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Articles in the field of agricultural economics, suitable for publication in the journal, will be welcomed.

Articles should have a maximum length of 10 folio pages (including tables, graphs, etc.), typed in double spacing. Contributions, in the language preferred by the writer, should be submitted in triplicate to the Editor, c/o Department of Agricultural Economics and Marketing, Pretoria, and should reach him at least one month prior to date of publication.

The Journal is obtainable from the distributors: "AGREKON", Private Bag 144, Pretoria.

The price is 20 cents per copy or 80 cents per annum, post free.

The dates of publication are January, April, July and October.

"AGREKON" is also published in Afrikaans.

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THE GENERAL AGREEMENT ON TARIFFS AND TRADE AND QUESTIONS PERTAINING TO SOUTH AFRICAN AGRICULTURAL EXPORTS¹⁾

By

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1. THE GENERAL AGREEMENT ON TARIFFS
AND TRADE (GATT)

GATT was established in 1947 when a number of countries agreed to negotiate simultaneously with a view to reducing tariffs. This was followed by negotiations on a smaller scale during 1949, 1951 and 1956, while the most recent negotiations, the Kennedy Round, commenced in 1964. These negotiations again covered a wide field and were only concluded about the middle of 1967.

Originally 23 countries were parties to the agreement. South Africa was one of these members. Since then membership has increased to about 74 countries. With a few exceptions the communist countries did not accept the agreement. Nevertheless the trade of the contracting parties covers more than 80 per cent of total world trade.

The general acceptance of the principle of most favoured-nation treatment under the General Agreement is probably its most outstanding feature. Discrimination between members and the introduction of new preference tariffs are prohibited. Furthermore the use of quantitative restrictions on imports is prohibited except to protect the balance of payments and for a few other special purposes. There are also provisions relating to subsidies, state trading, internal taxes and anti-dumping measures. In respect of developing countries, certain exceptions are, however, provided in order to bring about the establishment and development of new industries.

GATT undoubtedly represents a major step forward in bringing about tariff reductions on a world-wide basis and to create a degree of orderliness and uniformity and to maintain this. It is self-evident that the agreement is not wholly complied with (or cannot be complied with) by all contracting parties at all times. Many problems, gaps and partial evasions continue to occur. Viewed realistically the agreement nevertheless on balance made a significant contribution in confining impediments of all kinds in international trade to a lower level than would probably other-

wise have been the case. The fact that, since World War II, no general depression such as that experienced during the early thirties has occurred also contributed to the limitation of control measures.

This statement applies more specifically to the trade in industrial products. For agricultural products the efforts to attain freer trade were less successful. This fact, along with the less favourable economic circumstances experienced in the world in general during the middle and late fifties, led to the appointment in 1958 of "Committee II" of GATT. This Committee was entrusted to collect information on the use of non-tariff measures for the protection of agriculture, on the effect of these measures on international trade and incomes from agriculture; and on the ineffectiveness of the provisions of GATT to promote the trade in agricultural products. This Committee, of which South Africa was a member, continued to function for a considerable time after the Kennedy Round of tariff negotiations had commenced in 1964. Although the Committee had very informative consultations and collected useful information, it reached hardly any practicable solutions.

With the Kennedy Round of negotiations substantial tariff reductions on industrial products were secured - as much as 50 per cent on a wide range of items. By comparison comparatively little was attained in respect of agricultural products. As far as South Africa is concerned a few concessions were obtained but certain concessions also had to be made.

The following examples may be quoted:

More important tariff reductions by the E.E.C. on agricultural products:

	Import duty	
	Old	New
Bulbs, plants, etc.	10%	8%
Fresh flowers	20%	17%
Fresh grapefruit	12%	6%
Dried peaches	8%	7%

1) Paper read at a meeting of the Agricultural Economic Society of South Africa, 26 October 1967.

Most important tariff reductions by the U.S.A.
on agricultural products:

Fresh grapes	5.25¢ a cu ft (1 April to 30 June)	Free (1 April to 30 June)
Canned guavas	2¢ a lb	1¢ a lb
Dried pears	2¢ a lb	1.5¢ lb
Glacé pineapple	17.5%	8.5%
Sunflower seed	0.8¢ a lb	0.4¢ a lb
Ostrich feathers	10%	5%
Mohair, not scoured	22¢ a lb	11¢ a lb
scoured	25¢ a lb	12.5¢ a lb
Wool, not finer than 44s in the grease	13¢ a lb	6.5¢ a lb
Wattle bark	7.5%*	3.5%

¢ = U.S.A. cent

* Temporarily free to 30/9/69.

On the other hand certain of the preferences which South Africa enjoyed in the United Kingdom were reduced during the Kennedy Round. Only the more important items are mentioned.

	Former preference	Present preference
Raisins and sultanas	8/6 a cwt	4/- a cwt
Canned peaches	12 ⁵ / ₈ %	6%
Certain fruit salads	5/6 + 11d sugar duty, a cwt	3/- a cwt
Certain mixed fruits	15 ⁵ / ₈ %	7 ¹ / ₂ %
Pineapple and tomato juices	10%	5%
Wattle extract	10%	5%
Leaf tobacco	1/6 ¹ / ₂ a lb	1/2 a lb

II. PROBLEMS ENCOUNTERED WITH AGRICULTURAL EXPORTS

Marketing is always an involved undertaking, locally and more so abroad; and with many agricultural products possibly to a greater degree than with most other products since the characteristics of agricultural products cannot always be determined precisely, can vary from season to season and in case of fresh perishable products quality is subject to change even while being marketed. For agricultural products, as will be explained later, the market is mostly a buyers' market. There are usually many sellers in the world - competitors for a restricted market - and on price, quality, service and by

various other means the buyer must be persuaded to accept one country's product rather than that of another.

It is hardly necessary to mention that the secret of marketing lies therein to have the product in the right form at the right time and in the right place as well as in the right quantities and naturally at the right price. The process of marketing thus commences with the breeding of the plant or animal, so that market research is not only necessary, but research through the whole process of production, assembly, storage, processing, packing and selling, and in modern times last but not least advertising.

The extent to which these problems are encountered differs from product to product and from time to time, but at some time or other they are encountered to a varying degree with practically every product. These difficulties, although they are all of an economic nature, are probably also more technical or in any case of a specialised nature and must largely be solved individually for each product.

Here attention will be directed more specifically to certain wider economic aspects which are probably not always fully realised by producers and frequently also by others. One reason for this could be due to the fact that the statutory control boards have largely taken over the marketing functions, while the producers agitate for greater security.

III. OUTSTANDING CHARACTERISTICS OF WORLD TRADE

To appreciate our own problems in connection with exports better, it is desirable to view these against the background of certain characteristic developments in international trade.

During the post-war years and more particularly with the economic revival since 1958 in most industrial countries, international trade developed very rapidly in comparison with the inter-war years. According to statistics supplied by the secretariat of GATT the rate of growth during the past eight years averaged slightly more than 8 per cent a year which is much more than the growth rate of world production.

This growth rate varies considerably however between countries. The trade of the developed countries not only progressed more rapidly than that of the developing countries but also between the developed countries in comparison with the trade between the developed and developing countries or among the developing countries themselves.

A second feature is that the trade in industrial products grew much more rapidly than the trade in agricultural and other primary products. Between 1958 and 1965 the trade in industrial products increased by about 83 per cent while that in agricultural products and raw materials

	1954/56	1965
Percentage share of developed countries in total world imports	72	78
Percentage of total imports of developed countries from other developed countries	71	78
Percentage of total exports of developed countries to developing countries	75	78
Percentage share of developed countries in total world imports of food	79	79
Percentage share of food imports by developed countries from other developed countries	77	79
Percentage of food exports of developing countries to developed countries	82	79

SOURCE : Statistical Yearbook of the United Nations, 1966.

only increased by about 45 per cent at constant prices¹⁾. The increase in agricultural products as such was even less. There are various sound reasons why agricultural exports increased more slowly than industrial products, *inter alia* the relatively lower rate of growth in demand and consequently also in output.

Nevertheless the following conclusions which are of particular importance to South Africa as an exporter of agricultural products appear justified, namely:

1. That the rate of increase in world trade in agricultural products is relatively slow, notwithstanding the upward movement of the trade cycle since 1958, and
2. that the industrial countries, although relatively most important as markets for agricultural products do not appear to grow in importance as is the case with industrial products.

These industrial countries are mostly situated in the Northern Hemisphere with a temperate climate and produce to a considerable extent the same agricultural products as those of South Africa. Western Europe in particular experienced a high rate of growth in food production during this period.

¹⁾ Statistical Yearbook of the United Nations, 1966.

On account of technological progress on the one hand, and a restricted growth in the demand for food as well as for various agricultural raw materials on the other hand, practically all these industrial countries have to cope with the problem of depressed incomes from agriculture and a shift of population out of agriculture to other sections of the economy. Basically the main reasons for the multitude of protective measures for agriculture in these countries is to be found in this situation.

In this respect it is significant that the share of developed or industrial countries in total world food exports increased from 56 to 64 per cent during the eight year period ending in 1965¹⁾. This increase, frequently promoted by subsidy payments, may to a great extent be ascribed to the encouragement of production through the high degree of protection and the consequent establishment of favourable price levels. It is true that these industrial countries largely used this increased output among themselves. This nevertheless reduces relatively, the marketing opportunities for those countries which are to a great extent dependent upon the export of agricultural products. In many instances this does not only create serious difficulties in gaining entry into certain markets, but frequently also has a depressing effect on the prices which can be obtained in the markets still to be found.

In this connection the market in the United Kingdom occupies an exceptional position, partly on account of the preferences enjoyed on various products by South Africa and the Commonwealth Countries and partly because of the special nature of the price support measures for agriculture - deficiency payments. Lately import quotas have, however, been introduced for butter and bacon and minimum import prices for maize and wheat.

III. EVALUATION OF SOUTH AFRICAN AGRICULTURAL EXPORTS

As an introduction brief reference may be made to the importance, of agriculture in the country's exports. Excluding gold, exports of agricultural origin constitute on average approximately 40 per cent of total exports. This percentage may fluctuate considerably from year to year, but it has been in this vicinity for a considerable time. If those products which are processed prior to export are omitted the rest is equal to about 25 per cent. If gold exports are also taken into account the proportion drops further to only about 14 per cent.

In my view the two latter percentages place the importance of agriculture in the export trade too low. Without going into finer calculations which could be made of the value contributed by processing, transport and so on, it appears that it would be safe to place the agricultural industry's contribution to the export trade at at least one-third (excluding gold).

¹⁾ SOURCE : Statistical Yearbook of the United Nations, 1966.

This is not an insignificant amount. To make a closer evaluation of the value of agricultural exports in the economy as a whole and for the agricultural industry in particular, it may be helpful, to set out the more important farm products in the following groups, namely:

I. Products produced mainly for export and exported regularly.

II. Products exported regularly to fairly regularly, but not such a large percentage as those in group I.

III. Products of which a relatively insignificant percentage of the output is exported fairly regularly.

IV. Products exported sporadically and of which exports are of quite minor importance in relation to domestic consumption.

CLASSIFICATION OF THE MORE IMPORTANT AGRICULTURAL EXPORTS OF SOUTH AFRICA

I. Regular and predominantly export products	Percent of total agricultural exports (Average 1963/65)	
Citrus fruit, Deciduous fruit,		
Canned fruit and vegetables	23.0	
Wool and Mohair	31.3	
Karakul pelts	2.7	
Hides and skins	4.2	
Wattle extract	2.1	63.3
II. Regularly to fairly regularly, with a relatively high percentage of output for export		
Sugar	7.7	
Oilseeds and oil	2.4	
Maize	12.8	
Grain Sorghum8	
Sultanas and raisins1	23.8
III. Fairly regularly, but only a minor percentage of output for export		
Eggs6	
Tobacco	1.1	
Wine9	2.6
IV. Sporadic with a minor percentage of output for export		
Meat	1.9	
Dairy products2	
Cotton2	
Dry beans	*	
Chicory	*	
Potatoes	*	2.3
		92.0

* Less than 0.1 per cent.

Although this list is not complete it contains the most important export products and covers more than 90 per cent of total agricultural exports, processed and unprocessed.

This grouping must naturally not be considered as unchangeable. It is based mainly on data for the years 1963 to 1965, that is, just before the effects of the droughts reached a

peak. Changing weather conditions can for shorter or longer periods bring about temporary differences. Similarly longer term developments in respect of sales and output, cause a product to gradually shift from one group to another.

It is, however, remarkable how stable this pattern, taken in general, remains over fairly long periods. This is understandable since it is determined by the nature of our basic natural resources. An outstanding example of this is small-stock farming. Because of the extensive semi-arid regions of South Africa it is practically impossible to farm with anything else than sheep and goats in these areas. The Western Province with a Mediterranean climate, on the other hand, is admirably suited for the production of deciduous fruit and since the seasons are opposite to those of the Northern Hemisphere this helps to create favourable market conditions for fresh fruit, citrus as well as deciduous.

Along with these physical and natural characteristics there are naturally numerous factors of an economic nature - many of which are to a greater or lesser extent artificial - which contribute in establishing the direction, scope and profitability of the export trade. In this brief review it is not possible to deal in detail with every product. Of necessity only a few general deductions have to be made - however risky it might be to generalize - with a few specific examples to illustrate the problems which are encountered.

By the Law of Comparative Costs it would be to the best advantage of each country to export only those products for which it has a comparative cost advantage as against other countries, on the assumption of course that artificial barriers do not frustrate the functioning of the Law. In practice, with all the artificialities encountered in international trade, it is, however, nearly an impossible exercise to establish factually and to what extent South Africa has a comparative cost advantage in respect of the various products exported.

GROUP I

Based on general observation South Africa has a definite advantage in respect of the products in Group I - wool, mohair, Karakul pelts, fruit and wattle bark - which represent about 60 per cent of the agricultural exports. This does not indicate that these products are always sold profitably for export or that these industries do not at times experience serious marketing problems. They have, however, in the main been developed for the export trade and receive little if any external support apart from the usual research and extension services.

GROUP II

In respect of the industries in Group II which represent about a quarter of the agricultural exports, South Africa has an advantage although to a lesser extent than for Group I. This view might appear strange, since the reali-

zation per unit on exports of these products - sugar, maize, oilseeds and dried vine fruits - is frequently lower than the realizations on the domestic market. At times this position can partly be brought about by the extent of stabilization of producers' prices, which may be found possible for the products in Group II, since exports do not represent such a high percentage of output as with the products in Group I. Stabilization funds for maize, oilseeds and sultanas are used for this purpose, while control of domestic market prices also serves to minimise the effect of widely fluctuating prices in foreign markets on producers' prices. In part the less favourable position for products in Group II arises from the fact that the production of and consequently the level of protection of these products (except groundnuts) generally tend to be higher in the main importing countries than for the raw materials included in Group I.

The export realizations of the products in Group II generally amply cover the costs of production (except sugar during the past few years) and thus still retain definite advantages. Regarding sugar, the very high export losses during past few seasons cannot serve as an indication that the sugar industry is inefficient or that production is uneconomic in comparison with other countries. The price of sugar in the free world market where the surplus must be sold represents only a small proportion of the total quantity of sugar entering world trade, and prices can fluctuate widely. In by far the majority of countries sugar prices for the producer are maintained above the world market prices.

GROUPS III AND IV

The position of many of the products in Groups III and IV is probably more questionable. Exports of these products not only tend to be more sporadic, but usually the realizations are so much lower than prices in the domestic market that realizations can result in an absolute loss.

Measures to stabilize prices for these products, because of their importance in the domestic market can naturally be attained more easily than for the products in Group II. In respect of some of the products in Groups III and IV these measures contribute to a degree to the maintenance of producers' prices at a level which tend to be high in comparison with prices realised in export markets. With some of these products exports are, however, also severely impeded and the realizations depressed by all types of protective measures applied in the main consuming or industrial countries. Eggs constitute an outstanding example in the E.E.C., as well as dairy products and wine.

GENERAL OBSERVATIONS

The fact that certain field crops (summer grains, groundnuts and sugar) occupy a comparatively important position in the export trade, while food products of animal origin (meats,

dairy products, eggs) are unimportant appears somewhat of an anomaly. While South Africa is comparatively ill provided with good arable land, the country possesses extensive areas of natural grass for grazing. In addition the supply of feed grain, and since World War II also oil-cake, fishmeal and other protein feeding stuffs are fairly plentiful. One could therefore expect that by this time the export of meats, dairy products and eggs rather than that of animal feeds would have developed.

Some authorities maintain that the technology of production of crops has progressed much further in South Africa than that of animal products. While this might be true for dairy products and meat it can hardly be accepted for eggs where the degree of efficiency compares favourably with that of most other countries. In my view this situation is due more to the tendencies of the main importing countries to establish their price and trade policies in such a manner that the importation of supplementary supplies of animal feed required for the raising of animals is less restrictive than that of the importation of the animal products.

It has already been indicated that the system of price stabilization adopted for various agricultural industries to some extent contributes to the position that sales in the domestic market frequently produce better returns than those from exports. The criticism on this is that favourable domestic prices to producers encourage the production of large unwanted surpluses which have to be exported at uneconomic prices at the expense of the domestic consumer and at times also of the State. The argument in favour of stabilization is again that a servile adoption of world market prices, which because of numerous factors tend to be very unstable and frequently depressed for long periods will create so much uncertainty in the particular industry that output will suffer and that it might

even be to the disadvantage of the domestic consumer. If the production of a particular product should because of price reductions, decline too much it might also prevent advantage being taken of a favourable change in the export markets.

Much can be said in favour of this approach but it also harbours dangers. The problem is thus more a matter of finding the correct balance than to move to the one or other extreme. This is easier said than done. By nature stabilization measures tend to be inflexible and the ability to note sufficiently accurately and in good time future tendencies is fairly limited.

Although it may be concluded that in general the major part of the agricultural exports - at least 80 per cent or more - rest on a sound foundation, it must be accepted that from time to time there will be instances with a tendency to make desirable adjustments too late, and even to use the export market merely for stabilization purposes without regard to the costs involved or with little prospect that exports will pay within a reasonable time.

Where the export trade in agriculture is of so much importance and where restrictions on it contains so many direct and indirect disadvantages, it is obviously in our interest to take part actively in organizations like GATT to try and bring about improvements. In the application of our price and trade policies we make use, however, of many of the same kinds of measures adopted by other countries. We do believe, with some justification, that we do this on a more moderate scale. Nevertheless it must be remembered that consideration cannot only be expected from the other side. On our part we must be prepared to make concessions too where our policies might stimulate production and exports abnormally or restrict imports unreasonably.