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RESTRUCTURING OF AGRICULTURAL MARKETING POLICY IN SOUTH AFRICA

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The environment in which agricultural policy has to be formulated is changing fast. This paper identifies and discusses these changes. Special emphasis is being placed on the New Marketing of Agricultural Products Bill, the White Paper on Agriculture, the Reconstruction and Development Programme within the Department of Agriculture, as well as regional and international aspects that might influence agricultural policy. In conclusion, possible effects of these changes on future marketing policy in South Africa, as well as the role of the agricultural economist in this regard are discussed.

HERSTRUKTURERING VAN LANDBOUBEMARKINGSBELEID IN SUID-AFRIKA

Die omgewing waarbinne landboubeleid geformuleer moet word is vinnig aan die verander. Hierdie referaat identifiseer en bespreek hierdie veranderinge. Spesiale aandag word gegee aan die nuwe Wet op die Bemarking van Landbouprodukte, die Witskrif op Landboubeleid, die Herkonstruksie; en Ontwikkelingsprogram binne die Departement van Landbou, asook regionale en internasionale aspekte wat landboubeleid mag beïnvloed. Ter afsluiting word die moontlike gevolge van hierdie veranderinge op toekomstige landboubemarkingsbeleid sowel as die rol van die landbou-ekonomiese in hierdie verband bespreek.

1. Introduction.

The environment in which agricultural policy has to be formulated has changed significantly over the last few years. Emphasis has shifted away from stringent control measures towards a market oriented system, while the Reconstruction and Development Program (RDP) of the Government endeavours to include the disadvantaged sector of the farming community in any future dispensation. However, this has to be achieved without neglecting the existing commercial farming sector so as not to jeopardise food security. On the international level, South Africa has to take account of the rules and regulations of the World Trade Organisation (WTO) as well as competitive and comparative advantages in determining agricultural policy. In addition, the country is expected to provide the necessary impetus for economic growth in Africa, especially southern Africa. Regional issues are becoming of increasing importance when deciding on appropriate policy measures.

This paper attempts to put these aspects into perspective and to discuss how they might affect future agricultural marketing policies and what the role of the agricultural economist should be in this regard.

2.1 Towards a new agricultural policy framework in South Africa

Any future agricultural policy will have to subscribe to Constitutional principles. Policies will have to be seen as transparent and representative and have to comply with the vision of a new agricultural policy in South Africa, as specified in the White Paper on Agriculture (White Paper, 1995):

"A highly efficient and economically viable market-directed farming sector, characterised by a wide range of farm sizes, which will be regarded as the economic and social pivot of rural South Africa and which will (positively) influence the rest of the economy and society."

To accomplish this, the following goals will have to be pursued (White Paper, 1995):

- developing a new order of economically viable, market-directed commercial farmers, with the family farm as the basis;
- the broadening of access to agriculture via land reform should be enhanced by adequate agricultural policy instruments, and supported by means of the provision of appropriate services;
- financial systems should focus on the resource-poor and beginner farmers, enabling them to purchase land and agricultural inputs;
- trade in and the marketing of agricultural products should reflect market tendencies;
- agricultural production should be based on the sustainable use of the natural agricultural and water resources; and
- developing agriculture's importance in the regional development framework of Southern Africa and other countries.

These policy goals will be the future driving force behind any agricultural policy measure in the country and it is within this context that the following sections will be discussed.

2.1 The New Marketing of Agricultural Products Bill and marketing deregulation

Over the years there has been much direct and indirect intervention in the agricultural sector. Varying degrees of control and regulations in respect of the movement, pricing, quality, standards, selling and supply of agricultural products were introduced by the Marketing Act of 1968 (Act No. 59 of 1968, as amended), while the Act was also used by Government to administer subsidies (RSA, 1995: 32).

Since the early 1980's, significant shifts in agricultural policy took place. Following international trends to liberalise agricultural markets, as well as internal pressures to remove the market discrepancies created by the Act, a number of committees were appointed to investigate agricultural marketing in South Africa, culminating in the establishment of the Agricultural Marketing Policy Evaluation Committee (AMPEC). Its task was to evaluate existing agricultural marketing policies in South Africa, and to determine guidelines on future policy measures. AMPEC developed broad objectives on future agricultural marketing policies (AMPEC, 1994: 1), which provided the underlying basis for discussing agricultural marketing policy in the country and led to the adoption of the final principles on agricultural marketing policy as specified in the White Paper on Agriculture, which have been incorporated into the new Marketing of Agricultural Products Bill. They are as follows (White Paper, 1995):

1. *The agricultural marketing system should ensure equitable access to the market for all participants*

This is a major shift in so far as it requires a reorientation on the part of government away from its traditional clientele, namely commercial farmers, taking into account small-scale and part-time farmers, as well as traders and consumers in any future deliberations on agricultural marketing policy.

It also requires a reorientation on the part of traders, who will have to become consumer oriented. The Government will assist local communities and private enterprises in creating the necessary environment where small-scale farmers have access to services at affordable costs.

2. *Agricultural marketing arrangements should conform to the basic rights of individuals as stated in the Constitution*

Freedom of choice and association should form the cornerstone of any future agricultural marketing policy in the country. However, the Government also accepts that this basic right might be curbed where deemed reasonable and justifiable in the public interest, as stipulated in Section 33 of the Constitution. Statutory marketing arrangements still have to be sufficiently supported by all directly affected parties.

3. *Representation on statutory marketing institutions should be inclusive of all directly affected parties*

For the first time it is accepted that marketing institutions have to be representative of all directly affected sectors of society. In order to comply with Constitutional principles, the Minister's authority has been limited to implement measures which have been subjected to objective evaluation and are deemed to meet the needs and have the support of the majority of the involved farmers as well as that of all directly affected parties.

4. *In order to enhance the welfare of the nation as a whole, Government intervention in agricultural marketing should:*

- be limited to the correction of market imperfections and socially unacceptable effects.
- never be used to rectify socially unacceptable conditions when non-market mechanisms are appropriate. This is necessary to minimise the cost to society.
- allow for export marketing arrangements which enhance the welfare of the nation as a whole. International agricultural trade is characterised by Government induced distortions. To overcome such uncompetitive behaviour, and also to enhance a country's comparative advantage, the establishment of statutory bodies that enhance the country's competitiveness on international agricultural markets might become necessary.

The main implications arising from the proposed new agricultural marketing environment in South Africa are that:

- (i) agricultural marketing will be an all-inclusive and transparent process;
- (ii) the marketing of agricultural products must become market oriented; and
- (iii) price fixing will be limited to certain exclusive cases, and only if sufficient support has been established. Price stability is therefore not guaranteed, forcing farmers to apply better risk management techniques.

2.2 **The Reconstruction and Development Programme (RDP) and the Broadening Access to Agriculture Thrust (BATAT) initiative**

The RDP of the Government is an integrated and coherent socio-economic policy framework that seeks to mobilise all people of the country as well as the country's resources towards the final eradication of apartheid and the building of a democratic, non-racial and non-sexist South Africa (RDP, 1994: 4). Within this context, the Department of Agriculture developed BATAT, which is a vehicle to develop farmers in meeting their needs, while simultaneously increasing the capacity of Government to manage a diversified agricultural sector. The major focus will be on developing services for those farmers who previously were excluded from having access to such services. This will, however, occur without neglecting the existing established commercial farming sector (Department of Agriculture, 1994: 1), so as to ensure food security.

The objective of BATAT is to design and establish mechanisms for broadening access to agriculture for previously excluded farmers with the focus on five pillars, namely financial services; human resource development; technology development; delivery systems (extension etc.); and marketing (Department of

Agriculture, 1994: 2), that should not be seen in isolation, but as interdependent units.

The final implementation of BATAT lies in the hands of Provincial authorities. The National Department of Agriculture will play a facilitating role in this process, but, ultimately, it will be the Provinces who are driving the process (Department of Agriculture, 1994: 3). This poses interesting challenges to agricultural policy makers in that Provincial aspirations will have to be taken into account in any future policy decision.

The fact that the focus of agricultural policy will increasingly fall on the small-scale and emerging farming community requires a significant paradigm shift for both agricultural policy makers and for agricultural economists. In terms of the RDP and BATAT, this farming sector is regarded as a legitimate group for Government market development programs. If such farmers are to be expected to act as rational economic human beings, the necessary service infrastructure should be available to them. In developing such an infrastructure, which takes account of both the developing and developed sectors of the industry, Government will play principally a facilitating role (BATAT, 1995: 2). The private sector will have to play an active role in achieving the goals of developing the South African agricultural sector in order to benefit the economy as a whole and to achieve the objectives of the RDP. Wherever there is underdevelopment, marketing is the most underdeveloped activity (BATAT, 1995: 2). Efficient agricultural marketing systems will go a long way in addressing the backlogs of the South African rural community, and should be the focus of agricultural policy makers and of agricultural economic research.

2.3 The changing international trade regime.

The production of agricultural products in general and food products in specific are of great importance - both in economic and political terms - in most countries of the world. This has resulted in governments increasingly intervening in agricultural markets, mainly by influencing prices (Helm and van Zyl, 1994: 214), leading to serious distortions in world agricultural trade.

The rationales behind any intervention are aspirations to maintain food security, with the belief that this could be threatened by uncontrolled market forces. However, such beliefs resulted in the fact that political rather than economic considerations tended to be the determining factor in decision making (Helm and van Zyl, 1994: 214). It was within this context that the Uruguay Round of negotiations of the General Agreement on Tariffs and Trade (GATT) took place, culminating in the signing of the Marakesh Agreement in April 1994, and the establishment of the World Trade Organisation (WTO) in January 1995.

The outcome of the Uruguay Round of negotiations is well documented and a discussion thereof would fall outside the scope of this paper¹. Of importance is to identify possible effects the outcome of these talks will have on South African agriculture. The process of tariffication of a large portion of the country's agricultural products, in compliance with the agreement, has been completed (Food & Commodity Confidential, 1995: 1). This implies that in many instances agricultural and food products can be imported freely, provided that phytosanitary and other health regulations are adhered to and that the applicable tariff has been

paid. In addition, minimum market access arrangements compel South Africa to allow importers access to domestic markets. On the other hand, increased export opportunities for South African exporters of agricultural and food products might arise, as the agreement is reciprocal.

In the past, South African producers of agricultural and food products traded within a highly protected environment, supported by statutory intervention measures that were argued to be harmful both in terms of efficiency and equity. This has resulted in severe distortions in the economy, reduced incentives, weak performance and reduced competitiveness (Kassier and Groenewald, 1992: 95). With the introduction of a liberalised international trading system, coupled with domestic deregulation efforts, producers and consumers will increasingly be exposed to market forces. This will require an increase in competitiveness from especially agricultural producers. In future, the South African agricultural industry cannot and will not be isolated from these forces, both on domestic and on international markets. Under these circumstances the Government will have to play an important role in facilitating and coordinating information efforts, in order to enhance producers' knowledge of these markets and market trends. However, it cannot be expected of Government to regulate markets, except in circumstances where serious market distortions take place. Even then, such distortions have to be perceived by the majority of the directly affected parties to be disruptive before Government can react. Anything else would be contrary to the spirit of the WTO and the Marakesh agreement, as well as Government's commitment to transparency and inclusiveness.

2.4 The Africa initiative

2.4.1 The renegotiation of the Southern African Customs Union (SACU)

During the last few years it became clear that the present SACU agreement does not meet all the needs of its members. It also became too costly for South Africa to maintain. The aforementioned and the changing political environment in South Africa made it necessary to renegotiate the agreement in its totality. A ministerial meeting of member countries established a Customs Union Task Team (CUTT) charged with the responsibility of making recommendations to the Ministers on the renegotiation of the SACU agreement. The CUTT has established three working groups, namely, institutional, technical and policy working groups to assist it with its work.

From discussions in the CUTT meetings and the different position papers presented by Botswana, Lesotho, Namibia and Swaziland (the BLNS countries) it became clear that these countries favour a new democratised agreement administered by a single body which will also be responsible for the policy of the Customs Union. A democratised administration of the SACU and an independent professional secretariat will have implications on the existence of SACU as a legal entity, and therefore on the exercise of sovereign power (Department of Agriculture, 1995).

With regard to agricultural policy within a new SACU agreement there is already some agreement on a few broad areas, namely: food security, free trade within

SACU, rebate facilities, reduced tariffs and the rationalisation of bilateral trade agreements.

Free movement of goods produced, grown or manufactured within the common customs area is one of the basic principles of a Customs Union. Article 12 of the present agreement makes provision for the implementation of marketing arrangements within one specific country as long as they are applied equitable across the SACU area. BLNS countries, however, see the restriction of imports, specifically from South Africa by means of an import permit, as an instrument for agricultural development and regard Article 12 as the appropriate instrument to facilitate such development, a view not fully supported by South Africa, as this could have serious effects on exports from South Africa to the BLNS countries.

In terms of South Africa's commitment under the GATT agreement on agriculture, the country is obliged to replace all quantitative import control with tariffs. In the past, the BLNS countries could import agricultural products at zero or relatively low tariffs. Because of South Africa's tariffication process, tariffs on certain strategic agricultural products were increased, which BLNS countries are also obliged to apply. They are therefore seeking rebate facilities for certain strategic products. However, rebate facilities, if not limited and administered properly, can lead to distortions on South African markets, as well as the relocation of industries, as the control of movement of products within the SACU is difficult because of the very long borders between the countries.

Finally, the democratisation of the administration of the SACU will have a direct bearing on the composition and functioning of the South African Board on Tariffs and Trade (BTT). It became clear during negotiations that the BLNS countries are apposed to the BTT and are opting for a new body responsible for determining tariffs to be established under a new SACU agreement. Due to the variation in the level of agricultural development in the different SACU members' countries as well as the relative difference in the importance of imports all member countries have different needs with regard to the level of tariffs. It would therefore be necessary to strive towards a single common tariff for the whole of the SACU area acceptable to all member countries.

2.4.2 Regional integration efforts in southern Africa.

In 1994, South Africa became the eleventh member of the Southern African Development Community (SADC). With the political changes in South Africa, the emphasis of the SADC changed with a proposed movement away from project cooperation to closer political cooperation in order to establish the conditions for equitable trade integration.

The SADC draft protocol on trade cooperation had almost been finalized by the time South Africa joined the SADC in August 1994. The original objectives of the draft protocol submitted to all member countries were to promote intra-SADC trade by way of a Free Trade Area. This was not acceptable to South Africa and due to South Africa's intervention this was amended to a clause calling for trade cooperation arrangements amongst Member States which seeks to facilitate, increase and promote intra-SADC trade on the basis of

fair, mutually equitable and beneficial trade. The creation of a free trade area is seen as a longer term objective.

South Africa further suggested that "Provisions relating to import duties rather be constricted around the notion of preferential access within an SADC trade regime, taking into account the differentiated levels of economic development of member states." (Maasdorp, 1995). Furthermore, preferential access, apart from being determined at differentiated levels or time frames should also be determined on a sector by sector basis.

A study done by the IDC (1995) shows that there has been a shift in trade patterns to the advantage of the SACU region. The study also shows that the immediate implementation of a free trade area could have a negative effect on most of the countries in the SADC region. It also indicated that some industries in South Africa would be affected negatively, also in the agricultural sector. It should be kept in mind, however, that SACU has always been a captive market for South Africa and that South Africa enjoys a favourable balance of trade with neighbouring countries and that the opening up of trade could also benefit South Africa.

2.5 Trade negotiations with the European Union

Currently, the South African Government is locked in negotiations with the European Union (EU) to agree on a free trade deal of mutual benefit. Coupled with this are efforts to have South Africa accede to the Lomé convention, at least with regard to certain protocols of the convention. The EU is known for its highly protected agricultural sector and its unwillingness to grant special status for outside countries in this regard. If South African agricultural products should be granted some special treatment, it will most probably imply that EU agricultural products have to be granted similar status, at least in the long run. Such agreements can therefore significantly affect the South African agricultural industry.

3. Possible effects on future marketing policy in South Africa

The possible effects on future agricultural marketing policy can be summarised as follows:

1. The determination of agricultural marketing policy will become a transparent and all-inclusive process, in line with the stipulations on human rights as set out in the Constitution. All affected parties will be consulted, and will have some form of representation on statutory marketing bodies.
2. The marketing of agricultural products will become less regulated and more market oriented. Government intervention will only occur where sufficient support for such intervention can be proven. In addition, any measures to correct market imbalances will only be applied at the specific point where such imbalances occur.
3. Aspects of any international and regional agreements will feature strongly in any future policy. South Africa has committed itself to

the implementation of the Marakesh agreement and has nearly completed the process of tariffication in agriculture. Any future agricultural marketing policy will therefore have to take cognisance of world trends and comply with the WTO rules and regulations.

4. Future regional economic cooperation and integration in Southern Africa is a fact, not a possibility. Pressures on countries in the region to coordinate their economic policies to such an extent that they can be easily transformed into regional policies will increase. Regional aspirations and development objectives therefore have to be taken into account when debating South African agricultural marketing policy.
5. Although Provincial authorities have been granted some form of autonomy, the Minister of Agriculture and the MEC's of Agriculture of the Provinces have agreed that marketing policy will be the responsibility of the National Department of Agriculture.
4. **The role of the agricultural economists in this process**

In the past, agricultural economists were not too concerned about the aspects of marketing or of international economics. This has led to the situation where the country has an abundance of production economists, but very few marketing and international economic experts. This has placed the country at a distinct disadvantage with its trade partners. It is therefore required that in future South African agricultural economists should

- become more marketing oriented. A knowledge of marketing is a prerequisite for any successful business endeavour in any competitive environment. Agricultural economists should therefore have a basic knowledge of theoretical and practical marketing principles. Educational institutions should play an important role in this regard.
- acquire a global outlook. Global events are affecting and shaping local agricultural markets. Agricultural economists need to be able to identify and evaluate these events, and analyse how they might affect the South African economy. The teaching of international economic theory should become a core aspect of syllabuses at academic institutions training agricultural economists, especially in the fields of international trade theory and economic integration.
- become more macro-oriented. Production economists are mainly micro economists. However, the macro economy of a country significantly affects its agricultural industry, especially in a deregulated and competitive marketing environment. Specialists are therefore needed that can inform decision makers on macroeconomic issues, to prevent drastic interventionist measures.
- gain a better knowledge of developmental issues. The small-scale emerging sector of the farming community faces some serious developmental

backlogs, and agricultural economists should be able to contribute in this regard.

Departments of agricultural economics at universities have to adapt and change their view of the profession and need to give more attention to the abovementioned. The country has to broaden its spectrum of agricultural economists to such an extent that the profession and the agricultural industry in the country are able to adapt to these changing times.

5. Conclusion

South Africa's political and economic environment is changing constantly. This requires that policy makers and economic specialists keep abreast of events. It also requires that the agricultural economic profession changes its outlook on these events and to adopt a market oriented approach, as its target market is constantly changing.

Note

1. For a more detailed discussion, see Lubbe (1994) or Otto (1994).

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