

TradeProbe is a joint initiative by the NAMC and the Department of Agriculture's Directorate: International Trade. The aim of this initiative is to create knowledge of trade-related topics by discussing/reporting trade statistics, inviting perspectives from people working in related sectors, reporting on trade-related research and stimulating debate.

THIS ISSUE OF TradeProbe COVERS THE FOLLOWING TOPICS:

- Fertiliser trade profile (HS - 31)
- Country of Origin and consumer decision-making process: US country of origin labelling rule impact on SA fruit exports

1. FERTILISER TRADE PROFILE (HS - 31)¹

Fertilisers contribute substantially to the cost of production in the grain and horticultural sub-sectors in South Africa. Evidence to substantiate the aforementioned is provided in several Input Cost Monitor reports published by the NAMC since 2007 (see www.namc.co.za)

It is against this background that this **TradeProbe** provides a trade profile on fertilisers. Export and import trends since 1996 are highlighted at the aggregate level (i.e. HS 31). Import and export trends for nitrogenous and phosphatic fertilisers are also highlighted.

Figure 1 shows the value of fertiliser imports and exports by South Africa. During the late 1990s, and in 2000, 2001 and 2003, South Africa had a positive trade balance in fertilisers (value). Since then the value of imports have been increasing dramatically, i.e. South Africa had a negative trade balance in fertiliser trade since 2004. In 2008 the negative trade balance was R5 billion.

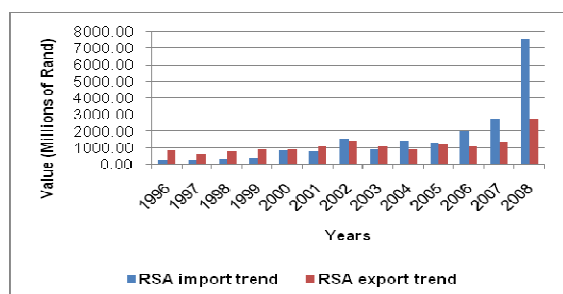


Figure 1: Export and import trend of fertilisers
Source: World Trade Atlas (2009)

Table 1 presents the top five origins from where South Africa imported fertilisers in 2008 expressed in

value terms. The top five sources of fertiliser imports accounted for a 75 % share of the total imports of this product. Leading the list was the European Union (27), followed by Saudi Arabia and Qatar, which accounted for 24 %, 19 % and 14 % of the share of South Africa's total imports. The highest ranking African country from where fertiliser was imported was Cote d'Ivoire, which accounted for a 1 % share of South Africa's imports.

Table 1: Leading sources of South Africa's imports of fertiliser

Rank	Country	Value (Millions of Rand) - 2008	% Share (2008)
RSA total imports		7586.0	100.0
1	-EU 27-	1808.1	23.8
2	Saudi Arabia	1431.5	18.9
3	Qatar	1071.1	14.1
4	Israel	819.5	10.8
5	China	526.0	6.9

Source: World Trade Atlas (2009)

Table 2 shows the top five export destinations for fertilisers exported by South Africa in 2008 expressed in terms of value. The top five destinations accounted for an 84 % share of South Africa's total exports. The top three destinations were Zambia, Zimbabwe and Mozambique, which respectively accounted for a 36 %, 18 % and 12 % share of South Africa's exports. In the list of the top five export destinations, only India is a non-African country, and it accounted for a 7 % share of South Africa's total exports.

Table 2: Leading destinations of South Africa's exports of fertiliser

Rank	Country	Value (Millions of Rand) - 2008	% Share (2008)
RSA total exports		2729.5	100.0
1	Zambia	991.2	36.3
2	Zimbabwe	502.0	18.4
3	Mozambique	336.8	12.3
4	Malawi	283.3	10.4
5	India	179.7	6.6

Source: World Trade Atlas (2009)

Figure 2 shows that trade of nitrogenous and phosphatic fertilisers displays the same features than overall fertiliser trade (presented in Figure 1). Imports of these products accelerated since 2000 and the trade balance as far as these products are concerned worsened significantly.

¹ Contribution by Bonani Nyhodo (NAMC Senior Economist)

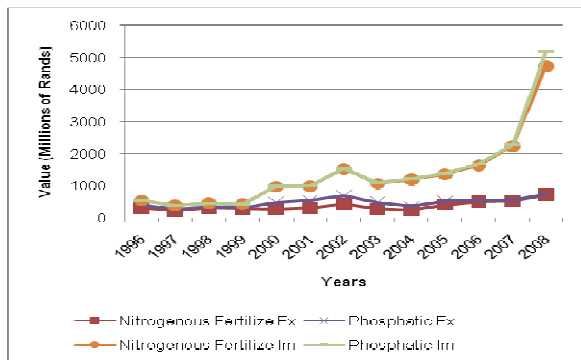


Figure 2: Nitrogenous and phosphatic fertiliser trade
Source: World Trade Atlas (2009)

Figure 3 presents a clear picture of the negative trade balance of both phosphatic and nitrogenous fertilisers. The negative trade balance has been worsening with time.

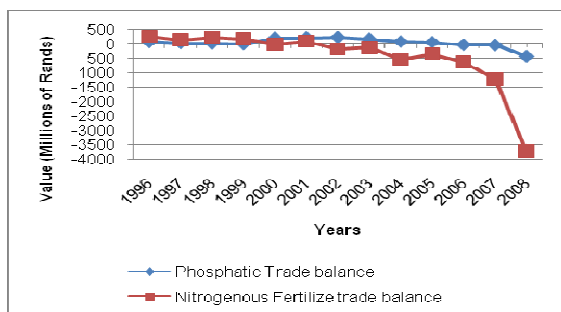


Figure 3: Trade balance of phosphatic and nitrogenous fertilisers
Source: World Trade Atlas (2009)

2. COUNTRY OF ORIGIN AND CONSUMER DECISION-MAKING PROCESS: US COUNTRY OF ORIGIN LABELLING RULE IMPACT ON SA FRUIT EXPORTS²

This article seeks to analyse the likely effects of the new US Country of Origin Labelling (COOL) rule on SA fruit and nut exports to the US. It is important to review some research findings about the effects of country of origin labelling on consumer behaviour and then to relate these to the US COOL rule and to SA exports to the US. Fruit was chosen for the analysis, based on two factors, namely: it is one of SA's essential agricultural export products to the US and it is covered in the new US COOL rule as it is a perishable agricultural product.

Overview

Hypothetically, a consumer's decision-making process is influenced largely by disposable income and the price of the product. However, other factors such as lifestyle, attitude, perception etc. may influence the consumer's choice at the time of purchasing. These other factors are driven by product information (i.e., the label, advertising etc.) and social norms. The important question about labelling is: Does the country

² Contribution by Pindiwe Jara and Zithulele Balindlela, economists; Directorate International Trade, Department of Agriculture: Forestry & Fisheries

of origin influence the consumer's decision-making process?

Research have shown that country of origin labelling gives consumers an opportunity to evaluate products based on personal favouritism towards a particular country, as well as access to a wide range of products (choice) originating from different countries and the opportunity to get to know them (familiarity). It also allows consumers to gain additional information about the product and, to some extent, it serves as an indicator of quality and acceptability. Generally speaking, products from less developed countries are likely to be judged as higher risk and of lower quality than those produced in developed countries. Thus, products produced in developed countries are perceived as being high quality and having greater status than those from developing countries.

It is proven that country of origin labelling affects the consumer's decision-making process in the following forms:

- It stimulates the consumer's interest in the product;
- It triggers patriotism, and the consumer may opt for locally produced over imported products; and
- It evokes the consumer's opinions about the country if origin, based on their current knowledge about the country.

Over and above quality, safety, and warranty of products, consumers associate products with the country of origin based on their general perception and knowledge of that country. This may positively or negatively influence the consumer's decision to purchase a product. However, it is important to note that consumers' attitudes towards labels may be influenced by factors such as their location, level of education and their interest (or lack thereof) in the information on the label of the product.

COOL rule outlined

COOL is a mandatory and retail labelling law that:

- Was planned to come into effect on the 16th of March 2009, however, has been put on hold by the new administration;
- Is governed by the amended Agricultural Marketing Act of 1946;
- Requires retailers to notify consumers about the country of origin for certain products such as: meat³, fish and shellfish, peanuts, perishable agricultural products⁴, pecans, ginseng and macadamia nuts; and
- Carries a penalty of \$1000 for retailers who violate it.

COOL enforces that products entering the US – passing through to the retailers without undergoing substantial transformation⁵ – must carry the name of the

³ Covered sources of meat are beef, pork, lamb, chicken and goat.

⁴ Includes fresh and frozen fruit and vegetables.

⁵ This means an application of physical or chemical mechanisation that completely transforms the product: cooking, smoking etc.

country of origin (exporting country). It states: “for imported covered commodities that have not subsequently been substantially transformed in the United States that are commingled with covered commodities sourced from a different origin that have not been substantially transformed in the United States, and/or covered commodities of United States origin, the declaration shall indicate the countries of origin”. This simply means that if a retailer mixes oranges sourced from SA with those from China and India, all three countries should be listed as countries of origin on the label. However, it contains a few criteria that must be met in labelling these covered commodities. For example, with a covered product that was imported from country (X) and was then substantially transformed or processed in the US, such a product shall be labelled at retail as “from country (X), processed in USA” or as “product of country (X) and USA”. For more details please see the footnote below⁶.

It is also important to note that covered commodities are exempted from COOL if used as ingredients in processed foods of a different nature, e.g. fruit cake. Consequently, restaurants, lunch rooms, cafeterias, bars and similar enterprises are exempt from the COOL rule. Some trading partners of the US have raised a concern that COOL is discriminating against imported products as being “foreign”. However, the US maintains that the COOL rule is a mechanism to enlighten consumers as to where their products originate from. More details on the US response in this regard may be found on <http://nfu.org/wp-content/comments-to-ustr-on-wto-cool-challenge-docket-no-ustr-2009-0004.pdf>.

SA export products to the USA covered by COOL

Products covered under the COOL rule include meat (beef, pork, lamb, chicken and goat), and fresh and frozen fruit and vegetables. This paper looks at SA's category of fruit and nut exports to the USA, as it is one of SA's top export products covered by the COOL rule. **Table 3** shows SA's top ten fruit and nut exports to the USA. In 2008, SA fruit exports to the USA were to the value of R400 million, which constituted 26.3 % of the total agricultural exports of R1516.2 million. Of the total fruit and nut exports to the USA, the top ten contributed 99.5 %, which renders any fruit product outside of the top 10 almost negligible.

Discussion and concluding remarks

Fruit and nuts are SA's second most important agricultural export products to the US, following wines and alcoholic beverages. It is for this reason that the potential impact that the COOL rule could have on SA's agricultural exports and their share in the US

market should be analysed. Studies reviewed showed that consumer preferences may be negatively influenced towards products originating from foreign markets and those perceived to be inferior. Although this is not a rule of thumb, with the enforcement of the COOL rule, this is likely to happen. The “Buy American” programme advocated by the new administration is likely to strengthen the element of patriotism towards “home-grown” products.

The following conclusions could be made on the likely effects of COOL on SA products:

- If the COOL rule stimulates patriotism and stereotyping, SA export products could experience a negative growth in the US market.
- Country of origin labelling drives the consumer's perceptions about the country and ultimately the product. Therefore, any wrong/good perception that a consumer has about that country is likely to play a role in the decision-making process with respect to that country's products. This highlights the importance of positive publicity regarding South Africa, its socio-political coherence, and its care for the environment and farm workers, etc.
- Mixed covered products' labelling criteria are likely to be a burden to 'innocent countries'. For example, if consumers have a wrong perception about one of the listed countries, it might negatively affect all other countries listed on the same label.

It is speculated that since perceptions/attitudes could influence preferences towards certain countries, the COOL rule could intensify rejection/acceptance of certain imported products. It is for this reason that SA exporters should be aware of products covered under the US COOL rule, and should ensure that they follow strict quality and health standards by adhering to all SPS measures. Doing so, they may increase their products' popularity in the USA market. Further, SA exporters are encouraged to ensure that their products are either branded distinguishably, or are only used in mixes alongside countries with a good reputation.

Although COOL could be seen as a trade barrier, it could also offer an opportunity: if South African exporters succeed in building a positive image of the country and their industry and product, COOL offers US consumers the possibility to specifically search for, identify and buy South African products.

Lastly, it will be important for SA to monitor the effects of the COOL rule on all agricultural exports to the USA. Therefore, after its implementation, it will be essential to conduct an analysis of how it has impacted on SA exports.

⁶ Visit US Agricultural Marketing Service websites: <http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=STELPRDC5070926> & <http://www.ams.usda.gov/AMSV1.0/ams.fetchTemplateData.do?template=TemplateM&navID=CountryofOriginLabeling&rightNav1=CountryofOriginLabeling&topNav=&leftNav=CommodityAreas&page=CountryOfOriginLabeling&acct=cntryoforgnbl>

Table 3: SA's Top 10 Fruit and Nut Exports to USA in 2008

South African Fruit Exports to the US (in Million Rands)			% Share in SA Total Agric Exports to USA		% Change Over Two Years
Label	2007	2008	2007	2008	08/07
Total agric	1307.4	1516.2	100	100	15.98
Oranges, fresh	133.2	226.6	10.19	15	70.2
Macadamia nuts	39.8	73.5	3.04	4.85	84.7
Mandarins	61.1	36.7	4.68	2.42	-39.95
Grape, dried	47.6	31.9	3.64	2.11	-32.96
Nuts, fresh	35.4	10.7	2.71	0.71	-69.75
Guavas, mangoes	3.2	5.3	0.24	0.35	65.28
Fruit nesoi, fresh	0.4	3.9	0.03	0.26	1002.7
Pears & quinces, fresh	4.9	3.02	0.37	0.2	-37.63
Grapes, fresh	2.9	2.9	0.22	0.19	-0.39
Pineapples, fresh or dried	2.3	2.5	0.17	0.17	10.91
Total	330.6	397.1	25.29	26.21	

Source: World Trade Atlas (2008)

© 2009. Published by the National Agricultural Marketing Council in collaboration with the Department of Agriculture, Republic of South Africa.

Disclaimer:

Although everything has been done to ensure the accuracy of the information in this TradeProbe, the NAMC and the DoA accept no responsibility for the accuracy of this publication or the opinions contained therein. Neither the NAMC nor the DoA will be held accountable for the consequences of any actions taken on the basis of this information.