PROTECTION CALLS

NEVA MAKGETLA: Poor families bear brunt of wheat tariffs

The underlying problem is SA doesn’t have the right environment for wheat and climate change makes it worse

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Picture: ISTOCK

A normal South African family, one that earns around the median for the country, lives on R3,500 a month and spends a quarter of that income on food.

For the poorest 60%, the bulk of that spending is on a few commodities: maize, bread, chicken, vegetables. So it’s distressing that in 2016, SA imposed tariffs that raised the cost of wheat by about a third. With this kind of policy in place, it’s not surprising that the price of bread has risen by about 2.5% above inflation over the past five years.

The tariff was introduced for the usual reasons. Essentially, SA’s inequalities in economic power let a few rich people tip the balance on policy decisions by deploying lawyers, economists, lobbyists and publicists. Meanwhile, working people mostly have to rely on their politicians and officials to do the right thing.

But pity the poor public official in these circumstances. In the face of an avalanche of misleading technicalities, hyped claims and overheated media campaigns, it's not easy to distinguish when protecting and helping business is really in the public interest and when it just rescues a few privileged individuals at the cost of everyone else.

The logic behind the wheat tariff is simple. The amount of wheat produced in SA has declined for the past 20 years, since the democratic government eliminated apartheid support for farmers. Today, half of all wheat used in SA is imported. If we let foreign prices dictate domestic ones, then the few remaining wheat farmers — about 3,500 of them, with about 28,000 workers — would shift to other crops.

To save local production, more than 10 years ago, the government began using tariffs to set a floor for the domestic wheat price. It determines a benchmark price based on the historic international wheat price, plus about 10% to offset foreign subsidies to producers, but less a similar amount for transport costs. When global prices are high, no tariff is imposed. When they fall below the benchmark, the tariff kicks in automatically.

From the early noughts through to 2011, global prices for wheat soared and no tariff was imposed. Now, however, the commodity bust has brought crashing wheat prices and exorbitant tariffs on imported wheat. In mid-2016, the tariff was set at R1,591 a tonne, or about half the unit price of imports in 2016.

When Treasury delayed approving the tariff increase because of concerns for consumers, GrainSA took it to court. It forced the state to implement the tariff policy, but the Treasury required a review of the system, the results of which are soon due.

GrainSA claims that the tariff won't hurt us because many other factors affect the price of bread. Yet the bread price has tracked the wheat price closely for the past four years. From 2011-16, the spot price of wheat rose 12% above inflation and the price of a standard loaf of white bread climbed 13%. The trade authorities figured in 2013 that the tariff would add about 1,6% to the bread price every year.

The underlying problem is that SA doesn't have the right environment for wheat and climate change makes it worse. Using the UN Food and Agriculture Organisation data from 2011-13 the producer price in SA was 40% higher than it was in Argentina, the Ukraine and Russia and almost 20% higher than in Germany and the US. By extension, in the long run, producers in SA can't compete without state protection — for which we all pay.

We can estimate the effective cost of the tariff as the difference between the unit price of wheat imports and the domestic wheat price. From May to November 2016, by this estimate, the cost came to about R2.6bn. That's almost R500,000 per wheat farm, R55,000 per farm worker and R1,200 per household.

Downsizing local wheat productions shouldn’t hurt farmers or farm workers too much because they can shift to more profitable crops. But losing local wheat productions would expose SA to supply shocks that could raise prices even more. Global wheat supplies could fall short or the rand could depreciate.

In practice, wheat production has declined despite the tariff. Since 1997, revenue per tonne rose by 4% in real terms. Yet the share of imports in total consumption climbed from 15% in the last half of the 1990s to 45%, from 2010-11 to 2014-15. Local production dropped from a yearly average of 2.1-million tonnes in the first period to 1.4-million in the second.

In short, we need to decide if SA can afford wheat farming before we extend the tariff.

The broader question is how to manage the persistent hammering for protection from a variety of businesses. Ultimately, tariffs should be imposed only on relative luxuries. Otherwise we will continue on the unhappy path of making poor households subsidise business.

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