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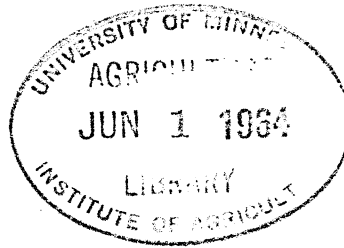
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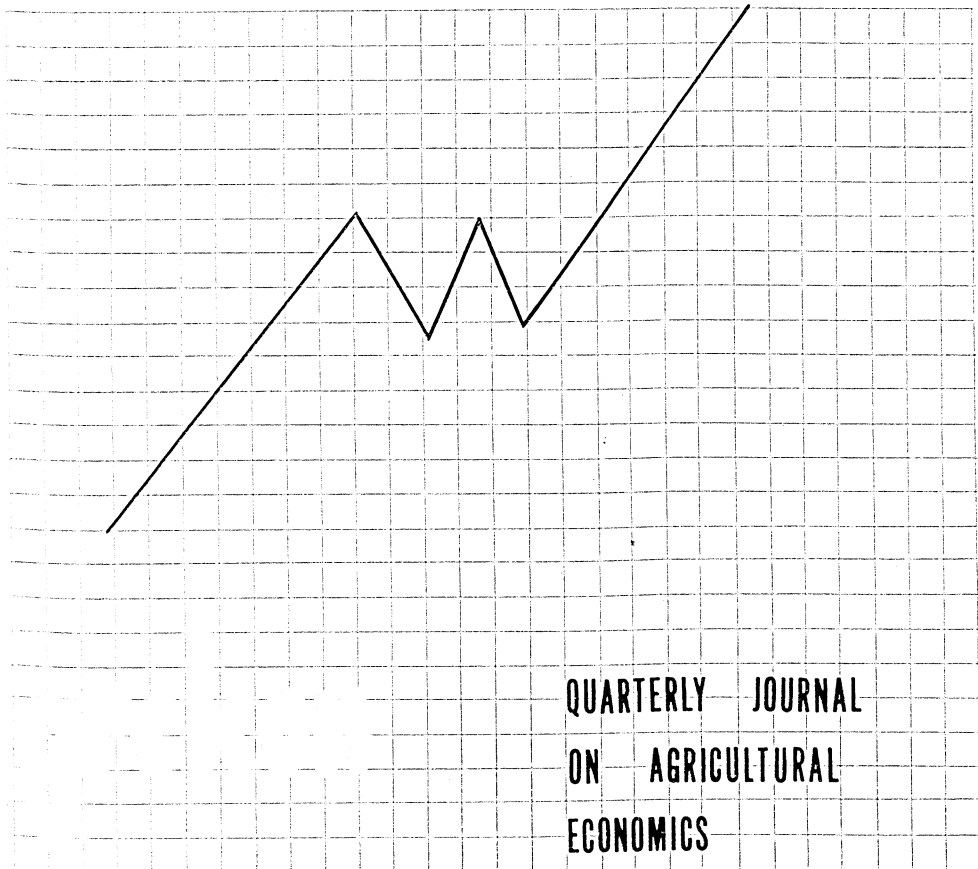
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Deserving articles in the field of agricultural economics, for publication in this journal, will be welcomed.

These articles should have a maximum length of 10 folio pages (including tables, graphs, etc.), typed in double spacing. All contributions should be submitted in triplicate to the editors, c.o Department of Agricultural Economics and Marketing, Pretoria, and should be received by the editors at least one month prior to publication date.

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South Africa's Agriculture and the Export Trade

By T. F. van der Walt, Department of Agricultural Economics and Marketing.

Introduction

In recent years approximately 30 per cent of South Africa's agricultural production was exported annually. These exports amounted to 44 per cent of the country's total exports in 1956/57, 40.7 per cent in 1958/59 and 38.8 per cent in 1960/61, while the value thereof decreased from R350.4 million in 1956/57 to R311.0 in 1960/61. An important proportion of the country's export is thus derived from the export of agricultural products. It is clear therefore, that the latest developments in export markets are not only significant for the agricultural export industries but also for the country's economy as a whole.

Decreasing tendency of prices in export markets

The first phenomenon with which agricultural exporting countries has to contend is that of decreasing prices in general in export markets (see annexure 1). This phenomenon is attributable to the fact that the production of agricultural products has in general increased faster than the demand therefor. Production in the industrialised countries of the West, which are the traditional importers of agricultural products, increase under protection to such an extent that these countries have individually or as a group become almost selfsufficient in respect of products. On the other hand, the necessary purchasing power to acquire the agricultural surpluses at economic terms is lacking in those countries where shortages still exist.

Decreasing foreign market prices endanger domestic producers' prices, notwithstanding control measures; some to a greater and others to a lesser extent, depending upon the proportion of the production which is exported.

Export products

The products of which almost the entire production is exported, viz. wool, mohair, karakul pelts, deciduous fruit, citrus fruit, canned fruit and wattlebark are the most vulnerable. Incomes of producers from these products vary directly in proportion to yields in overseas markets. An example of this is the case of canned fruit, where prices have dropped considerably with the increase in stocks on the import markets. In 1956/57 exporters of canned fruit agreed upon a minimum price scheme for certain types of canned fruit in order to co-ordinate the marketing of the South African product on the overseas markets. Those agreements were continued in 1957/58 and 1958/59, but when prices had not recovered at the close of that season and the canners' stocks started piling up, the agreements were not renewed for 1959/60; since then canners have been selling at the best prices obtainable in the export markets.

The control boards in respect of deciduous and citrus fruit concentrate mainly on efficient marketing and the development and maintenance of markets for South African fruit in foreign countries. Both these industries enjoy the benefit that their marketing seasons do not coincide with those of their main competitors in the northern hemisphere. In the case of citrus, however, increased competition is expected in future from Brazil where plantings have been extended appreciably.

In the case of the wool industry a price stabilisation scheme is in operation under the South African Wool Commission. When wool prices drop below a predetermined level, the Wool Commission enters the market and buys wool with funds augmented from levies collected on all wool produced. This scheme could at most be used to absorb the shocks of temporary price decreases. In the two seasons during which wool prices dropped materially, i.e. the 1958/59 and the 1960/61 seasons, the Wool Commission had to buy in on a relatively large scale; however, prices recovered in both cases and the Commission was subsequently able to dispose of the bought-in quantities at improved prices. In 1958/59 the recovery came at a stage when the funds of the Wool Commission were already very low. It is thus evident that a very strong stabilisation fund would be necessary to continue buying when auction prices move over a long period on a lower level than the reserve price, whilst bought-in supplies could in such an event soon reach a level which could affect the market adversely. Such a scheme cannot, therefore, be used to maintain prices above the economic level for any period of time. In fact, the success of such a scheme depends entirely upon an accurate prognosis of world market conditions at the time of fixing the reserve price.

Of the export industries; the mohair and karakul pelt industries, are in a relatively favourable position. Karakul pelts especially constitute a speciality product for which there is a stable market. These products are, however, more vulnerable to the effects of a general economic recession than the more basic products in this group.

Products mainly consumed domestically

Except in the case of the few export products referred to above, the production of products such as maize, groundnuts, sugar, dried fruit, kaffir corn, tobacco, butter, cheese and eggs was developed on the basis of the demand in the domestic market; the export market was only used to get rid of accidental surpluses. During and immediately after the Second World War these exports were fairly profitable, with the result that conditions were favourable for the expansion of production above domestic consumption without endangering producers' prices. Under those favourable conditions and with the aid of improved production methods, the production of the products referred to was increased, within a few years, to a level where regular surpluses occurred above domestic consumption.

Although these surpluses had in recent years to be exported at increasing losses (see annexure 2) it was up to the present still possible to maintain the producers' prices of most of these products at reasonably stable levels. Generally, the producers of this group of products have, not, in comparison with the producers of

the group export products, suffered any material losses so far, notwithstanding the fact that annexure 1 shows that the export prices of this group dropped rather more than those of the group export products. If, however, production at current prices continues to exceed local consumption by increasing quantities as is, for example, the case this year with butter and maize, further price adjustments will necessarily have to be made, unless large scale subsidisation of agricultural exports is introduced. South Africa is, however, a party to the General Agreement on Tariffs and Trade, under which such subsidies are condemned. In addition, such subsidies may cause the inefficient use of the country's production resources, although, against this should be weighed the maintenance of exports in order to obtain foreign exchange.

Dairy products

Over a period of years approximately 95 per cent of the country's butter production was consumed internally and more or less 4 million lbs. were exported annually, mainly to the adjoining territories. In 1959/60, however, production began exceeding consumption to a greater extent and in 1960/61 there was an exportable surplus of approximately 26 million lbs.

The only free market for butter is that of the United Kingdom and prices on that market are presently depressed to such an extent, due to heavy offerings, that the Dairy Industry Control Board realises appreciably less than on the domestic market, in spite of the recent price decrease in the domestic market.

During 1961 the traditional exporters of butter to the United Kingdom insisted that she should impose anti-dumping duties on butter sold in the United Kingdom at prices lower than those in the exporting country. Towards the end of the year the United Kingdom agreed to this and eventually exporters had to agree to limit these exports of butter to the United Kingdom during the six months up to March, 1962, to certain fixed quotas. Only recently the United Kingdom indicated that butter imports for the year ending March, 1963, had been placed under licence and also indicated to each exporting country a quota beyond which import licences would not be issued.

South Africa was exceptionally hard hit by this limitation. For the coming year a quota of only 4.5 million lbs. was allocated, (as against an estimated exportable surplus of more than 20 million lbs.), because export quotas were based mainly on exports in the past, when South Africa exported but very little butter to the United Kingdom.

Maize

As in the case of butter, the surplus of maize over local consumption is also increasing. The rising tendency of exports would possibly show more even if the effect of the increased usage as animal feed on account of the drought conditions during 1959/60 and 1960/61 were eliminated. In recent years increasing losses have been suffered on exports and for 1961/62 the loss is estimated at as high as 55c per bag. The rates of the levies collected to cover the export losses have been increased from 5c per bag in 1956/57 to 17½c in 1961/62 on yellow maize and to 10c

per bag on white maize. Although the levy reduces the net price to the producer, producers' prices have been raised to such an extent in 1959/60 and 1960/61 that the present net price, after deduction of the increased levy, is still higher than in 1956/57. Although the effect of improved production methods and climatic factors cannot be disregarded, the record maize crop of 1961/62 (marketing season) must to a certain extent be attributed to price policy.

There is no reason to expect that the world market prices for feed grains (the main purpose for which maize is brought on the world markets) will improve in the foreseeable future. On the contrary, it is only the judicious sales policy of the U.S.A., which holds enormous surpluses, which prevents a total collapse of the market. Should the contention, namely that the increased production of 1961 may to a certain extent be attributed to the Maize Board's price policy, be confirmed by a further large crop in 1962, it would be clear that adjustments would necessarily have to be made.

Oilseeds

The sale of groundnuts at domestic prices is influenced to a great extent by the size of the sunflowerseed crop which is reserved in the first place for the local market. With a normal sunflowerseed crop of 100,000 tons and an oil consumption of 39,500 tons, the sale of groundnuts at domestic prices may be put at 55,000 tons. During 1957/58 approximately 80,000 tons were sold locally. Any quantity above this must be exported as crushing or edible nuts, at overseas prices.

During the past four seasons the exports of groundnuts varied from 19,735 tons to 23,250 tons, whilst the average net return per ton varied from R7.57½ to R37.20 above what could be obtained locally. For any surplus above what is needed for the local market and for the export of edible nuts, an outlet must be found in the overseas market for crushing nuts. With the exception of the 1957/58 season, the average net return on crushing nuts was generally lower than the price which could be obtained in the domestic market. Production reveals a rising tendency and according to estimates approximately 80,000 tons of crushing nuts were exported during 1960/61. This development places the industry in a more vulnerable position than formerly.

Tobacco

In 1957/58 and 1958/59 exceptionally high tobacco crops were harvested and although the 1959/60 and 1960/61 crops were appreciably lower, they were still above the consumption of locally produced leaf. The industry is therefore faced with a considerable surplus. The stocks carried over at the end of 1961 are estimated at more than 2 years' consumption in the case of light tobacco and more than 1½ years' in the case of dark tobacco. A stock for 1½ years' consumption is considered sufficient in the case of tobacco used for cigarettes (i.e. light tobacco), whilst a stock for 1 years' consumption is necessary in the case of tobacco used for pipe tobacco.

Prices of South African tobacco are relatively low on the export markets and in recent years appreciable losses were sustained on exports. In 1960/61 the loss was 22.0 cents per lb. and for 1961/62 it is estimated at 22.3 cents per lb. The volume of exports increased substantially in 1960/61, but is still relatively small in comparison with the existing surplus. The 9.1 million lbs. exported equal approximately one-fifth of the annual domestic consumption - compared with the surplus stocks of two years in the case of light and 1½ years in the case of dark tobacco.

In view of the rising stocks and weak overseas market, the Tobacco Board instituted a storage scheme for tobacco in 1959 and increased its levies materially, in order to cover the export losses and the costs of storage of surplus tobacco.

The average price realised by agents of the Tobacco Board was 47.4 cents per lb. in 1959/60 as compared with 47.3 cents the previous year. For 1960/61 it is estimated at 44.8 cents per lb. This decrease, together with the increased levies, brought about a substantial reduction in the producers' prices for tobacco. In the case of dark tobacco the decrease was less than in the case of light tobacco.

Outlook

The present movements towards economic integration in Western Europe is a further development which is significant to agricultural exporting countries. As already stated, countries concerned are the traditional importers of agricultural products. For a considerable time, however, they have been pursuing a protectionist policy behind which production has increased substantially in the years since the war.

The European Economic Community recently accepted a common agricultural policy and although full details are not yet available, the policy envisages that prices for agricultural products within the E.E.C. will be supported and, by means of variable import duties, protected against competitors from outside. Where the German and, to a lesser degree, the French producers' prices are relatively high, it must be expected that E.E.C. prices may also be maintained at a high level so that it would probably be possible for producers in the E.E.C. to satisfy at least the major portion of (if not the entire) demand for certain products in the E.E.C. In addition, sub-tropical products from the associated territories entering the E.E.C. under preferential rates of duty may also make the position difficult for outsiders.

In 1960 South African produce to a value of R138.4 million (or about 17 per cent of the country's exports) was exported to the members of the E.E.C. Approximately 59 per cent thereof was agricultural and food products.

It is not possible to determine at this stage to what extent each product would be affected by the eventual abolition of customs duties among the E.E.C. countries mutually and the free entry of products from the associated territories. In general it is, however, clear that only those products which are not produced in the E.E.C. countries or the associated overseas territories, and those on which the E.E.C.'s

common external tariffs are zero or relatively low, would not be affected materially. Under this category fall wool, mohair, unmanufactured hides and skins, groundnuts (not oil), etc. Those classes of products which are produced in the E.E.C. countries or in the associated overseas territories may, however, be harmed materially. Under this category fall, for example, deciduous fruit, citrus fruit, canned fruit, dried fruit, maize and maize products, groundnut oil and sunflowerseed oil and wines.

The possibility that the United Kingdom and other members of the European Free Trade Association may become members of the E.E.C. emphasises further what has been said above about the E.E.C. In 1960 South African products to the value of R238.4 million were exported to the countries of the European Free Trade Association. Of those, products to the value of R223 million or 94 per cent went to the United Kingdom and of those approximately 56 per cent consisted of agricultural and food products. A large proportion of these exports is allowed entry into the United Kingdom at preferential rates of duty. It is well possible that the United Kingdom would only obtain E.E.C. membership on condition that the system of commonwealth preferences is progressively dismantled. This may mean that the tariff preferences which South Africa presently enjoys in that market (also against E.E.C. countries and associated states) might gradually be turned into an opposite situation, i.e. where the E.E.C. countries and associated states might have free access to the United Kingdom Market whilst South African produce might be subject to the import duties of the E.E.C. common external tariff, which would also be applied by the United Kingdom (see annexure 3).

Exports of unmanufactured wool and mohair and unmanufactured hides and skins, including unmanufactured karakul pelts, would, however, not be affected by the United Kingdom's accession to the E.E.C., as these products presently enter both the United Kingdom and most of the E.E.C. countries free of duty. The most important products which might be affected are fresh fruit, canned fruit, maize, kaffircorn, groundnuts and groundnut oil, butter, cheese, eggs, wine and tobacco. The United Kingdom import duties at present applicable to these products and those which would eventually be applicable in the E.E.C., are shown in annexure 3.

Conclusions

The movement towards West European economic integration does not, of course, in itself mean that South Africa will lose its entire export market in Europe. The net income derived from the products affected by the movement might, however, tend to be lower. Where "losses" (in comparison with local prices) are already suffered on many of these products in the European markets, it is clear that in future more attention should be devoted to the development of the domestic market. The improvement in the living standards of the Bantu holds much for this possibility and, provided production is not expanded too rapidly, the surpluses could gradually be taken up in the normal expansion of demand (as was pointed out in an article ⁽¹⁾ in the first issue of this journal.)

⁽¹⁾S.J.J. de Swardt - Problems of adaptation in Agriculture.
Agrekon Jan. 1962 Vol. No.1

ANNEXURE 1 - PRICE INDICES OF CERTAIN AGRICULTURAL PRODUCTS
ON FOREIGN MARKETS

Commodity	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61
Wool Dom. 64 U.K.	100	126	101	81	93	85
Mohair good average P.E.	100	113	84	106	122	97
Butter average per 112 lbs. London	100	88	77	107	94	78
Cheese average per 112 lbs. London	100	66	67	67	82	80
Karakul pelts, New York	100	96	92	83	98	98
Eggs U.K.	100	62	76	77	72	78
Grapes. Deciduous Fruit Board realisations	100	133	116	119	117	143
Apples. Deciduous Fruit Board realisations	100	100	131	82	90	95
Pears. Deciduous Fruit Board realisations	100	95	108	84	97	100
Canned fruit. Declared values U.K.	100	100	98	88	84	
Oranges U.K.	100	105	104	94	76	
White Maize c.i.f. London	100	105	87	92	-	84
Yellow Maize c.i.f. London	100	103	85	81	85	84
Crushing groundnuts - Nigeria. shelled, c.i.f. - European ports	100	104	89	87	97	97
Groundnut - oil - S.A. c.i.f. European ports	100	103	86	80	88	91

ANNEXURE 2 - PRODUCTION, EXPORTS AND EXPORT LOSSES ON CERTAIN AGRICULTURAL PRODUCTS

Marketing year	Maize				Kaffircorn (sorghums)			
	Prod.	Exports	Export losses		Prod.	Exports	Export losses	
	Million bags	Million bags	Total R Million	per bag c			Total R Million	Per bag c
1957/58	43.3	15.7	5.7	36.7	2.6	.4	.4	106.0
1958/59	37.0	11.7	5.3	45.0	2.1	.6	.8	143.0
1959/60	41.5	6.1	2.2	35.4	2.8	.6	.5	73.0
1960/61	41.9	9.8	4.5	49.0	2.4	.5	.5	102.5
1961/62(1)	52.4	16.1(2)	8.9(3)	55.0	3.5	1.6	1.9	125.0
Marketing year	Tobacco				Groundnuts			
	Prod.	Exports	Export losses		Prod.	Exports	Export losses	
	Million lbs.	Million lbs.	Total R Million	per lb. c	2000 lbs.	2000 lbs.	Total R Million	per 2000 lbs. c
1957/58	55.8	2.2	.2	9.0	127.4	34.8	.8 (gain)	1546 (gain)
1958/59	67.9	3.5	.3	9.7	98.2	27.6	.3	979
1959/60	77.0	5.4	1.2	22.5	133.4	55.5	.4	1165
1960/61	59.9	9.1	2.0	22.0	148.3	91.8	.4 (gain)	712 (gain)
1961/62	56.0	8.1	1.8	22.3	185.0	106.0	.5	480
Marketing year	Butter				Cheese			
	Prod.	Exports	Export losses		Prod.	Exports	Export losses	
	Million lbs.	Million lbs.	Total R Million	per lb. c	Million lbs.	Million lbs.	Total R Million	per lb. c
1957/58	94.2	5.5	.3	6.7	26.1	.1	-	
1958/59	90.0	3.2	.2	5.7	30.4	1.1	.2	5.3
1959/60	98.2	2.8	.2	2.9	32.7	6.6	.5	8.7
1960/61	114.0	25.8	2.9	11.3	37.0	8.3	.6	8.3
1961/62				9.5				7.0
Marketing year	Eggs							
	Prod.	Exports in the shell ⁽⁴⁾		Export losses on exports in the shell ⁽⁴⁾				
	Million dozen	Million dozen		Total R Million	per dozen c			
1957/58		4.9		.1	1.6			
1958/59		4.0		.2	5.3			
1959/60		8.3		.5	6.1			
1960/61	96.0	8.8		.3	3.6			
1961/62	102.0	7.7		.8	9.9			

(1) Preliminary

(2) Excluding 6 million bags surplus maize which could not be exported and which will be carried over to the next season.

(3) If the possible losses on the unexported surpluses are taken into account, the total loss will be much larger.

(4) I.e. exports of egg pulp not taken into account.

Note: Due to a rounding-off of the figures in the table, the total loss divided by the total exports will not always show the same loss per unit as that reflected in the table.

ANNEXURE 3 - COMPARISON BETWEEN U.K.'s CUSTOMS DUTIES AND E.E.C.'s PROPOSED EVENTUAL CUSTOMS DUTIES IN RESPECT OF CERTAIN AGRICULTURAL COMMODITIES

Commodity	United Kingdom tariffs		E.C.C.'s Proposed eventual tariffs	
	Duty on South Africa	Duty on E.E.C. Countries	Common external tariff	Duty on E.E.C. countries
<u>Fresh Deciduous Fruit</u>				
Grapes	Free	14s. per 112 lbs.	18%	Free
Apples	Free	4s. 6d per 112 lbs.	8%	Free
Pears	Free	4s. 6d per 112 lbs.	10%	Free
Plums	Free	9s. 4d per 112 lbs.	10%	Free
Peaches	Free	14s. per 112 lbs.	22%	Free
<u>Fresh Citrus Fruit</u>				
Oranges	Free	3s. 6d per 112 lbs.	15%	Free
Pomelos	Free	5s. per 112 lbs.	12%	Free
Lemons	Free	10%	8%	Free
<u>Fresh Pineapples</u>				
	Free	10%	11%	Free
<u>Dried Fruit</u>				
Raisins, sultanas and currants	Free	8s. 6d per 112 lbs.	9%	Free
<u>Canned Fruit</u>				
Peaches	Free plus $\frac{5}{8}$ th %	12% ⁽¹⁾	25% plus sugar duty (unknown at present)	Free
Pineapples	sugar duty	plus $1\frac{1}{4}$ %		
Apricots		sugar duty		
Pears				
<u>Jams</u>				
	3s. 8d per 112 lbs. sugar duty	7s. 4d per 112 lbs. sugar duty with a minimum of 10%	30% plus sugar duty	Free
<u>Canned Vegetables</u>				
Green beans	Free	15%	24%	Free
Green peas	Free	15%	24%	Free
<u>Fruit Juices</u>				
Concentrated orange juice	Free	Free	42%	Free
Orange Juice	Free	Free	21%	Free
<u>Maize</u>				
Flat White maize	Free	10%	7%	Free
Other maize	Free	Free	9%	Free
Maize meal	Free	10%	8%	Free
<u>Kaffircorn</u>				
	Free	10%	8%	Free
<u>Groundnuts</u>				
	Free	10%	Free	Free
<u>Groundnut-oil</u>				
	Free	15%	10%	Free
<u>Dairy products</u>				
Cheese	Free	15%	23%	Free
Butter	Free	15s. per 112 lbs.	24%	Free
<u>Eggs</u>				
In the shell	Free	1s. to 1s. 9d per 120	15%	Free
Other	Free	10%	6%	Free
<u>Wine</u>				
Fortified wine in wood	28s. per gallon	38s. per gallon	£14 and £19 per hecto litre	Free
<u>Unmanufactured Tobacco</u>				
	£2.19.7½ per lb.	£3.4.6. per lb.	30%	Free

(1) 5s. per 112 lbs. in case of pineapples.