

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:

- WTO agricultural negotiations: special duties
- Consumer lifestyle in South Africa
- South Africa, Brazil and Argentina: the agricultural trade relationships
- South Africa's agricultural trade with Iran

1.1 WORLD TRADE ORGANISATION (WTO) AGRICULTURAL NEGOTIATIONS: SPECIFIC DUTIES¹

Negotiators of the Doha Development Agenda agreed in 2005 on a methodology to convert specific duties (e.g. 450 c/kg) to *ad valorem* duty equivalents (e.g. 20 %). This methodology used the period of 1999 - 2001 as a reference period for import quantities and prices. The relevant formula is shown in the box below:

AVE = (SP * 100)/(UV * XR)
AVE: AD VALOREM EQUIVALENT (per cent)
SP: MONETARY VALUE OF DUTY PER UNIT OF IMPORTS
UV: IMPORT UNIT VALUE
where UV = V/(Q * C _Q)
V = value of imports
Q = quantity of imports
C _Q = conversion factor for quantity units, where appropriate
XR: CURRENCY EXCHANGE RATE, where appropriate

The conversion of specific duties to *ad valorem* equivalents (AVEs) is necessary for comparison purposes and to apply the tariff reduction formula. For South Africa, all agricultural bound rates are *ad valorem* duties and the conversion is only necessary for comparison purposes and to establish the impact of the tariff reduction of the bound duty on the actual level of protection.

There are many reasons for using specific duties. Particularly in South Africa, specific duties are used to prevent under-invoicing. A further reason is that the relative level of protection for specific duties is higher on low price products than on high price products.

Table 1 reflects the current duties for the major imported dairy products. The AVE was calculated according to the agreed methodology, using a three-year average for import quantities and prices. The period of 1999 – 2001 was a period of relatively low agricultural commodity prices.

Table 1: Current duties of major imported dairy products

HS Code	Product	Bound Rate	Applied Rate	AVE (avg 1999-2001)
040210	Milk Powder	96 %	450 c/kg with a maximum of 96 %	39.7 %
040410	Whey Powder	96 %	450 c/kg with a maximum of 96 %	56.6 %
040510	Butter	79 %	500 c/kg with a maximum of 79 %	42.3 %
040690	Processed Cheese	95 %	500 c/kg with a maximum of 95 %	18.3 %

Figure 1 to 3 shows the total dairy imports, the import price and the resulting AVE for selected dairy products since 1998, respectively.

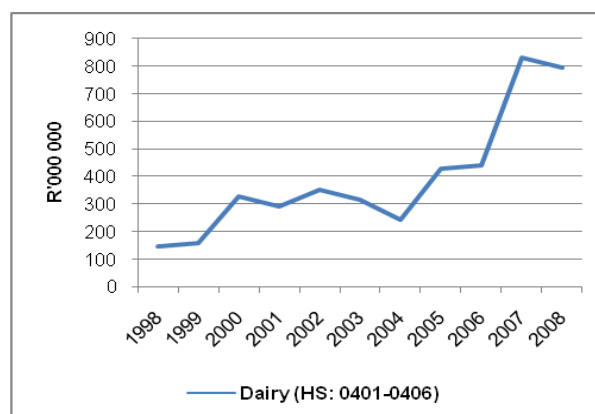


Figure 1: South Africa's total imports of dairy products

¹ A contribution by Mr Günter Müller of the Directorate International Trade at the Department of Agriculture, Forestry and Fisheries.

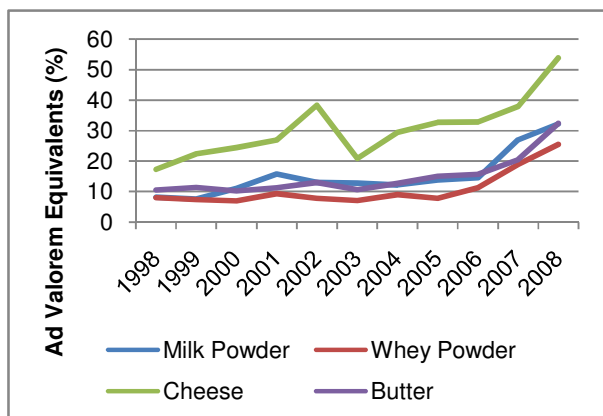


Figure 2: Import prices of selected dairy products/kilogram

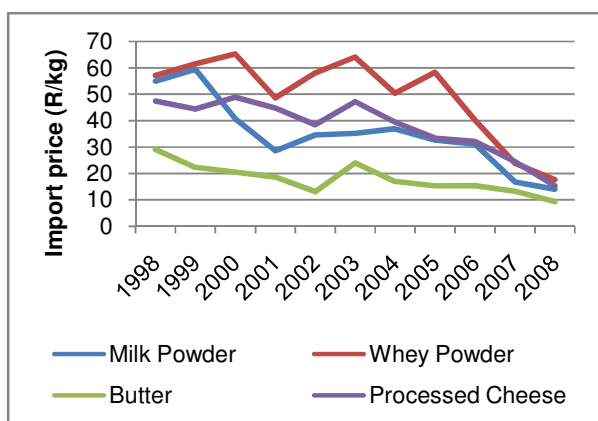


Figure 3: Selected dairy products – ad valorem equivalence %

Since 1998 the value of imports has increased substantially. It is also evident that import prices of dairy products increased substantially, and, with this, the relative level of protection in the dairy industry declined.

The changes in the actual level of protection as a result of price changes related to specific duties needs to be carefully considered from both a defensive and offensive point of view in the WTO agricultural negotiations.

1.2 CONSUMER LIFESTYLE IN SOUTH AFRICA^{2,3}

Marketing literature and successful business leaders recognise the importance of the target market and the consumer in the success of a business – some even refer to the consumer as being 'king'. Consumer behaviour is therefore important to monitor. With time, the profile of the target market may change, and this necessitates making adjustments in the businesses' offering to that market so as to cater for evolving needs.

This article by *Euromonitor International* attempts to look at indicators of the consumer profile in South Africa. As such, this article starts by acknowledging that consumers' lifestyles are influenced by a number of factors such as income level, age and level of edu-

cation, to mention a few. According to *Euromonitor International*, in 1995, the South African population was classified as being 'young', with more than 50 % of its population being younger than 22 years of age. However, over the past one and a half decades since 1995, the consumer profile in South Africa has changed. Some of the clear changes involve the emergence of the black middle income class, the increased prevalence of women in the workplace and the shift away from traditional gender-specific roles. These phenomena, among other things, have shaped the current profile of South African consumers.

This aim of this section is to take a closer look at some of the characteristics of the South African consumer. Issues to be highlighted include income, food expenditure, health awareness, and the female consumer.

Income

According to *Euromonitor International* the annual disposable income of people with primary education increased by 142 %, by 152 % for people with secondary education and by 128 % for people with a tertiary education. This came during a time when the gross domestic product increased by 3 % and where there was increases in the levels and quality of employment between 1995 and 2007. *Euromonitor International* argues that the reason for the increase in disposable income of lower income categories since 1995 was mainly due to changes in the taxation system, namely the introduction of a tax threshold. Essentially, people earning less than the amount set, i.e. the threshold, are exempted from personal income tax.

The existence of an employee minimum wage in various sectors of the economy (which is in principle agreed upon by union representatives and employers) contributed to the increased incomes. Increases in disposable income were also attributed to the education element. Between 2000 and 2007, the mean annual increase in disposable income of people with primary education increased by 11 %, which was more than double the level of inflation (5 %) during that period. The result was a 5 % annual increase of disposable income.

For people with secondary education, the annual growth in disposable income increased by 9 %, which translates into a 4 % real average growth rate in purchasing power. The annual growth rate for people with tertiary education increased by 10 %, resulting in an average growth of 5 % in purchasing power. Increases in disposable income led to increased sales of value-added products, for instance, spending on processed food. This also led to the retail sector expanding into the townships and rural areas.

Increases in disposable income seem to have a gender dimension as well. This can be seen through increases of the purchasing power of women and men, respectively by 8 % and 6 % per annum over the 2000-2007 period. These increases have addressed some inequitable gender-based payment distributions that existed and still exist in all levels of the labour force. It is argued that, on average, women's disposable income was 60 % that of their male counterparts'.

²A contribution by Bonani Nyhodo (Senior Economist) of the National Agricultural Marketing Council.

³This article was compiled from a report in *Euromonitor, Consumer Lifestyles – South Africa*, published in April 2009.

Spending on food

Euromonitor International states that the South African consumer is classified as a trolley shopper, meaning that they buy in bulk, primarily shopping once a week. The best preferred days are Saturdays and Sundays. Women are the primary decision-makers regarding the basket of food items to be purchased. It is important to note that about 19 % of the total expenditure in South Africa is spent on food. In 2007, food spending was at about R 234 billion, up from R 160 billion in 1995. This equates to a 46 % growth rate. In the period of 1995 – 2007, fruit expenditure recorded the biggest growth rate, i.e. of 91 %, increasing its share of total spending from 6 % to 7 %. Spending on vegetables followed with an approximate 50 % growth rate.

Demand for convenient food increased drastically in South Africa due to factors such as longer working hours and more women entering the labour market. There was an increase in the demand for healthy and convenience foods with consumers showing a willingness to pay a premium. The consumption of processed food products in South Africa is higher than that of other sub-Saharan African countries, but lower than that of developed countries. The growth in organic products is an important trend to note. The debate about the safety of genetically modified food has also increased.

Health awareness

According to *Euromonitor International*, the influence of televisions (penetration has increased drastically) and continued exposure to the media's promotion of healthy products, has increased consumers' willingness to spend on these products. This has also resulted in more middle income to higher income people going to gyms. This can be related to peer pressure as well, as the media promotes the image of health being directly related to physical activity. For lower income earners, the higher incidence of HIV and AIDS has increased the demand for healthy products. This has led to an increased demand for vitamin supplements. In short, health awareness resulted in increased demand for dietary supplements and vitamins, increased demand for organic products, and increased demand for fruit and vegetables.

Our mothers, sisters and/or daughters - The female consumer

It is estimated *Euromonitor International* that about 1.5 million black middle income women are increasingly becoming the decision-makers for household purchases. They are estimated to have spent about R 120 billion in 2008, which represents about 40 % of the total annual spending of all South African women. This target market represents about 10 % of the whole South African adult market. Women are increasingly assuming the role of being bread winners. Recognising women's spending power, insurance brokers have introduced products aimed exclusively at women.

Euromonitor International argues that it is vitally important that product development must take into con-

sideration the features considered important by the female consumer segment.

Population change

South Africa is a diverse nation, and has 11 languages recognised by the constitution; English is noted as the most spoken language in business and socially. The country is also ethnically diverse, comprised of Whites, Indians, Coloureds and Blacks; the latter accounts for 80 % of the population while the remaining 20 % is shared between the other three groups. The Black group is not culturally or linguistically homogeneous and is further divided into a number of ethnic groups such as amaZulu, amaXhosa and abeSotho, to mention a few. The location of the different ethnicities has a geographic dimension and should be accounted for during marketing of products.

1.3 SOUTH AFRICA, BRAZIL AND ARGENTINA: THE AGRICULTURAL TRADING RELATIONSHIPS⁴

Brazil has well and truly entered the world trading stage as a key player in agricultural negotiations. This is due to a combination of factors such as: its own liberal trading regime; its emergence as a global exporting giant in several agricultural products, and its political leadership in getting the so-called G20 group of developing countries to the point where they are having a real input into the World Trade Organisation (WTO) Doha Development Round.

South Africa – one of the founding members of the G20 and an important WTO 'bridge' between the developing and developed world, in one sense, and between the rest of the African continent and other key players, in another sense – is a natural partner for Brazil on the world stage. Cementing this relationship are the burgeoning of agricultural imports from Brazil into South Africa, which resulted from the liberalisation of South Africa's own trade and agricultural policies. Providing more reinforcement are the similarly significant imports into South Africa from Brazil's fellow Mercosur partner, Argentina.

This paper⁵ examines the background to agricultural policies and trading regimes and patterns in Brazil, South Africa and Argentina. This is done in order to set the scene for an analysis of how to further promote the trading relationship beyond the current partial trade agreement and to move it to a full free trade agreement (FTA). This FTA would be a significant one in a global sense, as it would be a truly 'South-South' relationship between three of the developing world's emerging powers.

Recognition is given to the fact that, on the one side, both Brazil and Argentina are members of the Mercosur trading block with Uruguay and Paraguay as partners while, on the other side, South Africa is a member of the South African Customs Union (SACU) and is mandated to an inclusive trade regime with Bot-

⁴A contribution by Taku Fundira (tralac), Bonani Nyhodo (NAMC) and Ron Sandrey (tralac Associate). These researchers' contributions are acknowledged: M. Moloi (the dti), A. Mohapi, M. Sibanyoni, L. Magagane (DoA).

⁵For full paper see: Fundira, T. Nyhodo, B. Sandrey, R. 2009. *South Africa, Brazil and Argentina: the agricultural trading relationships*. Working Paper No 4/2009. Stellenbosch: tralac (www.tralac.org).

swana, Lesotho, Namibia and Lesotho (the BLNS countries). While the 'big three' dominate the relationship, the trading patterns between the other parties are also explored.

There are several similarities and differences between the agricultural and economic settings of the three main partners examined. The similarities are: that all three are classified as developing countries; all three have a significant agricultural sector; all three have a population of around 40 million or more (although Brazil, with 180 million, is considerably above this figure), and all three are actively but cautiously seeking mutually beneficial trading alliances.

Agriculture is important to the economy in all three countries, but in different ways. South Africa has 42 % of its population classified as rural but only 8 % of its exports are classified as agricultural products. Brazil has 16 % of its population classified as rural, but it has a much greater (30 %) amount of its exports classified as agricultural. Argentina has 10 % of its population classified as rural yet over half (51.1 %) of its exports are agricultural in nature. Brazil's agricultural exports have changed dramatically in recent years. It has transformed itself from being an exporter of traditional tropical products to become a significant global player in oilseeds, cereals, meats, biofuels and processed foods, components of an agri-business economy rather than of a traditional commodities exporter.

Meanwhile, South Africa, in exporting wine and fruit, is still exporting the same product mix that it was exporting over a hundred years ago at the end of the 19th century. Argentina is among the world's top five producers of soybeans, beef and maize. This is reflected in its export portfolio, which shows soybeans and its associated products to be the major growth sector.

The paper then examines the relative position of Brazil, South Africa and Argentina in the global production of wheat, sugar, soybeans, oranges, beef, chicken meat and grapes. Brazil is one of the top two global producers of sugar, soybeans, oranges, beef and chicken meat, while Argentina is among the top three for soybeans and beef. These products are reflected in their agricultural exports.

Next, the analysis concentrates upon the agricultural trading profiles. During 2008 Brazil had agricultural exports of \$ 58.4 billion, with an annual growth rate of 12.0 % over the period of 1997 to 2008. Conversely, Brazil's agricultural imports during 2008 were much lower (\$ 8.2 billion), giving Brazil a trade surplus of over \$ 50 billion in agricultural products during 2008.

- ✓ The EU (32 % of the total), China (12 %) and Russia (7 %) were the top three **export** destinations. These accounted for over 50 % of total agricultural exports. South Africa was ranked the 16th most important export destination and had exports valued at US\$ 510 million, representing just less than a 1 % share of Brazilian exports.
- ✓ In terms of growth, Venezuela (44 %), South Africa (24 %) and China (24 %) recorded the highest annual growth between 1997 and 2008 as export destinations.

- ✓ Brazil exports mainly soybeans and soybean products (29.7 %), coffee (7 %), beef (6 %), sugar cane (6 %) and chicken and chicken by-products (10 %). These products accounted for nearly 61 % of total agricultural exports.
- ✓ During 2006 Brazil exported (by value) 26.4 % of the world's green coffee, 35.1 % of the soybeans, 20.7 % of the soybean oil, 24.6 % of the beef, 30.7 % of the sugar and 21.3 % of the tobacco.
- ✓ Argentina (39 %), the EU (16 %) and the US (8 %) accounted for approximately 63 % of Brazil's total agricultural **imports**. South Africa was ranked 27th and had a market share of only 0.1 % for 2008.
- ✓ China was the main emerging import source, having experienced an annual growth rate of 18 % in value terms from US\$ 48 million in 1997 to US\$ 298 million in 2008. Indonesia also experienced a relatively high growth rate of 17 % over the review period.
- ✓ Brazil mainly imports wheat and its products. This accounts for over 30 % of its total agricultural imports and highlights that, outside of wheat and perhaps barley malt, Brazil is self-sufficient in terms of agricultural products.

An examination of the 2007 Argentinean agricultural export data shows that:

- ✓ Soybeans and their products, maize, wheat and beef, dominate agricultural exports by Argentina.
- ✓ All of the exports from Argentina have shown significant or even spectacular growth from 2001 to 2007. The highest growth rates for Argentina's exports were for fresh and chilled beef cuts, which had a 46 % growth rate, while frozen beef grew by 33 %.
- ✓ By values, during 2006 Argentina exported 47 % of the world's soybean oil, 11 % of the soybeans and 20.3 % and 20.4 % of sunflower cake and sunflower oil, respectively.
- ✓ South Africa has a moderate share in all top ten exports from Argentina to South Africa. All of these products have shown significant growth. The exports of soybean oil and soybeans have grown significantly, with respective growth rates of 62 % and 51 %.

Cumulatively, imports by South Africa from the EU, Brazil and Argentina accounted for 75.4 % of the total agricultural imports during 2008. Argentina held a share above 10 % during the whole period from 1996 to 2008, while Brazil's share rose from around 2 % in the first five years to a consistent level of around 10 % during the last five years.

The main imports from Mercosur were soybeans and their products and the market share from Mercosur was generally over 90 %; wheat had a 53 % share; chicken meat had an 85 % share; sunflower products had an 18.5 % share, and sugar had an 88 % share. Imports of cane sugar have shown the highest growth rates over the period of 1996 to 2008. Imports of agricultural products from Mercosur into the BLNS countries are non-existent to modest.

1.4 SOUTH AFRICA'S AGRICULTURAL TRADE WITH IRAN⁶

The Agricultural Trade Strategy⁷ indicates that identifying Middle East growing markets in which South Africa is under-represented should be given more attention. A study was conducted to explore the strategic approach with regard to agricultural trade with the Islamic Republic of Iran (Iran). **Table 2** indicates that Iran has had a trade surplus with South Africa over the last 3 years.

Table 2: Total trade balance between SA and Iran (Million US\$)

Item	2005	2006	2007
Exports to Iran	129.2	214.5	213.5
Imports by SA	2 256.0	2 713.2	2 955.4
Trade Balance	-2 126.8	-2 498.7	-2 741.9

Source: World Trade Atlas

Table 3 indicates that, contrary to the overall trade balance, South Africa has had a positive agricultural trade balance with Iran from 2005 to 2007.

Table 3: Agricultural trade balance between SA and Iran (Million US\$)

Item	2005	2006	2007
Exports to Iran	47.1	124.2	14.7
Imports by SA	1.0	2.3	1.1
Trade Balance	46.14	121.89	14.60

Source: World Trade Atlas

Table 4 indicates that tobacco and citrus were the major exports of agricultural produce to Iran in 2007.

Table 4: SA exports of agricultural products to Iran in 2007 (Million US\$)

HS Code	Description	Value in 2007	% Share (2007)
	Total	14.701	100
240310	Smoking Tobacco	9.4	64.1
080510	Fresh, Oranges	3.3	22.5
080550	Lemons and Limes	0.5	3.6
080810	Fresh, Apples	0.4	2.6
120991	Vegetable Seeds	0.4	2.4
080610	Grapes, fresh	0.2	1.2

Source: World Trade Atlas

Table 5 indicates that dates were the major agricultural import from Iran in 2007.

Table 5: SA imports of agricultural products from Iran in 2007 (Million US\$)

HS Code	Description	Value	% Share
		2007	2007
Total		1.11	100
080410	Fresh or Dried, Dates	0.5	40.6
090930	Seeds of Cumin	0.2	15.4
080250	Fresh or Dried, Pistachios	0.2	13.8
130212	Vegetable Saps and Extracts of Liquorice	0.1	9.3
190219	Pasta, Uncooked, Not Stuffed	0.07	6.1
040410	Whey & Modfd Whey Whet/Nt Cncntrtd Cntg Add Sweetn	0.07	6.0

Source: World Trade Atlas

Factors that count in favour of South Africa's agricultural trade with Iran

- ✓ South Africa's total trade balance is heavily in favour of Iran. As Iran sometimes uses the trade balance between countries as a measure to determine whether countries may export to its market, this creates an opportunity for possible increased South African exports of agricultural products.
- ✓ Visits to Iran by a high level delegation of the South African Government could further improve the possibility of trade with Iran. The Iranian Government is a major player in the imports of products into Iran; this is an excellent opportunity for SA Trade/Export/Industry Councils to make a request to export certain products to Iran.
- ✓ As the customs duty into Iran is sometimes lower when the government imports a product, it may be useful to make a request for a lower tariff if a government contract can be negotiated. The Government of Iran has indicated during the 9th SA-Iran Joint Bilateral Commission (JBC) that they are ready to purchase sugar, maize, paper and other commodities and products from South Africa.
- ✓ The shortage of water for agricultural production and the currently inefficient application of water are factors that may positively influence the need for imports of agricultural products into Iran, especially during drought periods.

Factors that count against South Africa's agricultural trade with Iran

- ✓ Very strict public sector regulations on the importation of goods into Iran are in place, although this is changing. The Iranian market is very inwardly focused and will only import when they have shortages.
- ✓ International pressure, especially by the USA, on Iran to halt its controversial uranium enrichment activities remain intense and do influence trade with Iran. The financial sanctions against Iran lead to companies becoming hesitant to conduct business deals that involve letters of credit (LC) issued by Iranian banks.
- ✓ Iranian oil exports make up more than 80 % of total Iranian exports, and a change in the oil price influences the whole economy.
- ✓ Iran is not always geared towards international trade, e.g. the Iranian customs book for the 2008/09 year (that started on the 21st of March 2008) was only available in hard copy in the Farsi language at the time that this research was done.

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⁶ A contribution by Mr Gert van Rensburg (Assistant Director) of the Directorate International Trade at the Department of Agriculture, Forestry and Fisheries.

⁷ South Africa's Agricultural Trade Strategy, February 2003.