FEATURES

Patel signals subtle shift in South Africa's trade policy

The failure to give sufficient weight to consumers' interests when imposing trade protection measures has raised food prices in South Africa — hitting the poorest the hardest. Now, Ebrahim Patel seems to be taking up the cause

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Ebrahim Patel.

Over the past year, trade, industry & competition minister Ebrahim Patel has taken four decisions that will help shift South Africa's use of trade measures in a less protectionist direction — all to the benefit of the consumer.

The first step was his decision to postpone, for a year, the imposition of anti-dumping duties on bone-in chicken from Brazil, Denmark, Ireland, Poland and Spain. This was driven by his concern for the inflationary effect it might have on the price of chicken — one of the most affordable sources of protein, especially for the poor.

It is extremely rare in South Africa for a duty decision to be made that favours the consumer's interest ahead of that of the producer.

The second was the decision in February this year to review the 15% import duties on rolled aluminium.

Then came the minister's decision to refuse the recommendation by the International Trade Administration Commission (Itac) — an agency of his department — that anti-dumping duties be imposed on steel chain from China.

The Itac recommendation was made after an application by McKinnon Chain (part of the Scaw Metals Group). However, Patel was not convinced that material injury, or the threat thereof, had been inflicted on the applicant.

Indeed, South African Revenue Service figures show that import volumes of steel chain dropped by 46% in the four years between March 2018 and February 2022, while the domestic price rose by 15% over the same period.

More recently, Patel rejected an application by Nature's Garden (after a marathon 53 months) to increase the duties on frozen vegetables from 10% to 37%. He had previously referred the matter back to Itac for deeper consideration, stating he was concerned about the potential impact on the lower market segment, as well as food inflation.

"We are seeing a move towards a more considered trade policy, which is a very good thing," says XA Global Trade Advisors CEO Donald MacKay, "In less than 12 months, Patel has taken more brave steps to creating a more useful set of trade policy instruments than in the prior 20 years."

What explains the apparent shift in Patel's stance? The minister was not available for comment, but it seems likely he has internalised two Reserve Bank working papers on how tariff hikes and other trade measures have raised food prices for South African consumers, in some cases hitting the poorest the hardest.

WHAT IT MEANS:

Trade economists show that South Africa's tariff regime hurts poor consumers by raising the prices of staple foods — and it seems the government is listening

The first paper, "The Consumer Price Effects of Specific Trade Policy Restrictions in South Africa", by University of Cape Town economics professor Lawrence Edwards and others, focuses on three consumer goods: frozen chicken, frozen chips and pasta. All three have been subject to increasingly restrictive trade measures since 2010.

These food items are relatively important in the household food consumption bundle, counting for a combined 14% of the consumer price index (CPI) weight for food products.

The paper's key findings are that:

- Tariffs and other import duties have a powerful impact on import volumes. In 2021, the import volumes of bone-in chicken pieces, the most restricted product, were at levels last seen in 2011/2012.
- Exporters do not lower their prices in response to the implementation of trade protection measures. Instead, the full cost of the duty is carried by South African importers and consumers.
- Increases in trade duties can have a substantial effect on retail prices.

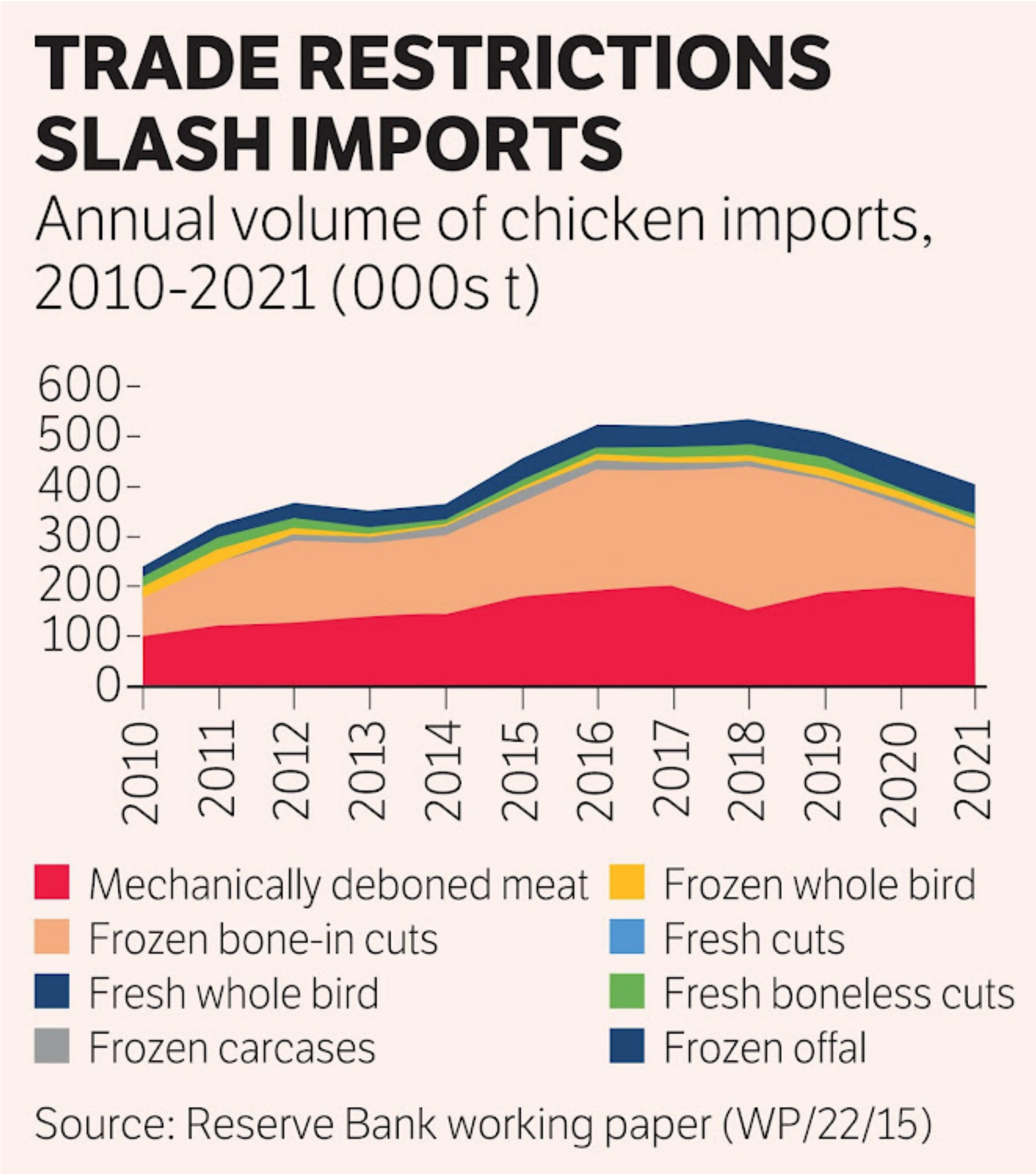
South African Poultry Association general manager Izaak Breitenbach has argued that an increase in tariffs on chicken "has never led to an increase in consumer prices". However, the researchers find that the retail price of frozen chicken products rose by more than 16% between 2012 and 2021 in response to the 40% increase in the import-weighted average applied tariffs.

Anti-dumping duties raised the retail price of frozen chips by an estimated 18.6% and pasta by 4% over the same period.

- The impact of these higher food prices is not distributed equally. Because poor households spend more of their total expenditure on chicken relative to wealthier households, they are most affected.

The paper estimates that rising trade protection on frozen chicken, frozen chips and pasta has reduced the consumer welfare for the poorest households. They would now need to spend an additional 2.1% of their food bill to maintain their previous levels of welfare. For the top consumption decile, the welfare loss was 1.1%.

- South Africa's participation in a free-trade agreement with the EU diminishes the effectiveness of tariffs because their imposition on relatively efficient non-EU suppliers tends to divert trade to potentially higher-cost suppliers in the EU.



The whole point of raising tariffs or imposing new duties is to assist domestic producers by raising the demand and price they receive for their product. If, however, this merely leads to trade diversion to South Africa's preferential trading partners, then these foreign exporters will be the primary beneficiaries, the paper notes.

The less efficient local producers are, the less likely they will be to respond to a tariff increase by increasing their supply, and the more likely it is that foreign exporters will be the main beneficiaries.

In this way, trade diversion can reduce national welfare, explains the paper: "The government loses customs revenue, and the price of imported goods rises, thus reducing the country's terms of trade."

- The paper also highlights a worrying trend whereby domestic producers first look to Itac to raise the most favoured nation duty on global imports, and then follow up with requests for more targeted protection (anti-dumping duties and safeguard measures) on any remaining exporters that benefit from preferential trading agreements.

The net effect, the paper shows, is to curtail all trade and to increase domestic prices well beyond what would have been projected when each application was considered on its own.

- The paper also notes that while Itac nominally considers the impact of tariff increases on consumers, it doesn't undertake a rigorous analysis of how tariffs are likely to affect consumer prices.

It also doesn't give sufficient consideration to the economy-wide impacts of its tariff decisions, especially on downstream users, such as food processing and restaurants, which provide considerable employment.

The paper recommends that Itac assess (or at least review) the combined impacts of all applications and past decisions on a single product or industry, rather than adjudicating each new application in isolation.

It should also undertake a more rigorous quantification of the costs and benefits for all groups when making tariff decisions to make explicit the costs to consumers, not just the benefits to producers. These findings should be published.

The same point is made in the second paper, "Tariffs on Basic Foods: Evolution and Impacts", by Trade & Industrial Policy Strategies senior economist Neva

Makgetla.

Makgetla is scathing in her criticism of Itac, finding that its actions in raising tariffs on some basic food products — most notably wheat and chicken — have placed a floor under the price of these goods. This has placed upward pressure on consumer price inflation, which has aggravated poverty and inequality.

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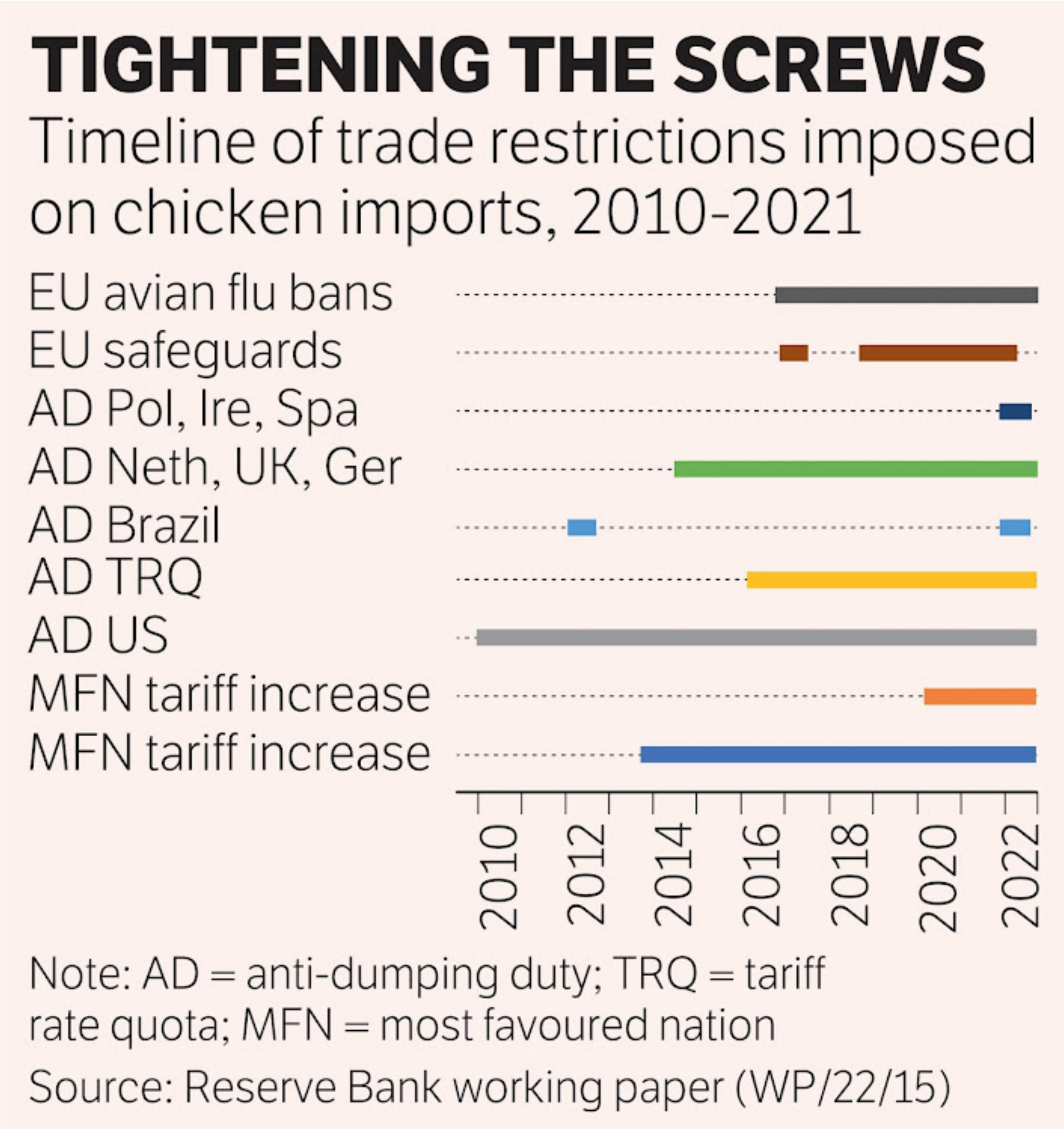
>
> *- Donald MacKay*

In fact, Makgetla shows that significant and long-standing tariffs on most of the main staple foods for lower-income households in South Africa over the past decade “have constituted a regressive tax that has contributed to higher costs without visibly promoting more competitive production of basic necessities”.

She blames Itac’s “highly formalised and legalistic” decision-making process for the way in which it has “magnified the influence of well-resourced commercial farm and food-processing lobbies”.

Moreover, because Itac did not quantify or define in detail the cost implications for working-class and poor households, it didn’t have to justify its decision to adopt the higher tariff on a staple food.

She calls for tariffs on staple foods — specifically wheat, sugar, poultry, red meat and cooking oil — to be urgently reviewed in terms of their impact on consumers, by income level.



Makgetla also recommends that in future Itac publish the evidence it uses to justify tariff increases on staple foods in far more detail, using a socioeconomic impact assessment approach that distinguishes the effect on the various stakeholders.

MacKay welcomes the recent shift in the application of trade policy.

“For the longest time, there was an increasing shift towards political, rather than technically correct decisions,” he says. “The shift back is welcomed. It will see improved use of the instruments, which have been in slow decline for a while.”

He doesn’t believe applicants for anti-dumping duties need be concerned that they will struggle to have duties implemented.

“The shift appears to be towards taking decisions which are more closely aligned with the law, which is just good all around,” he adds. “Valid cases will still have duties imposed and poor cases will rightly be terminated.”

However, he cautions that for trade policy to work, it needs to be predictable and agile. South Africa’s is neither, for despite Itac stating that tariff investigations need to be completed within six months, there is no legal requirement for it to do so. It takes the organisation 22 months to wrap up an investigation on average.

“The incredible delays in tariff decisions are causing businesses to opt out of these processes,” says MacKay. “This does not bode well for our trade policy space.”

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