

Source: FINANCIAL MAIL

Date: 13-May-2005

Topic: 19

Ref No: 3041



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ID: 03214184-01 Source Page: 34

## By Invitation

# PROTECTION UP TO A POINT

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**A recent research study concludes that the impact of a tariff on the price of white bread would be minimal**

The row between wheat farmers and large buyers of grain over an application for a tariff on imported wheat has reopened the debate on whether we need to protect our farmers against foreign competition. Already a heated issue, the row erupted again after GrainSA's application to the International Trade Administration Commission recently.

With the advent of democracy in 1994, SA adopted a liberalised trade policy regime in line with the World Trade Organisation's (WTO) philosophy of freer trade. These free-trade principles were implemented quite rapidly after the 1994 Marrakech agreement.

By 2004 the majority of SA's tariff lines were zero or below 10% ad valorem, reflecting our liberalised trade regime.

Many argue that SA was too quick in freeing trade and failed to take into account the shedding of jobs and other negatives because not all major trading nations followed similar reform schedules. As a result, today SA has one of the most open economies in the world.

In the WTO the battle for free trade in agricultural commodity markets has not been won, and high levels of agricultural subsidies and protection remain in the European Union and the US. This creates an uneven playing field, which is the main reason why SA farmers say they should be protected.

Various studies argue that the removal of trade-distorting agricultural policies of developed countries would entail higher world agricultural commodity prices. For example, the world wheat price would increase by 14% if global export subsidies and domestic support were removed and import tariffs reduced.

A world price 14% higher could mean an increase in the SA domestic price of about R130/t, which could provide some relief to many farmers. At the moment many wheat producers in the Western Cape face bankruptcy because of low yields (after two dry seasons) and low world prices for imported wheat, which influence our domestic prices. Since it is unlikely that farm subsidies in rich countries will be eliminated before 2017, the argument for protection carries some weight.

The standard "infant industry" argument can also be used in favour of introducing tariffs to protect a newly established industry. In the agricultural context one can argue that govern-

ment, through the land reform programme, is trying to establish a group of farmers which does not have much experience in agriculture or world agricultural markets. It could, therefore, well be asked whether it is fair to expose these emerging (black) farmers to this unfair playing field. Why should they not enjoy some form of protection against these world forces as they try to get their farming enterprises up and running? White commercial farmers had this protection for years and though it protected inefficiencies, it at least provided a cushion to start competing effectively.

In terms of WTO rules SA's tariff-bound rates are much higher than our current tariff levels, leaving substantial room for tariff increases without compromising WTO commitments.

It is important to note the welfare effects of tariff protection: producers enjoy high price guarantees but consumers are worse off since they have to pay more for the product. With high poverty levels in SA, this would be a major concern. It has to be weighed against potential job losses and farm bankruptcies.

But if we depart from the standpoint that tariffs do have an impact on the domestic price of imported commodities, the critical question to answer is: what is the real impact of this increase on consumer prices? In a recent study conducted by the University of Pretoria's Bureau for Food & Agricultural Policy Research, it was found that an increase in the wheat import tariff from the current level of 2% of the world price of wheat to 30% would increase the domestic wheat price by R137/t. Linking this increase to a price transmission model showed an increase in the cost of flour of 8c/loaf, which would result in a 1,2% increase in the price of white bread. Hence it is clear that the effect of a tariff on the price of white bread would be minimal.

Since the deregulation and liberalisation of the agricultural industry, SA farmers have become much more efficient and competitive. This process should not be reversed by the introduction of high tariffs.

However, tariffs should be applied to the extent that domestic producers can compete on the same playing field as their international counterparts and, at the same time, ensure the success of land reform and the securing of formal employment opportunities in a sector that contributes 10% to formal employment. ■

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