic changes brought about a proliferation of trade opportunities, but international pressure is also being exerted on the country to liberalise its trading system even further. It therefore becomes necessary to understand these changes and for policy makers, producers and agribusiness to adapt accordingly. Increased productivity and efficiency is needed as only this can ensure the survival of the industry in the long run.

This paper aims to outline some of the current issues affecting the agricultural environment and to determine possible implications for policy makers and agribusiness, the knowledge of which might contribute towards achieving a sustainable agricultural system in the country.

1. COMPARATIVE ADVANTAGE AND COMPETITIVENESS.

The principle of comparative advantage implies that a country should export the product it produces relatively more efficiently than the rest of the world and import the product that it produces relatively less efficiently than the rest of the world. This should form the basis of all trade and puts the emphasis on the supply side of the equation (Otto, 1992). Absolute product efficiency is not a crucial factor in this regard. The immediate basis for trade are thus cost differences between nations (Carbough, 1992).

Calculating a nation's comparative advantage gives an indication of the effectiveness of that nation's industries. Unfortunately the existence of comparative advantage has been ignored by policy makers in the past, thereby effectively promoting industries that have a comparative disadvantage, leading to built-in economic inefficiencies (Otto, 1992). In future, policy should be geared towards identifying those sectors of the industry that have a comparative advantage in both regional and global terms. This could be done by a combination of measures that will enhance export growth and productivity, including further liberalisation of trade.

The extent to which agricultural exports will rise, however, depends on the competitiveness of the sector. Several factors influence competitiveness, including a favourable macroeconomic environment and enabling trade and
marketing strategies. Competitive advantages based on natural endowments and unsubsidised markets have to become a key policy factor in South African trade and agricultural policies (Trade Policy Committee, 1997).

The Growth, Employment And Redistribution (GEAR) strategy recognises this condition. One of its key elements incorporates a drive to facilitate higher investment and the restructuring of international trade. This should be done by (Hirsch, 1997)

- Reducing, rationalising and refining protection;
- Introducing and expanding supply side support: including technology, training, investment and input costs; and
- Facilitating exports in new ways, for example through export enhancement programs.

This will create an open market environment, forcing an improvement in competitiveness through increased productivity. Agricultural trade policy needs to take account of this development. Trade policy therefore will be the key to restructuring the South African agricultural sector in order to make it globally competitive.

2. A CHANGING ENVIRONMENT

Over the past few years, South African agricultural policy underwent drastic and far-reaching changes, moving from a fully regulated marketing environment towards an open system, where market forces determine price levels. Under the new Marketing of Agricultural Products Bill of 1996, all the current statutory marketing schemes have to be removed. On the other hand, trade liberalisation efforts have seen the replacement of all quantitative import controls with tariffs (although partly driven by the country's WTO commitments). These changes have propelled South Africa from the "market management" faction that existed within the Uruguay Round (UR) of negotiations into the group of countries that emphasised the need for market liberalisation during that round (Swart, 1996).

In addition, global markets are opening up for South Africa. New alignments are being forged with the country entering into trade negotiations with the European Union (EU) and the Southern African Development Community (SADC), while also joining the Indian Ocean Rim Initiative (IORI) and the Cairns Group of Countries. These developments are forcing South Africa to
reassess its position within the multilateral arena, such as the WTO, UNCTAD and the FAO (Swart, 1996). They therefore will drive agricultural policy for some time to come and agricultural economists are well advised to take heed of these developments.

3. CURRENT ISSUES IN INTERNATIONAL TRADE AFFECTING AGRICULTURE

3.1 WTO and the Agreement on Agriculture

The most profound event shaping international agricultural markets has been the formation of the WTO and with it the signing of the Agreement on Agriculture in Marrakech. The WTO came into existence on 1 January 1994 as a result of the UR of negotiations. The fundamental principles upon which the international trading rules were based remain and are reaffirmed within the WTO framework. In addition, the coverage and effectiveness of the rules and procedures of the General Agreement on Tariffs and Trade (GATT) have been strengthened, including an improved dispute settlement mechanism. The latter already made its influence on agricultural markets known with recent rulings outlawing the EU’s import ban on hormone treated beef and its banana import regime.

Another important feature of the UR was the strong political commitment to address agricultural issues. This led to an agreement on agriculture, which incorporates a number of commitments by WTO members on domestic support, market access and export subsidies in agriculture (Swart, 1996).

South Africa has fulfilled almost all of its commitments in terms of this agreement. Quantitative import controls have been replaced with tariffs that are fixed at levels, at least for most products, far below the maximum bound rates allowed. Minimum market access quotas were introduced, allowing a certain percentage of domestic consumption to be imported at preferential tariff rates. Export- and other subsidies have been virtually eliminated. Together with the deregulation of the domestic marketing environment, these developments are exposing producers increasingly to global market forces, requiring global competitiveness and, coupled with this, an improvement in productivity levels.

3.2 Movements towards regional trading blocs

As pointed out by Swart (1996), practically every major trading nation is a member of some form of preferential trading arrangement or bloc. Many of
these arrangements entail liberalisation larger than WTO commitments require.

In addition to the traditional agreements such as the EU and NAFTA, several other regions are currently in the process of establishing new or consolidating existing agreements. These regions include Mercosur in South America and efforts to evolve the ASEAN and APEC agreements of Asia into agreements that incorporate free trade principles. Global economic integration is best reflected in Asia, as Asian developing countries have become a major focus of global activity. In addition, they are currently the fastest growing markets in the world (Ruggiero, 1996). South Africa in itself is involved in negotiations with the EU and its SADC partners to establish free-trade areas.

The trend towards increased regionalisation has important implications for agricultural policy and trade. Firstly, although such a move represents increased liberalisation between member countries, it takes place to the detriment of non-members. In order to create economic power, the latter will be forced to seek strategic alliances of their own, thereby accelerating this trend even further. Secondly, future trading arrangements will increasingly happen on a multilateral basis and between trading blocs, as opposed to bilateral country arrangements. Although this might enhance the shift towards global integration, it might also serve as an impediment to this process, given the nature of multilateral negotiations. It might further deflect national protectionism towards a form of regional protectionism. This could lead to a renewed form of protection that will be far more difficult to overcome than was the case in the past. Finally, the trend towards regional blocs will manifest itself in the structure of the WTO, especially during trade negotiations. Regional, rather than national objectives might become the guiding force during such negotiations. This creates a problem in that viewpoints presented by trading blocs represent a consensus position amongst different nations. This can create difficulties in reaching common grounds within the multilateral arena. This trend was already observable during the UR of negotiations, which took nearly seven years to complete.

Notwithstanding these implications, membership of such a bloc also creates opportunities. It does not only force member countries to open up domestic markets to foreign competition, but it also creates a platform for countries to exercise some economic might, whereas on their own this would not be possible. It further creates new markets and investment opportunities, which have previously been inaccessible for domestic products and investors.
4. A CHANGING TRADE POLICY

The changing trade policy environment, both globally and domestic, is characterised by several features that include the following:

a) Liberalisation:

South African policy makers will be well advised to continue on their present path of liberalising the domestic economy. Industries need to be exposed to global markets, as this will force them to increase their global competitiveness. Any protection afforded should be of a temporary nature aimed at smoothing the transition process towards a globally competitive industry. Comparative advantages should be the guiding factor in this regard. Producers involved in an industry that can show no comparative advantage, either regionally or globally, have to devise strategies leading towards such an advantage, including the identification of niche markets, or look for production alternatives in order to ensure their long term survival.

b) Tariffs

Tariffs are no longer regarded as an instrument of government revenue collection (Otto, 1997). They should further become the only forms of protection against foreign competition. They should, however, ensure protection against unfair trading practices by the country's trading partners.

In view of current developments in the country, it becomes obvious that tariff levels will over time decrease to such an extent that they become negligible. Global movements towards lower tariff levels worldwide, driven by developments on the multilateral arena exacerbate this trend. During the next few years, several rounds of negotiations under the auspices of the WTO are envisaged, all with the aim of decreasing protection, especially in agriculture. Coupled with South Africa's efforts to conclude trade agreements with several countries, it can be argued that by the year 2010, tariffs no longer will be an issue in any strategic decision on trade policy. In its place will be deliberations on improving global competitiveness, supported by export-led growth strategies.

c) Deregulation

South Africa has moved a long way down the road of deregulating its
domestic markets. Currently, existing regulatory agricultural marketing systems are being dismantled and it can be expected that any new measure will be far less regulatory than those of the past. It can also be expected that most of them will be of a temporary nature, implemented only to enable a sector of the industry to restructure itself towards global competitiveness.

Deregulation of domestic markets is not a South African phenomenon. Several countries have undergone similar, sometimes painful changes, while even highly protected economies like the EU are forced to reform their domestic polices (Agenda 2000), due to the fact that existing policies are incompatible with the changing global environment. This again highlights the global move towards a freer agricultural trading system.

d) Trade agreements - a strategic approach

As already mentioned, the trend worldwide is to engage in strategic trade negotiations to secure improved and equitable market access amongst countries. South Africa is no exception in this regard and agricultural trade policy has to be located within the framework of the country's global economic relations as developed by Government (Trade Policy Committee, 1997). This includes taking cognisance of efforts to conclude trade agreements with several countries and for the agricultural sector to actively participate in deliberations surrounding these negotiations.

A feature of trade agreements is that they almost all require some form of reciprocity. This implies that while they promise improved access for domestic producers to certain foreign markets, it will require South Africa to offer concessions in terms of improved access to domestic markets. This demands a clear understanding of the interests of the agricultural sector so that appropriate trade-offs are agreed upon. There is a need for detailed analysis of the threats domestic producers are facing from international competition and what constraints exist for global participation (Trade Policy Committee, 1997). These threats and constraints need to be weighed up against the opportunities of and possibilities for global expansion that arise out of such agreements, in order to make an informed decision of the possible advantages and disadvantages of participation in such agreements. They also need to be weighed up against the prevailing macroeconomic environment and the benefits to the economy as a whole.

This requires domestic industry to develop and participate in methods and
actions that can analyse such threats and opportunities and thereby improve productivity and competitiveness in industry. An example might be the cluster initiative, although a more appropriate instrument is needed to address problems resource-poor farmers are facing in this regard (Trade Policy Committee, 1997). Without industry participation, trade policy might be misdirected, repeating the problems of the past.

e) Export promotion strategies and foreign economic relations

South African trade policy has moved from an inward-industrialisation strategic approach to the promotion of export-led growth, focussing mainly on supply-side measures to support industrial growth and development. In this regard, a paradigm shift has occurred with Government’s approach towards foreign economic relations. The objective has become to fulfil the aims of the GEAR strategy relating to (Ismail, 1997)

- A competitive, fast growing economy creating jobs;
- redistribution of income or opportunities to the previously disadvantaged section of the economic sector; and
- securing and increasing access to new and traditional markets.

This requires a new global strategy that, according to Ismail (1997), inter alia,

- Prioritises exports and investment thrust into countries or regions identified as offering optimal opportunities;
- restructures and redevelops overseas economic representation to achieve these objectives; and
- negotiates favourable terms of engagement with foreign economic interests or entities.

In order to achieve these aims and objectives, a re-evaluation of traditional trading patterns is needed. Whereas in the past South Africa mainly had a North-South trading relationship (Europe and North America), Government policy nowadays favours a South-South relationship, however, without neglecting traditional trading partners. Especially the fast-growing economies of Central and Eastern Asia and
of Latin America are targeted as potential growth centres for South Africa exports, as well as sources of possible investment in domestic markets, while Africa is seen as the epicentre of economic relations. A break needs to be made with the traditional pattern of supplying primary and intermediate products to northern markets and importing manufactured goods. The emphasis should fall on value adding by generating investment in secondary and tertiary industrial sectors. This requires liberal financial and macroeconomic policies, including free entry to markets (also for imports) and a deregulated foreign exchange system. As indicated on several occasions, Government has identified this as a priority target in its economic policy and the agricultural sector, including agricultural economists, need to take note of these developments and strategize accordingly. A return to past practises of regulated and protected markets will not be feasible, given the macroeconomic environment the country is heading towards.

5. EFFECT ON AGRICULTURE IN SOUTH AFRICA

According to Anderson (1997), the impact of world agricultural price changes on the welfare of individual countries are substantially affected by their structure of distortions, i.e. distortions of trade and of domestic production and consumption through subsidy and tax policies. The effect of the international marketing developments on agricultural price changes and the subsequent impact on the welfare of South Africa has not been quantified. It is true, however, that many agricultural industries are distorted mainly because of previous statutory support and protection policies and may react differently on changes in the international marketing development.

As mentioned, international marketing developments, in particular the Uruguay Round Agreement on Agriculture, coupled with fundamental changes in government policy, resulted in a relatively free South African agricultural market. However, the effect of the Agreement on Agriculture on especially agricultural marketing, but also on production, appears to be little. It can be argued that the fundamental changes in economic and social policies that took place in South Africa had a greater effect on agriculture since 1994 than changes in the international system. After 1999, however, the effect could be much greater because a new round of agricultural negotiations will start in the WTO, the free trade agreements with the EU and SADC countries will most probably come into effect and the Lomé Convention will be reviewed.
5.1 Effect on the marketing environment

5.1.1 Uruguay Round Agreement on Agriculture

Agriculture was one of the most controversial issues in the Uruguay Round negotiations. After the Round was concluded, most observers agreed that the results in agriculture constituted a historical breakthrough in a sector that had essentially escaped effective GATT rules and disciplines. Others, though, were more critical and pointed to the fact that the results will not lead to much, if any, liberalisation of agricultural trade and that some of the agreed commitments, in particular tariff rate quotas, will inject a new element of government interference and managed trade into world agriculture. However, most now agree that the new commitments, i.e. bound import tariff levels and limits on both export subsidies and domestic support, have made agricultural issues much more easily negotiable in the WTO (Tangermann, 1997). It is for this reason that the industries should act pro-actively and determine what they would like to gain in the next round of agricultural negotiations, to be launched in 1999.

Negotiations in the Uruguay Round officially started in 1986 and, although it was concluded in 1994, most rights and obligations on agriculture were agreed upon before 1992. During this period, South Africa was isolated and did not participate actively in the negotiations. The official policy of the government was “not to walk in front”, but to observe and to follow. Most probably because of this policy, almost all South African agricultural industries did not expect the Uruguay Round to be concluded successfully and therefore did not study and quantify the possible impact thereof on their particular industries.

If the Uruguay Round Agreement on Agriculture was to be implemented strictly according to its rules, it would have had little effect on agricultural marketing in South Africa. As far as market access commitments are concerned, the tariffification of non-tariff measures into tariff equivalents was the most important element. Had the South African authorities followed the guidelines in this regard, it would have resulted in the same protection that prevailed under a system of import control. Instead, domestic policies, in particular the tariff policy, which is a function of economic policies and the RDP, caused South Africa to be far ahead of its WTO commitments.

Differentiated tariff levels within and across industries in a very complex tariff system have led to the circumvention of import tariffs, which led to severe disruptions of the internal market. The meat industry experienced such
difficulties with the imports of spiced meat at low tariff levels. The dairy industry experiences similar difficulties where cheddar cheese at a tariff of R6.60 per kilogram is cleared as curd at a tariff of 20 per cent ad valorem. This is an area that needs to be addressed by agribusiness. Pressure should be exerted on Government to close such loopholes and to avoid similar mistakes in future. Co-operation from industry to achieve this is, however, of utmost importance.

Regarding market access for South African products in foreign countries, the fresh fruit and wine industries have gained the most. For most other agricultural industries, the Uruguay Round has failed to open up markets because tariffication in most foreign countries resulted in the same protection and in some cases even higher protection (the so-called dirty tariffication practice). One example is skim milk powder where the ad valorem tariffs are 461 per cent in Norway and 401 per cent in Japan. Many agricultural markets in the developed countries and in particular the EU, only are accessible if tariff quotas are obtained. For example, according to De Zeeu (1996), almost 50 per cent of all dairy products are traded under tariff quotas and are mainly administered on a bilateral basis. New Zealand has gained the most with its 77 000 tons tariff quota of butter into the EU market. South Africa was excluded from such provisions. It is for this reason that the country is engaged in talks with the EU, the aim being the opening up of the latter's markets for South African products.

As far as commitments on export subsidies are concerned, they have to be scaled down by 36 per cent on budget and 21 per cent on volume. Most developed countries therefore still subsidise exports whereas South Africa has abandoned GEIS and, due to the closure of control boards, other forms of subsidies such as producer financed export subsidies for surplus removal purposes. It should be noted that export subsidies will not be phased out during the next liberalisation round. Furthermore, WTO notified export subsidies are legal and cannot be countervailed. The use of credit for unused export subsidies by subsidised countries can create uncertainties for international trade in cereals towards 1999.

According to Helm (1994), only New Zealand and Australia had lower percentage Producer Subsidy Equivalents (PSE) than South Africa in the early 1990's. Swart (1997) estimates that South Africa's percentage PSE might be the lowest of all developed countries during the latter part of the 1990's. This again underscores the argument that South Africa is one of the few countries that have moved the furthest down the path of total compliance with WTO regulations.
Lastly, it is regretted that the agricultural sector has been liberalised without having gained much market access. The remaining obstacles to a totally free trade should be used in the new round for bigger access to international markets. For this reason, it is encouraging that South Africa has joined the Cairns Group of Countries whose specific aim is to decrease agricultural protection and support measures, especially by the EU, USA and Japan, even further during the upcoming round of negotiations.

5.1.2 Free Trade Agreements (FTA’s)

a) Southern African Customs Union (SACU)

Until now, South Africa has been responsible for SACU’s tariff policy. Other members of SACU are now insisting on participation in this process through representation on the Board on Tariffs and Trade (BTT). If the BLNS countries are given more power in the determination of tariff policy, severe implications could arise for the South African agricultural industry, as the importance of this industry and of the different sectors of the industry varies significantly between the different countries.

These countries further receive tariff rebates for some agricultural products such as dairy. Many of these products find their way onto the South African market, either directly, due to a lack of effective border controls, or indirectly in the form of processed products, for example chocolate. As South Africa is entering into further FTA's, these problems will accelerate and agricultural producers and agribusiness are well advised to position themselves strategically to deal with these issues in a pro-active manner.

b) Southern African Development Community (SADC)

Limited competition has been experienced from SADC countries. However, a free trade agreement with SADC countries will become effective in 1999. It will be phased in over eight years. Due to the imbalance in trade, it is expected that South Africa will have to scale down tariff levels much faster than other SADC countries. Agricultural products such as tea, coffee, bananas, pineapples, subtropical fruit and tobacco may then experience fierce competition. If proper rules of origin are not negotiated and monitored, many industries could be confronted with subsidised and dumped products imported via these countries. Strictly defined sanitary and phytosanitary measures should also be in
place to prevent diseases from spreading between countries. If, for example, foot and mouth disease spreads from one country to another, the exports of meat from the region as a whole can be affected, also to third countries.

c) The EU

The EU is still South Africa’s main agricultural export market. It is apparently the opinion of policy-makers that some form of a FTA will be reached. The latest proposals on the table are that nearly 40 per cent of South African agricultural exports to the EU be excluded from the FTA while it is expected that South Africa should accept 95 per cent of the EU’s agricultural exports of which most are subsidised. If this proposal is accepted and proper arrangements cannot be negotiated, industries such as dairy, meat, canned fruit, oilseeds, sugar and wine will be hardest hit because of the heavily subsidised EU industries. In this regard it is encouraging to see that the South African Government has not just accepted these proposals but has developed a proposal of their own that foresees no exclusions of any products from the agreement.

5.1.3 Bilateral Agreements

South Africa has bilateral agreements with, *inter alia*, Malawi, Mozambique and Zimbabwe. The Zimbabwe Agreement is presently being renegotiated. Various agricultural products, in certain quantities, such as tobacco, groundnuts, tea, coffee and sugar can be imported free of customs tariff (DBSA, 1994). What is more important, is that the other four signatories of the SACU Agreement, also have various bilateral agreements with other SADC countries. South Africa, on the other hand, is investigating possible arrangements with other regional organisations such as Mercosur and the Indian Ocean Rim initiative. This web of bilateral and other agreements effectively erode tariff protection to a great extent and could affect those industries with high tariff protection in the future.

With this in mind, it might be in the best interest of all countries in Southern Africa to negotiate a regional agricultural trade policy. It would then be easier for the region to negotiate FTA’s and trade liberalisation as a group.

5.1.4 Lomé Convention

South Africa’s accession to the Lomé Convention will not result in improved
market access for agricultural products. This Convention will be renegotiated in 1999 and if it were to be scrapped, trade benefits to members will be eroded. As tariff protection in the EU is scaled down, the trade benefits to members are also decreasing. It can therefore be expected that countries such as Namibia and Botswana will increasingly market their meat in South Africa instead of the EU, as the profitability of utilising their meat quotas under the Convention decreases.

5.2 Effect on production

At the outset, it must be made clear that, in terms of Article XVII of the GATT, the WTO does not per se prohibit state trading enterprises such as control or marketing boards. The abandoning of boards in South Africa is a result of changing domestic policies.

Changes in the international marketing development have had little effect on domestic agricultural production. The fruit, vegetable and wine industries are, however, expanding. For most other industries, it is perhaps too soon to envisage any change. Even the tea industry, that is not internationally competitive, still enjoys some protection. It can be expected that major changes in South African agricultural production patterns may occur as further liberalisation measures are implemented and that some industries will eventually disappear. All agricultural industries must develop strategies and be prepared to state exactly what they want out of any trade negotiations, including the upcoming 1999 WTO negotiations.

The application of local policies, or the lack in the sound application of local policies, may affect agricultural production much more over the short term than the changes in the international marketing development. For example, the lack of a proper scientific basis (cross-elasticities were not taken into account, as well as production interdependencies) for the determination of tariff equivalents during the tariffication process, led to a less than optimal use of production resources, especially among products closely related in their production patterns. This is a factor that needs serious investigation, as it forms the wrong basis on which to develop an effective trade policy.

As a result of the globalisation of markets and competition from imported products, coupled with pressure from government, some industries have started a process whereby all role-players work together and investigate the whole value-added chain with a view to correct and prevent weaknesses and threats and become internationally competitive. This is called the cluster process. The wheat and milling industry has already started this process and
it is expected that the dairy and canning industries will follow soon. The outcome of these processes or studies may affect production of certain commodities. For example, the feasibility of wheat production in the Western Cape might be questioned.

Due to the high internal transport cost, it is expected that export orientated industries will locate mainly near the coast and harbours. On the other hand, it is expected that some uncompetitive industries with low tariffs situated closest to harbours will be the first to be affected by imports. Again, wheat production in the Western Cape is an example in this regard.

The SADC FTA will have an effect on agricultural trade and production only in the long term. It is likely that imports of certain primary agricultural products from these countries to the South African market can increase and that shifts in production can occur due to comparative advantages. This can become more evident as the infrastructure in these countries is improved. Certain agricultural companies may also relocate to other countries in SADC or may form joint ventures with companies in those countries. It is suggested that agribusiness in South Africa should add value to products and not only export primary agricultural products.

5.3 Issues for the next WTO round of agricultural negotiations

One of the most promising agreements reached on agriculture in the Uruguay Round, was the resolve to continue the reform process in agriculture in future. This resolve, laid down in Article 20 of the Agreement on Agriculture, was reconfirmed at the Singapore Ministerial Meeting of the WTO in December 1996 and a process of “analysis and exchange of information” was agreed upon. This process started in 1997.

It may therefore be of interest to agricultural industries to take note of some of the issues that will be on the agenda of the next WTO round of agricultural negotiations that begins in 1999. In addition to the integration of social and labour standards into world trading rules, the treatment of FTA’s and the conservation of the environment, Tangerman (1997) identifies the following technical issues:

5.3.1 Market access

(a) What base rate should apply and what should the percentage reduction in tariff levels be?
(b) Should tariff rate quotas be maintained and, if so, what should the percentage be of consumption regarding minimum market access and how should current market access be treated?

(c) Should the special safeguard provisions be maintained?

5.3.2 Export subsidies

(a) What base years should apply and should the percentage reductions be on volume and budget?

(b) Should there be commitments regarding cross subsidisation?

5.3.3 Domestic support

(a) What should the percentage reduction be on the Aggregate Measure of Support or related measurement?

(b) Should it be product specific rather than sector specific?

5.3.4 Other issues

(a) What obligations should be placed on state trading enterprises?

(b) How to deal with the so-called “peace clause”?

The question arises, however, whether an agricultural agreement will still be necessary or if it would not be better to treat agricultural products the same as industrial products, meaning that the same rights and obligations should apply? These are issues on which the country needs to take a stand before the start of the 1999 round of negotiations. Contrary to the preparations of South Africa’s country schedule for the Uruguay Round, it is therefore suggested that industries immediately start to prepare on these issues and identify other problem areas. It needs to be pointed out, however, that a return to protectionism in South Africa is unlikely, given the current and expected future policy environment. Industries should therefore rather concentrate on improving their global competitiveness. Further, Government should be urged to liaise closely with industry on policy formation, also on the strategy that needs to be followed during the upcoming multilateral negotiations.
5.4 Institutional arrangements

As already mentioned, the South African agricultural sector has been substantially deregulated over the past couple of years and is now one of the most deregulated agricultural sectors in the world. With the exception of tariff protection on certain tariff lines, no protection or support exists. It is therefore of utmost importance that the BTT and the Department of Customs and Excise function effectively in respect of tariff protection, anti-dumping and countervailing measures and border control.

Government should be responsible for the upgrading and maintenance of infrastructure and especially infrastructure necessary for industries to become internationally competitive. Priority should be given to the high domestic transport costs, especially railway cost. Specific attention and support should be given to small-scale farmers who want to exploit the export market. Supply side measures and other export incentive schemes could play a major role in this regard.

It is clear that government wants agricultural industries to form voluntary organisations that are representative of the industry as a whole. The wheat and dairy industries, for example, are well organised in the Wheat Forum and the South African Milk Federation (SAMFED) respectively. Meat and Wool Forums also exist. These organisations will have to work closely with government on policy and strategic issues. It appears that industries with relatively high tariff levels will have to go through a cluster process before such co-operation will take place. It is of similar importance that these organisations co-operate closely with government on trade policy issues, in particular market access opportunities, the elimination of trade distorting policies such as subsidies and support by developed countries. In this regard it is encouraging that the Minister for Agriculture appointed the Agricultural Trade Forum, incorporating members from industry, labour and government. Industries are encouraged to participate actively in this process through their representatives on the forum. Each industry has on its own created steering committees through which inputs are channelled to the ATF. However, the fact that there seems to be a lack of participation by agricultural economists in this process, as well as the trade policy process in general, is disturbing. This can also be seen in the curricula of the Departments of Agricultural Economics of most universities.
6. CONCLUSION

The international agricultural marketing environment is changing rapidly. The globalisation of agricultural markets, coupled with advancements in technology have made distances meaningless. Agricultural markets globally are undergoing a liberalisation process that will eventually lead to relatively free trade in agricultural products. South Africa is no exception. In fact, the country can be regarded as having some of the most liberal trade policies worldwide. Agribusiness and agricultural economists need to take account of this fact. Industries should do a benchmarking exercise and determine their competitive positions. They should also prepare for the new multilateral round of trade liberalisation and take the effects of the proliferation of FTA’s South Africa will be a member of into account during their strategic deliberations. Knowledge and skills on the part of certain agricultural industries, as well as many agricultural economists, on international trade and marketing is limited and must be improved. The aim should be to improve the long-term global competitiveness of the different industries and the agricultural sector as a whole.

REFERENCES


