



INTERNATIONAL *TradeProbe*

No. 21, October 2009

The *TradeProbe* is a joint initiative by the NAMC and the Department of Agriculture, Forestry and Fisheries 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:

- The International Administration Commission of South Africa
- Profile: Vegetables in South Africa
- The New USA Average Crop Revenue Election (ACRE) Programme vs. Traditional Producer Subsidies

1. THE INTERNATIONAL ADMINISTRATION COMMISSION OF SOUTH AFRICA (ITAC)¹

This article introduces the International Administration Commission of South Africa (ITAC) to the readers of the *TradeProbe*. The introduction of this institution of government is necessary to the agricultural fraternity considering its strategic positioning relating to issues of trade such as tariff investigations together with trade remedies to mention a few.

1.2 Objective of ITAC

ITAC was established through an Act of Parliament, the International Trade Administration Act 71 of 2002, which came into force on 1 June 2003.

The aim of ITAC, as stated in the Act, is to foster economic growth and development in order to raise incomes and promote investment and employment in South Africa and within the Common Customs Union Area by establishing an efficient and effective system for the administration of international trade subject to this Act and the Southern African Customs Union (SACU) Agreement.

The core functions are: customs tariff investigations; trade remedies; and import and export control.

1.3 Objective of tariff investigations

The core business of the Tariff Investigations unit is to administer the ordinary customs duty, including rebate

and drawback amendments, involving all agricultural and industrial sectors such as agro-processing, chemicals, textiles, metals and motors. The unit also administers permits in terms of various standing rebate and drawback provisions.

The objective of this unit is to contribute towards international competitiveness; reduce production costs; and promote downstream value addition in a way that contributes to growth, employment and equity. It is also to give tariff support to promote domestic production and job creation. This responsibility is carried out by investigating tariff applications by the industry and making appropriate proposals as well as providing operational customs tariff policy advice to the Commission.

The unit conducts research and rigorous investigations into the industry, gathering data and information to enable the Commission to make well-informed decisions.

1.4 Adjudicating criteria

Comprehensive criteria for adjudicating tariff applications have been set. The processes are rigorous, thorough, evidence-based, and are carried out on a case by case basis. These criteria are applied consistently to all applications and include an analysis of the following factors:

- Domestic production capacity and potential;
- Market share;
- Import and export data;
- Demand and supply conditions;
- Price comparison between domestic and imported items;
- Financial state of the industry;
- Investment and employment;
- Rate of effective protection; and
- Value chain implications.

ITAC consults extensively with the industry and government stakeholders (stakeholders are considered to be amongst others, parties that have a direct interest in an investigation and may include the applicant,

¹This article was compiled by Mr. Thembinkosi Gamlashe, Manager – Communications and Ms. Manini Masithela, Tariff Investigations 1 at ITAC.

producers in SACU, exporters, importers or trade or business associations whose members are SACU producers, downstream industries and consumers, i.e. the full value chain).

When undertaking investigations for sensitive agricultural products, a task team consisting of all stakeholders is formed and is entrusted with collating information to be considered by the Commission.

1.5 ITAC investigations pertaining to the agricultural sector

ITAC has recently concluded the investigations mentioned below:

- Reduction in the rate of duty on silo bags used for the storage of grains;
- Creation of a rebate facility for salmon;
- Creation of a rebate facility for canned pineapples;
- Increase in the Dollar-based reference price for sugar;
- Creation of a rebate facility for cut filler.

1.6 Current Investigations

- Review of the tariff structure for oilcakes;
- Creation of a rebate facility for mango concentrate;
- Creation of a rebate facility for dried paprika for the extraction of paprika oleoresin.

2. PROFILE: VEGETABLES IN SOUTH AFRICA²

2.1 Background

The total gross value of agricultural production for 2007/08 in South Africa (total production during the production season, valued at the average basic prices received by producers), is estimated at R111 760 million, compared to R93 390 million the previous year a rise of 19.7 %. This increase can be attributed mainly to a significant increase in the value of field crops.

The gross value of animal products, field crops and horticultural products contributed 47.5 %, 28.2 % and 24.2 %, respectively, to the total gross value of agricultural production in 2007/08.

The contribution of the vegetable or horticulture industry to the gross value of agricultural production in the years from 1996/97 to 2008/09 is summarised in Figure 1. As such, the gross value of vegetable production increased by 240.4 % over this period.

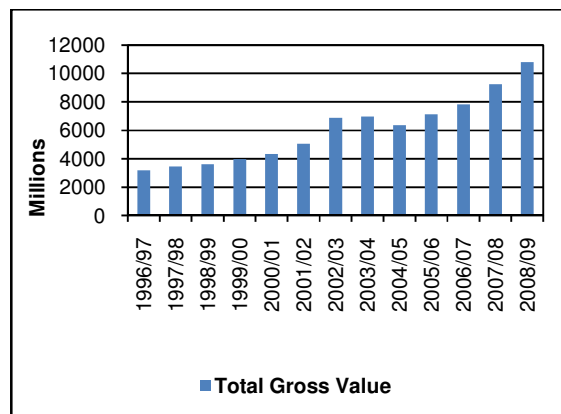


Figure 1: Total Gross Value of Vegetables, 1996/97 to 2008/09

Source: DAFF, 2008

2.2 Total production of vegetables in South Africa

Figure 2 shows the total vegetable production in South Africa from 1996/97 to 2008/09. The total volume of vegetables produced increased by 18 % from 1996/97 to 2008/09.

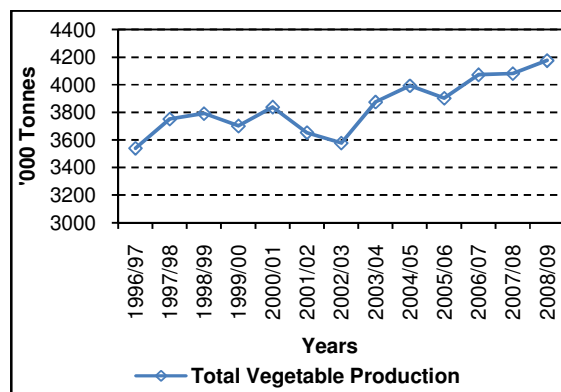


Figure 2: Total Vegetable Production in South Africa, 1996/97 to 2008/09

Source: DAFF, 2009

Table 1 shows the vegetable groups that make up the main share of total vegetable production. In 2008/09 potatoes contributed 48.3 % to total vegetable production, followed by tomatoes with 10.6 % and onions with 9.6 %. The six vegetables groups shown represented 85 % of the total quantity of vegetables produced in 2008/09.

²This article was compiled by Ms. Corne Dempers, a researcher at the NAMC.

Table 1: Vegetable Production - % Share of Total Production

Year July to June	Potatoes	Tomatoes	Pumpkins	Green mealies	Onions	Cabbage and red cabbage	Representing % of Total Production
	% of Total Production						
1996/97	44.4	12.0	5.4	8.1	8.1	5.9	83.8
1997/98	44.4	12.1	5.3	7.7	9.1	5.4	84.1
1998/99	44.8	10.9	5.2	7.9	10.2	5.3	84.5
1999/00	46.5	10.9	5.5	8.1	8.9	5.1	85.0
2000/01	46.7	12.4	5.4	7.8	8.1	5.0	85.4
2001/02	45.1	11.5	5.7	8.1	9.2	4.8	84.4
2002/03	41.8	12.4	6.0	8.3	10.0	4.9	83.3
2003/04	46.1	9.9	5.8	8.3	9.7	4.5	84.3
2004/05	44.8	11.6	5.6	7.9	9.8	4.1	83.9
2005/06	44.1	11.6	5.9	8.1	10.1	3.9	83.7
2006/07	47.1	11.2	5.6	7.8	10.0	3.3	85.0
2007/08	45.4	10.4	5.5	7.9	9.2	3.3	81.8
2008/09	48.3	10.6	5.4	8.0	9.6	3.0	85.0

Source: Own calculations based on data from DAFF, 2009

2.2 Total production of vegetables globally

Figure 3 depicts world production of fresh vegetables from 1996 to 2007. During this period, world production of fresh vegetables increased by 21.6 % in comparison with South Africa's production, which increased by 15.3 %.

The top four vegetable types produced worldwide are potatoes, beetroot and other edible roots, tomatoes and sweet potatoes. These four groups represent about 66 % of total global vegetable production.

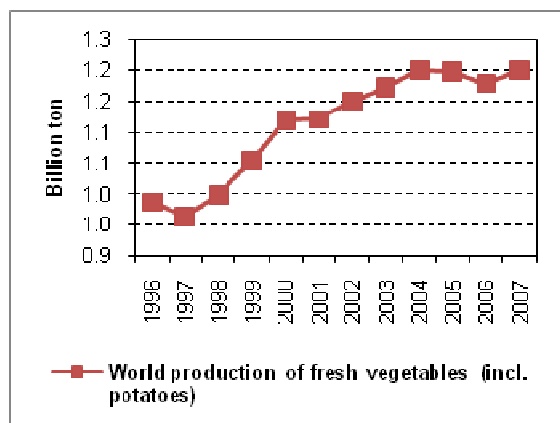


Figure 3: World Production of Fresh Vegetables, 1996 to 2007

Source: FAOSTATS, 2009

2.2.1 World leading producers of vegetables

Table 2 shows the top ten world leading producers of vegetables during 2005 (FAOSTATS, 2008). According to the FAO, China produced 402.9 % more vegetables than India's 6.5 million tons, while the value of China's production was 405.7 % higher. Vietnam was the third largest producer. Nigeria was the only African country on this list, at fifth position.

Table 2: Top 10 World Producers of Vegetables³

Rank	Countries	Production (Int \$1000)*	Production (MT)**
1	China	26 458 650	142 010 000
2	India	6 567 750	35 000 000
3	Vietnam	1 238 490	6 600 000
4	Philippines	825 660	4 400 000
5	Nigeria	804 080	4 285 000
6	Korea	694 305	3 700 000
7	Russian Federation	632 380	3 370 000***
8	Myanmar	562 950	3 000 000
9	France	544 185	2 900 000
10	Japan	506 655	2 700 000

Source: FAO statistics division, 2008

2.3 Consumption of vegetables

Figure 4 depicts the per capita consumption of vegetables from 2003 to 2008, in the world and in South Africa. South Africa's domestic per capita consumption of vegetables increased by 2 %, while world per capita consumption showed a 7.9 % increase over the same period.

This translates to 1.3 kilograms more vegetables consumed in South Africa and 9.5 kilograms in the world in 2008 than in 2003. South Africa's average per capita consumption of potatoes between 2003 and 2008 was 26.2 kg and that of the world 24.9 kg. It was only in 2008 that world consumption of potatoes equalled that of South Africa at 26.7 kilograms.

During the same period, South Africans consumed an average of only 0.5 kg of sweet potatoes per capita in comparison with 8.5 kg in the world. These figures are very stable over the stipulated period.

³ * Calculated figure; ** FAO estimate; *** Unofficial figure; Production in Int \$1000 values have been calculated based on 1999-2001 international prices

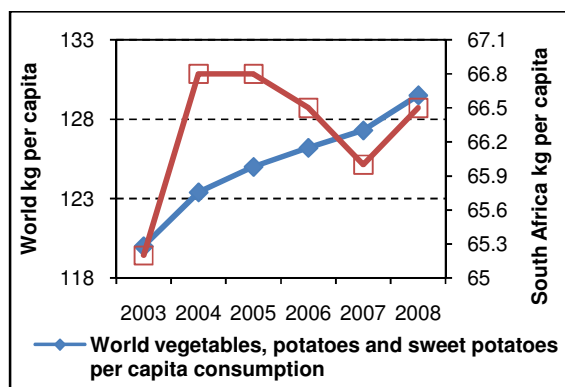


Figure 4: World and South African Per Capita Consumption of Vegetables, 2003 to 2008

Source: EuroMonitor, 2009

2.4 Trade in vegetables

Figure 5 depicts the value of world imports and exports of vegetables from South Africa, from 2006 to 2008. The value of vegetables imported by the world from South Africa increased by 73.5 % during the period, while world exports to South Africa increased by 46.4 % over the same period.

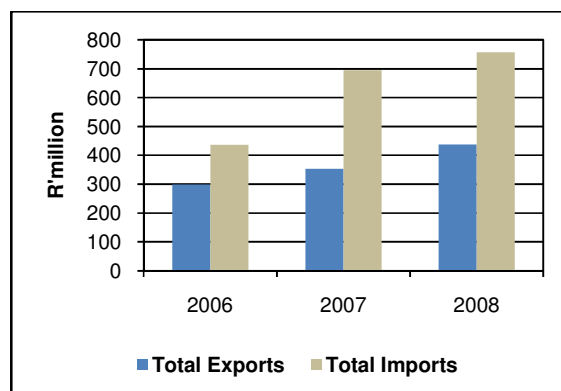


Figure 5: South Africa with the World, Trade of Vegetables, 2006 to 2008

Source: World Trade Atlas, 2009

Table 3 shows the top ten destinations of vegetables from South Africa and their share in totals. The value of total exports increased by 24.1 % from 2007 to 2008. Mozambique is ranked first on the list and had an almost 20 % share of total exports in 2008. The value of exports increased from 2007 to 2008 for all of the top ten countries except for Angola.

Table 3: Top ten destinations of SA vegetable exports and their share

Exporters	Rank	Exported value (R'million) in 2006	% share 2006	Exported value (R'million) in 2007	% share 2007	Exported value (R'million) in 2008	% share 2008
Total exports		298.9		352.6		437.5	
Mozambique	1	42.0	14.0	56.9	16.1	86.5	19.8
United Kingdom	2	34.6	11.6	40.8	11.6	55.1	12.6
Angola	3	101.7	34.0	78.1	22.2	52.2	11.9
Zimbabwe	4	6.6	2.2	8.0	2.3	41.8	9.6
Ships & Aircraft Stores	5	13.5	4.5	22.7	6.4	28.2	6.4
Germany	6	11.9	4.0	17.0	4.8	28.0	6.4
Netherlands	7	15.0	5.0	22.1	6.3	24.8	5.7
Zambia	8	11.2	3.8	13.7	3.9	16.4	3.8
Mauritius	9	4.3	1.4	8.4	2.4	11.0	2.5
France	10	6.2	2.1	7.5	2.1	9.4	2.1
Other		52.0	17.4	77.4	22.0	84.2	19.3

Source: World Trade Atlas calculations based on South African Revenue Service statistics, 2009

Table 4 shows the top ten countries of origin of vegetable imported by South Africa, which together represented 90.9 % of total value of vegetable imports in 2008. The value of total imports increased by 8.8 %

from 2007 to 2008. China is ranked first on the list, with a 52.2 % share of total value of vegetable imports to this country in 2008.

Table 4: Top ten countries of origin of SA vegetable imports and their share

Importers	Rank	Imported value (R'million) in 2006	% share 2006	Imported value (R'million) in 2007	% share 2007	Imported value (R'million) in 2008	% share 2008
Total imports		436.2		695.3		756.6	
China	1	223.5	51.2	331.0	47.6	394.8	52.2
Canada	2	42.3	9.7	64.8	9.3	121.7	16.1
United States	3	20.8	4.8	56.0	8.1	48.9	6.5
Ethiopia	4	18.2	4.2	21.9	3.2	29.3	3.9
New Zealand	5	13.5	3.1	10.7	1.5	23.9	3.2
Zambia	6	9.2	2.1	18.9	2.7	20.6	2.7
India	7	15.3	3.5	29.3	4.2	15.7	2.1
Australia	8	8.4	1.9	8.8	1.3	12.6	1.7
Malawi	9	8.6	2.0	8.1	1.2	11.2	1.5
Argentina	10	7.9	1.8	16.5	2.4	9.3	1.2
Other		68.5	15.7	129.3	18.6	68.7	9.1

Source: World Trade Atlas calculations based on South African Revenue Service statistics, 2009

Table 5 shows the top ten world exporters of vegetables. The total value of world exports of vegetables increased by 101.1 % from 2004 to 2008. The top ten

countries represented 69.4 % of total world exports in 2008. The Netherlands and Spain are the largest exporters.

Table 5: Top ten world exporters of vegetables (R'000), 2004 to 2008

Exporters	Exported value in 2004	Exported value in 2005	Exported value in 2006	Exported value in 2007	Exported value in 2008
	R'000				
World	200 095 008	212 149 904	259 694 448	315 646 528	402 346 432
Netherlands	27 762 118	26 947 126	34 032 900	43 000 324	52 129 204
Spain	26 709 440	27 266 506	29 562 756	35 380 844	45 260 084
China	16 242 764	19 317 224	24 904 496	28 396 068	34 245 716
Mexico	19 183 284	19 758 876	23 322 484	24 991 452	33 384 644
USA	13 771 549	15 324 132	17 971 358	21 142 944	28 130 370
Canada	9 416 859	10 846 010	12 806 336	16 712 927	24 651 380
Belgium	11 038 789	11 399 533	13 288 648	16 275 155	20 676 456
France	11 095 756	11 470 463	13 347 109	17 077 146	19 893 472
Italy	6 421 171	6 859 449	8 119 067	9 945 553	12 412 278
Poland	3 384 648	3 950 200	4 501 757	6 506 616	8 595 992

Please note that these figures include also dried legumes as vegetables.

Source: TradeMap ITC calculations based on COMTRADE statistics, 2009

Table 6 shows the top ten world importers of vegetables. The total value of world exports of vegetables increased by 95.4 % from 2004 to 2008. The top ten

countries represented 61.2 % of total world imports in 2008. The USA and Germany are the largest importers.

Table 6: Top ten world importers of vegetables (R'000), 2004 to 2008

Importers	Imported value in 2004	Imported value in 2005	Imported value in 2006	Imported value in 2007	Imported value in 2008
	R'000				
World	206 123 280	222 761 840	267 510 128	330 178 976	402 724 864
USA	28 681 268	29 973 204	35 293 456	40 256 796	49 477 900
Germany	24 367 362	27 637 960	32 590 682	36 390 652	45 301 148
United Kingdom	20 215 664	22 416 676	24 682 350	30 799 452	35 580 828
France	14 343 656	14 862 659	16 414 489	21 238 918	26 444 868
Canada	9 067 870	10 211 145	11 990 314	14 224 828	17 338 884
Netherlands	9 694 190	9 456 224	11 412 574	15 185 859	15 984 530
Belgium	7 513 334	7 313 726	9 125 396	12 061 178	14 779 543
Russian Federation	2 982 808	4 576 021	6 237 744	9 758 578	14 268 739
Japan	12 402 906	12 122 929	12 906 324	12 340 958	13 661 913
Italy	8 277 460	8 373 532	9 179 969	10 842 809	13 506 277

Please note that this figures include also dried legumes as vegetables.

Source: TradeMap ITC calculations based on COMTRADE statistics, 2009

3. THE NEW USA AVERAGE CROP REVENUE ELECTION (ACRE) PROGRAMME VS. TRADITIONAL PRODUCER SUBSIDIES⁴

This section explores the differences between ACRE, as an option, and the composition of three traditional US support programmes. It further highlights how the ACRE works and the implication it has for the traditional support programmes known as direct payments, counter-cyclical payments and the marketing loan programme.

3.1 Overview

During 2008, the US Farm Bill of 2008 introduced a support programme called ACRE, a revenue based support programme to protect farmers against revenue losses rather than supporting against volatility of commodity prices as in the countercyclical payments of the traditional support programme. The programme is a state based revenue guarantee for participants who opt for this method of support.

It uses the 5 year state average yield (excluding the highest and lowest), and the 2 year national average price to calculate the farm benchmark revenue. ACRE provides payments to producers for farm commodities under the following two conditions:

- when the actual state revenue for the commodity is less than the revenue guarantee and,
- when a farmer experiences individual crop revenue loss on his/her farm.

⁴This article was compiled by Zithulele Balindlela, an Agricultural Economist of DAFF: Directorate International Trade. The articles references are USDA - Economic Research Service:

<http://www.ers.usda.gov/Briefing/farmpolicy/acre.htm>

American Farm Trust:

http://future.aae.wisc.edu/publications/farm_bill/AFT-FarmPolicyCampaign-ACREisReform_051208.pdf

Farm Economics:

http://www.farmdoc.uiuc.edu/manage/newsletters/fe09_04/fe09_04.pdf

Montana Grain Grower Association:

http://www.mgga.org/FarmPolicy/New_Trends_%20Ag_Conference_Jan_5_2009.pdf

It protects farmers against crop revenue losses regardless of the reason behind the loss of revenue. This implies that when the actual farm revenue is less than the farm benchmark revenue the farmer is eligible for the government payment of the difference. However, the payment is received only when the guaranteed revenue conditions are also met such as:

- a. The farmer has to choose between ACRE and the combination of the three traditional programmes.
- b. Choosing ACRE, a farmer forgoes 20% of the direct payments as well as 30% of the market loans rates. Further, the ACRE participants are not eligible for the counter-cyclical programme payments.

Most importantly, ACRE is an optional programme. Choosing ACRE binds a farmer to participation in the programme for the 5 years' duration of the farm bill. The programme would be implemented from the crop year 2009/10 to 2012/13 and covers all crops in the farm.

The direct payments are hand-outs to the farmers whose lands are historically used for commodity production. Farmers disqualify for this grant if they plant vegetables or trees on those lands. The loan rates are administratively set prices for the commodities.

They are considered as the minimum unit return of each crop. The government makes loans available based on this price prior to planting. If the farmer sells the crop at the end of the period at a price higher than the loan rate, he/she is liable to pay back the loan with interest. Otherwise, the government will assist the farmers in other ways to repay the loan.

The countercyclical payments are market loss assistance that is granted countercyclical to price variations. The government sets target prices for commodities on the basis of which the commodity farmers are subsidised when the market price is below the target price. Traditionally, a commodity farmer qualifies to receive payment under all three programmes.

3.2 Comparison between farms under ACRE and the old programmes

Based on comparisons, the farmer under ACRE receives fewer direct payments and loan payments compared to a farmer under traditional programmes. The limits for direct payments under the ACRE option is \$40 000 minus 20 %⁵, which under the traditional programmes is \$40 000. There are no payment limits for loan rates in either option. The ACRE programme replaces the countercyclical one with its revenue guarantee payment. The payment limit for the countercyclical programme is capped at \$65 000 while under the ACRE programme, the revenue guarantee limit is \$65 000 plus the 20% that was deducted from direct payments (that gives a maximum of \$73 000).

⁵This simply means that a farmer under the ACRE option receives a maximum of \$32 000 of direct payments in any given year. On the other hand, a farmer under the traditional programme receives 100% of direct payment, meaning the full amount of \$40 000.

Table 7 on the next page gives a comparison of the allocation of direct payments and loan rates under the traditional programmes and the new ACRE programme.

- In absolute terms a wheat farmer choosing the ACRE option will forgo \$3.82 of direct payments per ton produced.
- Further, a wheat farmer choosing the ACRE programme will also forgo \$32.28 of marketing loans rate payments per ton of wheat.
- The commodity prices are currently well above the marketing loan rates, which makes the use of the loans viable based on prospects of good profits.

3.3 Conclusion

The ACRE programme is different from traditional (price-based) programmes because it is revenue-based, whereby farmers have to lose some revenue in order to receive payment. However, it is similar to traditional programmes in terms of payments. Although direct payments are cut or reduced by 20 %, that amount is added to the ACRE cap of \$65 000, rendering the programme not much different from traditional programmes when the farmer qualifies for the maximum amounts.

It could be concluded that ACRE is a more secure replacement of the counter-cyclical programme,⁶ because it guarantees the revenue of the farmer that includes eventualities of the supply side. However, the farmers under traditional programmes are eligible for the counter-cyclical programme plus a 30 % bigger marketing loan. Therefore, it is more likely for a producer of an under-valued crop to choose ACRE, which guarantees their revenue, while producers of crops with declining value will choose the traditional programmes.

The other highlight of the ACRE programme is the reduction in the marketing loan payments by 30 %. This signifies a positive move towards reducing distorting effects on trade. However, the shifting of 20 % of direct payment (a decoupled Green Box support) to the revenue guarantee (Amber Box) has the opposite effect.

Due to the fact that ACRE is based on price and production, it is trade distorting. ACRE is still to be implemented during this year, therefore, its effects on the international commodity prices are not yet realised. The effects will only be felt after the programme is fully tested later this year when farmers harvest their produce. It is crucial to observe under which support category (i.e. "amber" or "green" box) the programme would be classified at the WTO.

⁶Direct counter-cyclical programme provides coverage when the effective price is lower than the targeted prices.

Table 7: Direct payments 2008-2012 and marketing loan rates 2010-2012

Crop	\$/t	Traditional Support Programmes option		Average Crop Revenue Election option	
		Direct Payments	Marketing Loan Rates	Direct Payments (less 20%)	Marketing Loan Rates (less 30%)
Wheat	Ton	\$19.08	\$107.92 (190.00)	\$15.26	\$75.54
Corn	Ton	\$11.01	\$76.69 (152.00)	\$8.80	\$53.69
Sorghum	Ton	\$13.76	\$76.69 (151.00)	\$11.01	\$53.69
Barley	Ton	\$11.01	\$89.48	\$8.80	\$62.64
Oats	Ton	\$1.68	\$95.66	\$1.34	\$66.97
Up. cotton	Ton	\$146.92	\$1145.37	\$117.54	\$1042.29
Rice	Ton	\$51.76	\$143.17	\$41.41	\$1739.48
Soybeans	Ton	\$16.50	\$183.55 (388.00)	\$13.20	\$100.22
Peanuts	Ton	\$36	\$355	\$28.80	\$301.5
Other oil seeds	Ton	\$17.62	\$221.98	\$14.10	\$128.49

*Calculations based on US figures extrapolated from various reports on the Farm Bills of 2002 & 2008. Note: figures in brackets are US prices of the commodities for August 2008, taken from the IGC website.

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