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NEVA MAKGETLA: Tariff surge on basic foods intensifies inequalities

They can have benefits but tariffs can also have a negative effect on low-income households

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25 JULY 2023 - 05:00 *by* NEVA MAKGETLA

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In 2020, five staple foods — chicken, wheat, beef, cooking oil and sugar — faced tariffs ranging from more than 50% for poultry and sugar to 10% for cooking oil.

These products account for two fifths of all food expenditure by the poorest 60% of households, but only about one fifth for the richest 10%. Tariffs are sometimes useful to promote industrialisation and job creation, but it should be harder to impose them on basic necessities.

For sugar and wheat, automatic tariffs cut in when global prices fall. They effectively set a floor, but no ceiling, on consumer prices. In 2019, they resulted in an 80% tariff on sugar. The wheat tariff varied from 10%-35% from 2016 to 2020.

The International Trade Administration Commission (ITAC) can also tax food imports if it finds their prices are unfairly depressed or likely to destabilise local production. Those rules let it boost the tariff on chicken — the main protein in working-class households — to more than 60% in 2020.

The government suspended the tariff after the Russian invasion of Ukraine fuelled extraordinary hikes in world food prices, but the suspension is supposed to end in August. DNA Economists found that a 1% increase in the poultry tariff results in a nearly 0,5% hike in domestic prices, which adds up when rates get so high. Unsurprisingly, studies commissioned by the producers themselves suggest a negligible effect.

Of course, tariffs are worthwhile if they give local producers space to become more competitive over time instead of going out of business immediately, eliminating local jobs and capacity. They can also protect access to strategic products. The question, then, is whether the benefits of tariffs on basic foods outweigh the costs. The answer depends largely on how much we prioritise the effects on low-income households.

Decision-making on tariffs typically starts with demands from big business, which have capacity to develop proposals, lobby government and run media campaigns in support. The existing rules do not require government agencies to publish detailed analyses of the costs and benefits to different groups, or to specify how they weight the concerns of low-income households in their evaluation.

The influence of business lobbies emerges from the sectoral master plans. Every published master plan calls for trade protection, including for poultry and sugar. The process prioritises stakeholder engagement. In practice, that has meant business associations and large companies; unions, where they exist; and government agencies. Consumer groups have not been part of the deliberations.

In engagements, business groups invariably hype the number of beneficiaries from tariffs. For instance, they often include downstream retail workers, whose employment will not be diminished by cheaper imports. Similarly, they frequently supplement figures for at-risk jobs with (often exaggerated) estimates of workers' dependents.

For its part, ITAC may approve tariffs only where foreign producers are receiving unfair subsidies or gaining market share by selling products in SA below the cost of production, or where a temporary drop in world prices will destabilise local producers. It explicitly considers the effects on working people. Still, it has not published detailed analyses of the costs and benefits of the main food tariffs for working-class consumers.

On chicken, ITAC found that foreign producers received subsidies. They may also sell wings and thighs below cost, as by-products of the breast pieces preferred in the global north. Arguably, most working people would be happy to benefit from foreign subsidies and the misguided preferences of overseas consumers.

In its report, ITAC effectively dismissed concerns raised about poor households without publishing a systematic analysis of competing claims from producers and consumers.

Government officials can manage lobbying for tariffs if they have a clear strategic mandate backed by solid research into the likely effects. Otherwise, they may support tariffs for industries that can never become competitive. When they affect basic foods, these interventions aggravate poverty and intensify SA's already deep inequalities.

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