

EXECUTIVE SUMMARY

PROJECT OBJECTIVES

1. The National Agricultural Marketing Council (NAMC) commissioned Promar International to investigate issues concerning international competitiveness in the agricultural sector. The key countries under consideration in this report are:

- European Union (EU)
- United States of America (USA)
- China
- Japan
- Australia
- Brazil

While the key product sectors under investigation included:

<ul style="list-style-type: none"> • Meat Beef and livestock Goats and goat meat Sheep meat: mutton and lamb Ostrich meat Pork Broiler and egg industry 	<ul style="list-style-type: none"> • Vegetables Onions Potatoes Tomatoes
<ul style="list-style-type: none"> • Dairy 	<ul style="list-style-type: none"> • Maize
<ul style="list-style-type: none"> • Wine 	<ul style="list-style-type: none"> • Flowers
<ul style="list-style-type: none"> • Deciduous fruit Table grapes Apples Pears 	<ul style="list-style-type: none"> • Fruit Citrus Pineapple Avocado Macadamia nuts
<ul style="list-style-type: none"> • Raisins 	<ul style="list-style-type: none"> • Sugar
<ul style="list-style-type: none"> • Cotton 	

In particular, the research addressed the following issues:

- level of government support
- production

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- market trends
- competitive strategies
- main suppliers and their respective market shares.

SOUTH AFRICA: KEY EXPORTS

2. In terms of volume (metric tonnes) exported, South Africa's top ten agricultural commodities from the list above are:

- sugar
- citrus (total: lemons, oranges, grapefruit)
- maize
- apples
- wine
- grapes
- pears
- avocado
- raisins
- onions

3. However, while sugar and maize may form key exports for South Africa, the country is not a major player in world trade terms. In sugar, for example, the top six supplying countries account for some 60% of total world exports, while South Africa squeezes into the top ten in tenth place with a 2.5% share of total world exports. In maize, the situation is even more pronounced, with the top 4 players accounting for 91% of total world exports of maize. South Africa is a relatively insignificant player with only a 1% share of total world exports, according to FAO statistics.

SOUTH AFRICA: KEY GEOGRAPHIC MARKETS AND CUSTOMERS

4. The key destinations for South African exports also show high levels of concentration, according to the major product groups. Key markets for South Africa are considered in terms of these top 10 product groups in the table below.

South Africa: key markets by commodity product group

Commodity	Destination and rank
Maize	Japan (importance to South Africa: number 5 destination)
Citrus	EU (Netherlands (1), UK (2)) Japan (4)
Sugar	Australia (2)
Apples	EU (UK (1), Netherlands (2), France (5), Germany (7))
Wine	EU (UK (1), Netherlands (2), Germany (3), France (12)) USA (9) Japan (15)
Grapes	EU (Netherlands (1), UK (2), Germany (4), Spain (11), Italy (19)) USA (10)
Pears	EU (Netherlands (1), UK (2), France (4), Germany (6), Italy (12), Spain (19)) USA (17)
Avocado	EU (France (1), Netherlands (2), UK (3), Germany (4), Spain (8)) USA (13)
Raisins	EU (UK (2), Germany (3), France (4), Netherlands (5)) USA (6) Japan (8) Australia (12)
Onions	EU (Germany (3), Netherlands (5), UK (6))

5. In terms of comparing commodities supplied and key markets for those commodities, we can see the development of a small number of key markets. Promar has classified both the commodity products and the competing countries into a number of groups. In terms of products, we can see that some are very important in terms of world trade, and could be considered **primary products**:

- top fruit
- citrus
- avocados
- table grapes
- wine

In the course of this project we have therefore concentrated primarily on a relatively small number of key product areas where South Africa has already enjoyed a good level of export success and is a significant player in the international market.

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6. Some less important, **secondary products**, where levels of industrial production are not yet high in South Africa for competing on the global market are: pineapple; macadamia nuts; beef, goat and ostrich meat. The final group, **tertiary products**, consists of commodities where competition is high from other countries with a large scale production, or where levels of international trade are not yet developed, e.g. dairy products are seldom traded across international borders – only about 4% of total dairy production is traded internationally: maize, sugar, cotton, dairy, vegetables, pork and eggs.

CUSTOMERS AND MARKETS

7. The following distinct groups in terms of trading partners have also emerged as a result of this research:
8. **EU markets** (primarily the UK; France; Germany; the Netherlands; Spain and Italy when considered as one market) **are key customers**.
9. Secondly, we could consider **secondary customers**, those countries that purchase some South African product, but not to the same extent as the European market. Leading this group is Japan, which is a customer for certain products, most notably sugar, and to a far lesser extent wine.
10. **China** in the long term has the potential to be both **customer and major competitor** in certain commodity areas. China undoubtedly offers long-term potential as a customer, but at the same time has the capacity to be a long-term threat as a competitor in key product groups.

COMPETITORS

11. The third group of countries are those which compete in South Africa's key product groups (e.g. apples, citrus) or have a very strong position in commodities where South Africa currently plays in the market, but does not have a leading position in terms of supply. Those countries from the list in the terms of reference to this project include:
 - USA (maize, apples)
 - Brazil (citrus, sugar)
 - Chile (apples, pears, wine)
 - Mexico (avocado)
 - Kenya (flowers)

- Australia (sugar, wine)
12. Although in certain sectors such as maize, sugar or citrus, we could add a long list of other key competitors, such as Argentina, France, Israel, Thailand or Cuba. These countries, while taking some South African product as and when necessary, must primarily be seen as competitors in terms of world trade.

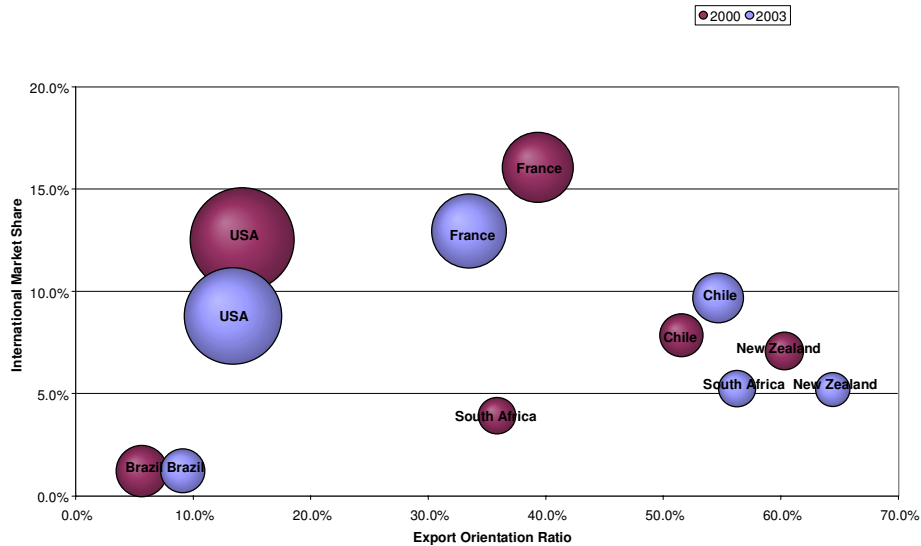
DEFINING COMPETITIVENESS

13. NAMC has asked for a definition of “competitiveness” so that the rest of the study can be put in context. This in itself can be a complex area. For example, recent work carried out by the UK Department of the Environment and Rural Affairs (DEFRA) has identified almost 50 factors that can impact on the overall competitiveness of an agri-food and rural sector. These take into account a whole range of economic, financial, technical and social factors. In the course of this study it is not possible to analyse the position of South Africa’s agri-food sector against a plethora of other international food producers across such a wide range of factors.
14. However, in the search for relatively simple but robust indicators of competitiveness, and for which valid like-for-like international comparisons can be made, the International Market Share (IMS) and the Export Orientation Ratio (EOR) are often used. These give an indication of how a particular sector or industry can stack up against other international suppliers. The following graphics give an indication of how South Africa fares against some of the other leading suppliers to the international market, and is based on a combination of FAO of the UN and USDA data. Graphics have not been produced for all the products listed in the full TOR at the start of the study; we have concentrated on illustrating the position of South Africa across a range of the sectors we have been asked to consider.
15. The graphics plot the position of South Africa against a number of other key international suppliers operating in the market. As a general rule, the closer to the “outside edge” of the diagram or the bigger the size of the circle (indicating either a dynamic export industry or a large international market share), the more competitive an industry sector is deemed to be. We have also plotted two years (2000 and 2003) to show if there has been any significant change in the competitive position of either South Africa or other countries in this relatively short period of time.

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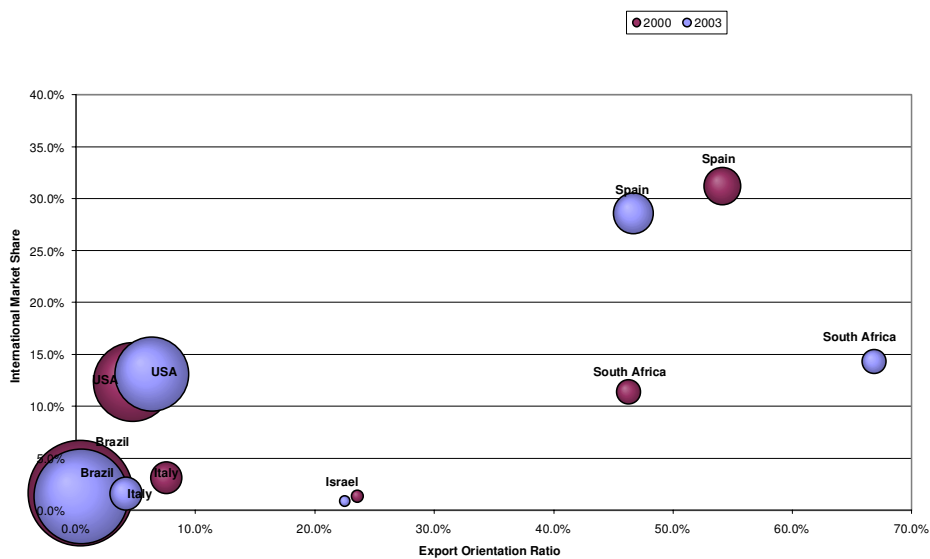
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- Apples



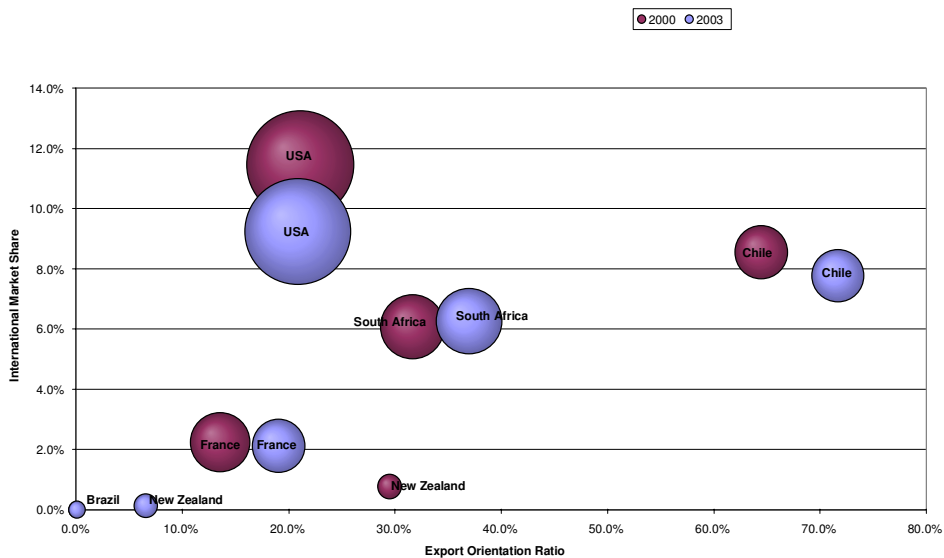
16. From the size of the circle plotted on the graph, it can be seen that the overall scale of the South African apple sector is still relatively small vis-à-vis other international suppliers such as France, the US, Chile, and even Brazil. However, it has a good competitive positioning, and one that has improved significantly over the period from 2000 through to 2003. But New Zealand and France still lead the way in this sector in terms of overall competitiveness.

- Oranges



17. In the international orange market, South Africa – although with a relatively small overall industry size – can be seen as being at the cutting edge of international competitiveness, as is Spain. The position of the South African sector has significantly improved in the last 3 years, while in comparison the Spanish sector would appear to have lost ground in the same time. Brazil and the US, whilst having large orange industries, are not seen as being especially competitive, nor is the Italian sector. Israel would rate as a mid-ranking sector, but as can be seen from the scale of the circle indicating overall competitive position, it is a very small player in the international market, and its position has moved slightly backwards over the last 3 years.

- **Pears**

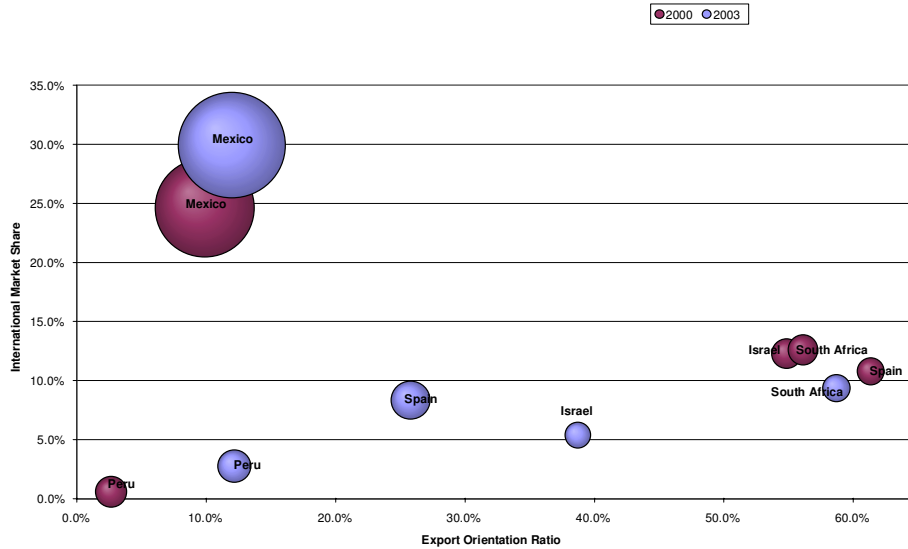


18. As can be seen from the graphic for the pear sector, the US and Chile are at the outer edge of the diagram, indicating a high degree of international competitiveness. However, South Africa is ranked highly in comparison after that in terms of overall industry size, international market share and EOR, and considerably well ahead of other major suppliers such as France, Brazil and New Zealand. The position of South Africa improved slightly between 2000 and 2003.

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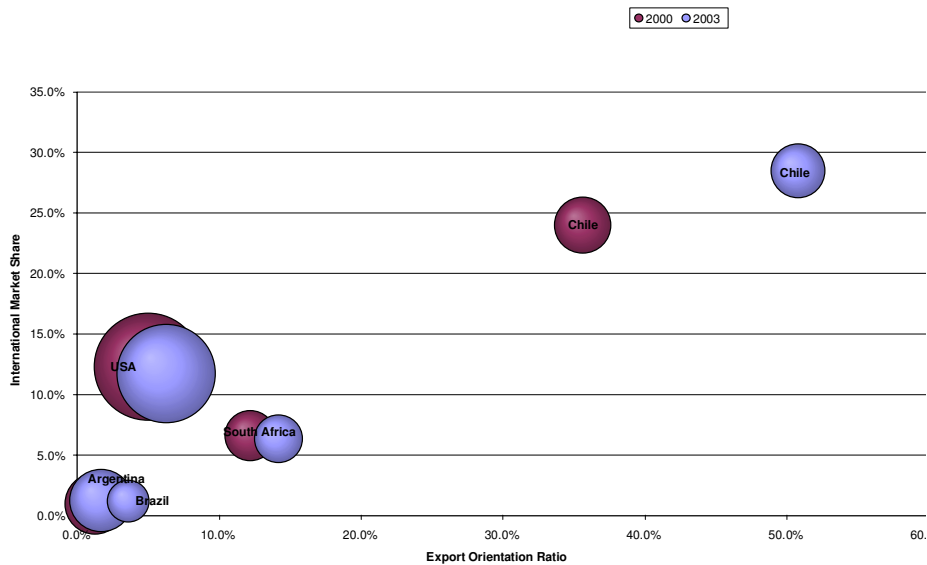
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- **Avocado**



19. Again based on the use of EOR and IMS data, South Africa's position on the graphic is right at the extreme of the diagram, indicating a high degree of competitiveness vis-à-vis other international suppliers. Of the other leading suppliers, the position of Spain and Israel has fallen away significantly in the period between 2000 and 2003, while the gradual emergence on the international market of Peru is also highlighted. Mexico has a massive industry – the largest in the world – and this is again reflected in a relatively high international market share of world trade.

- **Grapes**

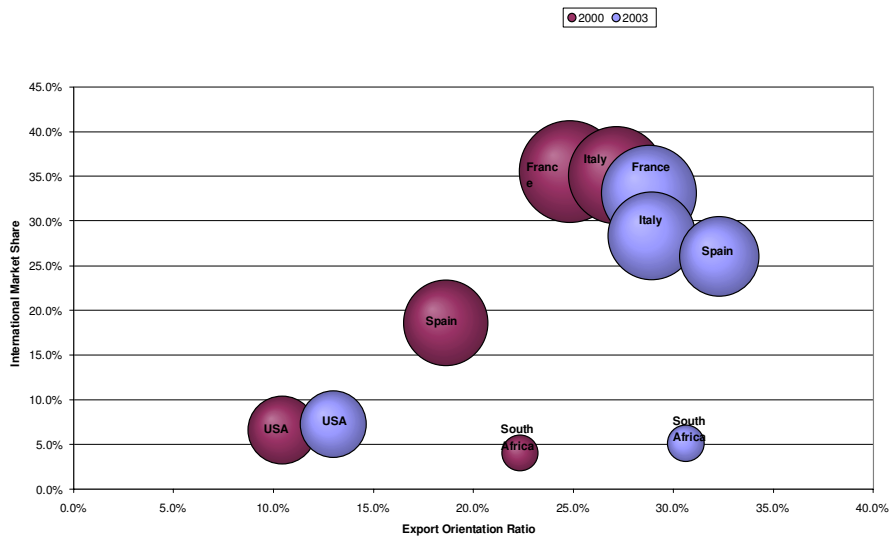


20. Chile would be seen as being best in class based on EOR and IMS data, and has improved its overall position in the last 3 years. South Africa is ranked favourably against the other leading suppliers, and its overall position has remained relatively unchanged in the last 3 years. Brazil and Argentina are still relatively small players in terms of international market share and overall competitiveness, but we would expect to see them make considerable improvements in the next 5 years. The US grape sector (as with many of its horticultural sector products) has a large industry size, but is not especially influential in terms of overall international market share and its degree of export orientation.

- **Wine**

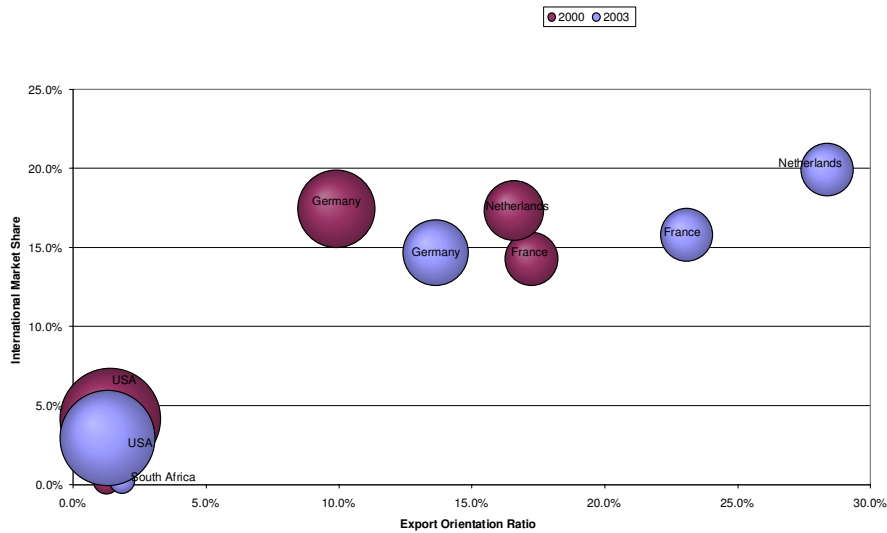
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21. The wine sector has been one of the big success stories in South Africa over the last 10 years. Although a high degree of export orientation has been achieved, and this has improved over the last 3 years, the South African sector is still dwarfed by the EU giants of the sector – France, Italy and Spain. The position of the US has gone slightly backwards over the last 3 years.

• Potatoes



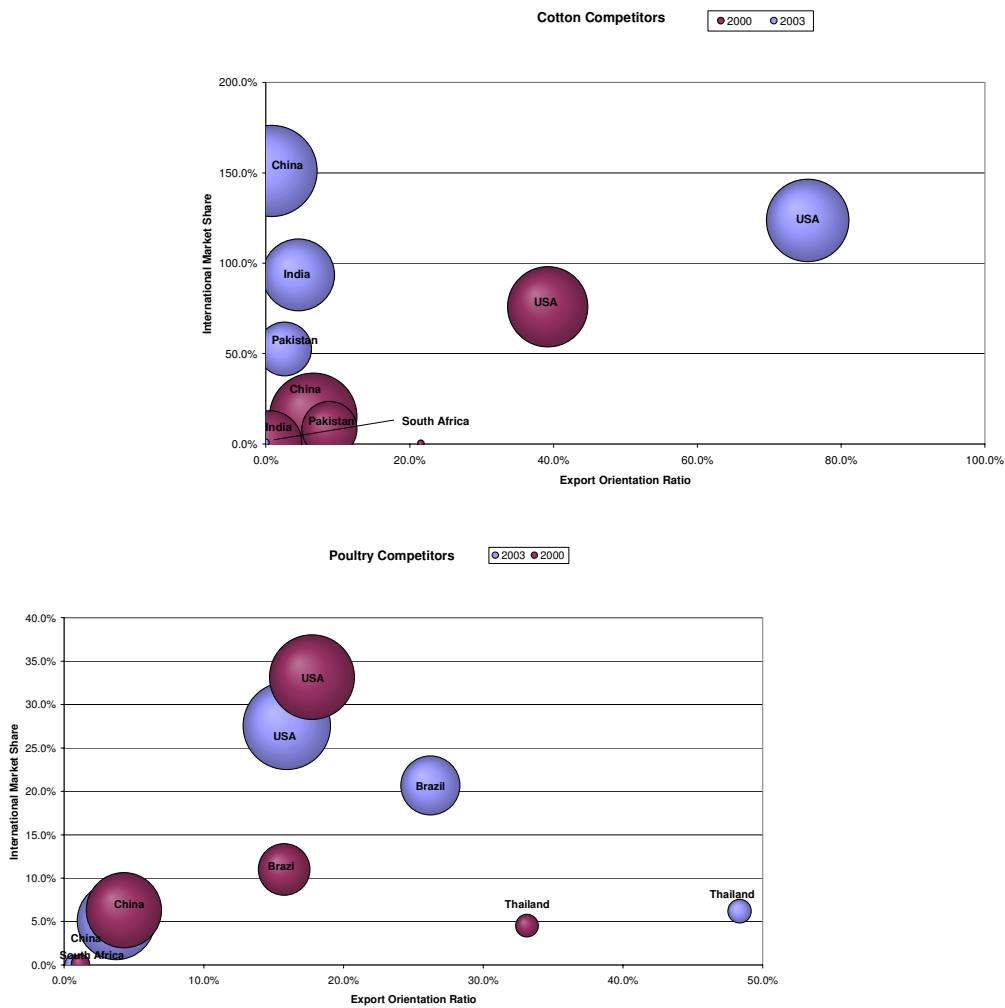
22. The South African potato sector is plotted right in the bottom left hand corner of the diagram, indicating a very low competitive position vis-à-vis other major international producers in the EU and North America. France and the Netherlands have improved their overall competitive position quite considerably in the last 3 years.

23. We have also produced graphs (all of which are presented later on in the report) to show the competitive position of the South African sector across a number of commodity areas including:

- maize
- cotton (is given as an example here)
- sugar
- cheese
- poultry (also given as an example)
- pork
- sheepmeat
- beef and veal

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24. Rather than go through these on a product-by-product basis (as we have done with fruit, vegetables and wine), we can make the following range of comments:

- in most cases, the position of South Africa is very much in the bottom left hand corner of the diagram, or at least well towards it, which indicates a low competitive position compared to other international market suppliers
- countries such as the US, Canada, Australia, Brazil, Argentina and, increasingly, China are often important in these commodity areas
- in many cases, the position of the more established international suppliers appears to be strengthening, and so it appears to be a case of the “strong getting stronger”

- the main reasons why South Africa might struggle to find genuine competitiveness in these sectors are varied and complex, but can often be reduced to the basics of:
 - economies of scale
 - low cost of labour
 - low cost of agricultural land
 - access to low cost of inputs
 - low levels of environmental regulation and constraint
 - favourable exchange rates
 - domination of domestic markets

25. Based on the use of EOR and IMS data, it would appear that:

- South Africa is clearly most competitive in most of the main fruit production areas such as top fruit, citrus, exotic fruit and wine. In relative terms, all of these areas have been less subject to support from the CAP and the US Farm Bill, although to pretend that these market are “totally free” would be wrong. These products are seen as being relatively high value in international markets
- The position of South Africa is much weaker (and in some cases almost non-existent) in areas of more commodity-, price- and scale-driven agriculture such as sugar, poultry, maize, red meat and pork, which over the years have been subject to much higher levels of market protection and distortion in all major international markets such as the EU, US and Japan

26. Agriculture as a sector remains of key importance to the South African economy, and accounts for some 14% of the overall population – which is still very large when compared to other countries in the EU and North America. The US, for example, has only 2% of its population employed in the sector, Canada has 3%, France also has 3%, the UK has 2%, Spain has some 7% and the Netherlands 3%. Brazil, in comparison, has 18%, and in Kenya the figure is 75%. Thailand has a figure of 57%. This in some way sets the benchmark for the South African sector when comparing it against other countries – often not at the extremes, but often somewhere in the middle ground.

27. However it should be noted that overall:

- average farm sizes are relatively small

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- in terms of input costs in areas such as agri-chemicals, fertilisers, seeds etc, South Africa is a very small market in international terms, and this will dictate how much attention the leading input supply companies can dedicate to the South African market in terms of NPD and similar. Having said this, many of the leading international companies such as Syngenta have a presence in the market, not least to service other Southern African markets
- in terms of actual costs of inputs, these are invariably well below those found in markets such as the EU and Japan, but often marginally lower or at about the same level as countries such as Canada, the US, Brazil, Australia, Thailand and Kenya
- levels of farm mechanisation are low in South Africa
- the amount of land that is irrigated in the arable crop sector is above that of many other key producing areas of the world

LEVELS OF SUPPORT

28. The main source of information for consistent measures of agricultural support is the Organisation for Economic Co-operation and Development (OECD). The thirty members of the OECD include all of the EU-15 countries plus the Czech Republic, Hungary and Poland as well as the US, Japan and Australia. Of the countries specified for this study, only Brazil and China are outside the OECD.

29. The OECD produces several indicators of agricultural support. The most important and central one is the **Producer Support Estimate** (PSE), which shows the annual monetary transfers to *farmers* from policy measures that:

- maintain domestic prices for farm goods at levels higher (and occasionally lower) than those at the country's border (*market price support*);
- provide payments to farmers, based on criteria such as the quantity of a commodity produced, the amount of inputs used, the number of animals kept, the area farmed, or the revenue or income received by farmers (*budgetary transfers*).

30. Budgetary transfers include payments to farmers and budgetary revenue foregone through lowering the cost of farm inputs. Energy tax rebates, subsidised irrigation water and interest concessions are examples of potential *revenue foregone* by the

government. Tariffs, quotas and other restrictions on imports as well as subsidies on exports, together with government intervention to boost domestic prices through for example stock-building, create a gap between domestic market prices and world prices for commodities at the border. Multiplying that price gap by the amount of domestic production gives the *market price support* to producers in the PSE. **In fact, the latter constitutes the lion's share of support in most countries.**

31. In addition to the transfers to farmers as measured by PSE, agriculture benefits from two other forms of support in estimating a total cost of support. A range of services is frequently provided to the agricultural industry, although not to individual producers. These include, for example, research, development, training and promotional activities. OECD also provides an estimate of the cost of these services (in OECD terminology this is the General Services Support Estimate (GSSE)). In some countries, government provides subsidies to consumers in order to keep the prices of agricultural goods consumed by certain groups in the economy lower than would otherwise be the case. This includes cheap food for poor people, public institutions and some processors. **Generally, this is a relatively small amount in comparison with other forms of support.**
32. Government support to farmers (as measured by PSE) across the 30 countries of the OECD was US\$257 billion in 2003, accounting for 32% of farm income. This represents a slight rise from the 31% recorded in 2002, but is down from the average 37% of farm income of the 1986-88 period.
33. While the overall level of producer support for the OECD as a whole has fallen only slightly, there has been a greater change in the composition of support, with some movement away from consumer transfers (through market price support) to budgetary payments, a trend expected to continue. The increase in general services support is also notable, especially the increase in spend on marketing and promotion and, to a lesser extent, on infrastructure changes. There are large and increasing differences in the levels of support among OECD countries as shown in the table below.

OECD producer support estimates by country

	1986-88 mean	2001-03 mean	2001	2002	2003
Producer Support Estimate (US\$ million)					
Australia	1,264	884	792	844	1,016
European Union	95,611	101,696	88,926	94,789	121,371
Japan	48,906	44,347	45,481	42,819	44,740
United States	41,831	44,239	52,991	40,849	38,878
Sub-total of selected countries	187,612	191,166	188,190	179,301	206,005
OECD Total	241,077	238,310	227,955	229,691	257,285
Selected Countries as % of OECD	78%	80%	83%	78%	80%
Producer Support Estimate (% Farm Income)					
Australia	8%	4%	3%	4%	4%
European Union	39%	35%	34%	35%	37%
Japan	61%	58%	59%	57%	58%
United States	25%	20%	23%	19%	18%
OECD	37%	31%	31%	31%	32%

34. The European Union total level of support is clearly the highest in US\$ terms although, of course, the level of support is lower than Japan when measured as a % of farm income. There are also significant differences in the level of support by commodity. The key features of each of the main countries analysed are as follows:

Australia

35. The level of support to Australian agriculture is low by international standards (the second lowest in the OECD with a 2003 PSE of 4%). Australian agricultural policy has been subject to a comprehensive reform over the past 15 years, leading to the virtual elimination of production- and trade-distorting policies. With few exceptions, internal prices are at international levels. The emphasis is on providing support to assist the industry adjust to the new circumstances.

36. Much of the rest of the direct producer support reflects sectoral programmes that have been justified by the changes in Australian agricultural policy implemented in the late 1990s/early 2000s. Australian industry adjustment assistance has generally been concerned with two types of change. First, there have been programmes to assist non-viable producers to either exit the industry or diversify into other agricultural activities. Second, there have been programmes to improve producer competitiveness and adjust to lower market returns. Some adjustment packages have incorporated both types of programme. Programmes aimed at improving competitiveness have included direct producer assistance and/or general industry assistance. Direct assistance usually involved one-off grants to facilitate farm restructuring, business management training, adopting new technology, etc. Eligibility conditions were imposed to target assistance to those in most need.

Indirect assistance generally involved project funding to develop the competitive position of the industry for the benefit of all producers.

37. The general services support accounts for around 40% of total support, and is principally in the form of research and development and infrastructure expenditure. Expenditure on research and development has increased significantly as a component of the adjustment process. Fourteen rural-industry based research and development corporations (RDCs) operate within the agriculture, fisheries and forestry sectors. They are generally funded by industry R&D levies with matching contributions from the Government (up to a maximum of 0.5% of the industry's gross value of production).
38. There are eighteen levy funded bodies within the Australian agriculture, fisheries and forestry sectors. The grains, sugar and cotton sectors are supported by R&D Corporations only. Other commodity sectors have more broadly based organisations that are responsible for providing marketing support (both domestic and export), R&D and policy support to their specific sectors.

Japan

39. Japan, with a population of about 125 million, is a major importer of agricultural products. Japan's mountainous topography limits the total area available for farming, and the farm area is divided into holdings that are too small to produce most foods efficiently in a modern, urban economy. Japan protects key sectors of its agricultural production with tariffs, which have contributed to high food costs in Japan. Despite the protection, Japan imports over \$30 billion in agricultural products each year.
40. A variety of domestic policies support producers of certain commodities. In general, Japan's commodity policies fall into several categories, including producer quotas, income stabilisation policies, deficiency payments, the rice diversion programme, hazard insurance subsidies, and stockholding policies. In the late 1990s, the government eliminated most set prices for commodities.
41. A major exception to this policy shift is the sweeteners market, where farm prices of sugarcane, sugar beets, and potatoes and sweet potatoes for starch manufacture are still set. The government's state trading enterprises maintain stocks of certain foods and feeds, notably rice. Other stocks include butter, skim milk powder, wheat, soybeans, and corn for feeding. The stocks are supposed to be sold and

replenished in an orderly way for food security purposes. In addition, interventions in the dairy markets are sometimes made in order to bolster prices.

42. Trade barriers are clearly the most significant element that benefits Japanese farmers, especially those producing rice, manufacturing milk, sugar beets and sugarcane, and wheat. Japan's border policies also protect certain food processing industries. Strict government control over wheat, rice, dairy and sugar products encourages processing of foods made from those commodities in Japan. Tariffs on vegetable oils make crushing margins high enough to sustain Japan's soybean and canola crushing industry. Despite the protection of flour milling, sugar refining and butter and powder production, Japan's imports of processed foods and beverages have grown steadily.

43. The degree of protection varies widely across commodities. Some parts of Japan's agriculture are not heavily protected, other segments have developed interesting technical solutions to deal with the high price of labour, and some produce is of higher quality than in any other country. These industries can compete with imports without heavy protection. However, much of Japan's agriculture is inefficient in comparison to production in exporting countries, and shelters behind very high barriers and subsidies.

European Union: a key market for South Africa

44. EU agricultural production is dominated by livestock products (including dairy), grains, vegetables, wine, fruits and sugar. Major export commodities include grains (wheat and barley), sugar, dairy products, beef, poultry, pork, fruit, vegetables and wine. Most agricultural imports are products not suited to the climate of northern Europe.
45. Responsibility for agricultural policy (the Common Agriculture Policy, CAP) is centralised in the European Commission and the Council of Agricultural Ministers. There have been a number of reforms of the CAP. The latest phase of the review process, the so-called Mid Term Review (MTR) of Agenda 2000, continues this process. At the end of 2002, provisions for extending membership of the EU to ten new Member States were agreed to at the Copenhagen Summit. Accession treaties were signed in 2003.
46. There has clearly been a significant move from market price support to payments based on area planted and animal numbers as a result of the policy reforms. Support for general services has also decreased, along with support measured as a % of GDP.
47. The MTR is expected to modify the composition of support, but not to change the level of support. MPS is reduced and the share of non-commodity specific payments increased, especially if all EU Member States opt for the maximum decoupling of payments. By commodity, the PSE ranges from a high of 77% of gross farm receipts in the case of beef to a low of 2% in the case of eggs.
48. The EU is the world's largest importer of agricultural commodities and the largest agriculture importer from developing countries due to the numerous trade preferences granted to former colonies. In general, EU agricultural imports are highly managed. Current EU preferential trade agreements usually allow imports of agricultural products for which the EU maintains prices significantly above world prices, including grains, sugar, non-tropical fruit, vegetables, wine, olive oil, meats, eggs, and dairy products.
49. Relations between the European Union and the [African](#), [Caribbean](#) and [Pacific States](#) (ACP) have developed as a unique combination of aid, trade and political co-operation. These special EU-ACP relations date back to the Treaty of Rome (1957). The EU's relations with the ACP are today governed by the [ACP-EU Partnership Agreement](#), signed in Cotonou in 2000 and concluded for a period of

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20 years. South Africa is a signatory to the Cotonou Agreement, but its membership of the ACP Group is qualified; the provisions of a bilateral agreement between the EU, its Member States and South Africa take precedence over the provisions of the Cotonou Agreement.

50. In 2001, the EU implemented a further preferential trade agreement, called Everything But Arms (EBA), that extends duty- and quota-free access to all products. This agreement allows LDC agricultural exports a high level of unrestricted access to the EU market, with the exception of bananas, rice and sugar, which are expected to be fully liberalised at later dates.

51. The EU is moving gradually towards greater agricultural trade liberalisation. However, the EU has also articulated that it will strongly consider the costs of environmental protection, food safety, and sustained vitality of rural communities before liberalising agricultural trade. With internal prices well above world levels, the EU subsidises agricultural exports to make domestic agricultural products competitive in world markets. Historically, the EU has accounted for about 90 percent of global agricultural export subsidies. The EU has sharply reduced export subsidies, in part reflecting the transition to direct-payment support.

52. In 1999, it was decided that the EU could fund, in whole or in part, both in internal and so called "third countries" (i.e. non-EU countries) markets, measures that provide information on, or promote, agricultural and food products. These measures are financed jointly by the EU and the Member States.

53. Measures are part-financed up to 50% by the EU, the remainder being defrayed by the professional/inter-professional organisations proposing them and by the Member States concerned. It should be noted that most of the institutions supporting agriculture are organised at a Member State level. The EU can finance certain specific measures (information on EU quality and labelling systems, high-level visits, studies) at 100%. The annual budget available for third country promotions is around €15 million, and for domestic promotions around €40 million.

The US

54. The major policy development in the US has been the implementation of the 2002 Farm Bill. This replaced the 1996 Farm Bill, and introduced a number of changes to the way that US farmers were supported. In particular, it introduced the concept of counter cyclical payments and some direct payments. However, progress

towards reducing the level of support to US agriculture remains modest since, while it is below the levels of the late 1980s, it remains above the levels of the mid-1990s. However, support to producers remains below the OECD average.

55. Support for general services has risen markedly to around 29% of the total support estimate in the 2001-03 period, and exceeded 30% in 2003. Spending on marketing and promotion is especially high. Support levels are especially high for sugar and dairy producers. Overall, producer prices were around 12% higher than world prices during the 2001-03 period.
56. US trade policy is strongly geared towards export promotion. A range of programmes is designed to develop and expand commercial outlets for US commodities, and to provide international food assistance.
57. The 2002 Farm Bill re-authorised all trade programmes re-authorised through 2007. New programmes include the McGovern-Dole International Food for Education and Nutrition Program, the Biotechnology and Agricultural Trade Program that addresses non-tariff barriers to US exports, a Technical Assistance for Speciality Crops Program that addresses barriers affecting exports of speciality crops, and an online Exporter Assistance Initiative. A long-range agricultural trade strategy that identifies export growth opportunities is to be prepared.
58. The export trade policy includes five key elements:
- Export Credit Guarantees Program
 - Market Development Programs
 - Export Enhancement Program
 - Food Aid and Development
 - Technical Barriers to Trade
59. The Market Development Program includes three elements: the Foreign Agricultural Service's (FAS) Market Access Program (MAP), Foreign Market Development (FMD) Co-operator program and Quality Samples Program (QSP). MAP uses funds from USDA's Commodity Credit Corporation (CCC) to enter into agreements with US agricultural trade organisations, state regional groups and co-operatives. The CCC funds are used to share the costs of overseas marketing and promotional activities for both brand and generic promotions targeting marketing constraints and opportunities. Activities conducted with MAP funding include consumer promotions for retail products, seminars and workshops to educate overseas customers about agricultural biotechnology and food safety, training and assistance

to foreign processors and manufacturers on the utilisation of US product ingredients and market research.

China

60. China faces a dilemma in its agricultural policy making. On the one hand, China's leaders want to take advantage of the incentives and efficiencies provided by market forces in agriculture and world trade. On the other hand, there are a variety of policy objectives that have strong support within the government and require policies that deviate from free markets.
61. The agricultural system remains a hybrid. Some agricultural production is primarily driven by free market forces, but other areas continue to be strongly influenced by government planning, purchases, marketing, price control, and other command economy instruments. OECD's co-operation with China on agricultural policies has revealed a need for improvement of transparency in budgetary support at federal and regional levels, in price support policies at both levels, and in the types and levels of taxes, fees, penalties and other charges imposed on both farmers ("peasant burden") and on rural industries. OECD's approach to the classification of agricultural policies is a helpful tool for mapping the policies applied in China. Under China's accession to WTO, it agreed to limit its subsidies for agricultural production to 8.5% of the value of farm output.
62. Budgetary data indicates that the total subsidies for price and market interventions reached 40.3 billion in 2000, about 4 percent of national fiscal budget. A further 23 billion was spent on subsidising agricultural production, 35.9 billion on supporting administrative costs (shiyefei) of bureaucrats who manage China's agricultural policies, 93 billion on the integrated agricultural development program, and 12.3 billion on poverty alleviation.
63. China's government uses a system of state-owned and state-controlled foreign trade enterprises to conduct trade in many important agricultural commodities. The system enables China's government to manage the level and direction of the trade flow of commodities. Lack of transparency in China's STE operations enables them to engage in practices that place both foreign and domestic competitors at a disadvantage. Under WTO accession, however, state trading enterprises will no longer monopolise trade in agricultural products. Commodities for which state trading in China is still important include wheat, maize, vegetable oils, sugar, rice, cotton, tobacco and fertiliser.

64. During the 1990s, China cut tariff rates from an overall average of 43.2% in 1992 to 17% in 1997. The average tariff for agricultural imports was slightly higher, at 22%. Under China's WTO accession, China agreed to introduce a tariff-rate quota system for major grains, cotton and soybean oil. In addition, China agreed to reduce the average tariff rate on agricultural commodities to 17%, with major agricultural commodity tariff rates reduced to 14.5%.
65. China's WTO agreement allows officials to continue to manage trade of rice, wheat, maize, edible oils, sugar, cotton and wool with tariff rate quotas (TRQs). These commodities are covered under a special set of institutions. Except for sugar (20%) and edible oils (9%), the in-quota tariff is only 1% for rice, wheat, maize and wool. However, the amount brought in at these tariff levels is strictly restricted. Out of quota tariffs are very high. In its commitments to WTO accession, China also agreed to a number of other items, some of which are particular to the country. First, China must phase out all export subsidies, and not introduce any of these subsidies on agricultural products in the future.
66. In one of its most fundamental concessions (since most countries are not required to on the basis of their own WTO protocols), China agreed to phase out its export subsidies in the first year of WTO accession. Such subsidies have played a considerable role in assisting with the export of maize, cotton and other agricultural products into international markets, and in this way indirectly supporting domestic prices. In addition, in the WTO agreement, China has committed not to introduce any other export subsidies of trade-distorting effect. However, the precondition for this commitment is that China can not be deprived of the rights of invoking developing countries' provisions with regard to domestic support.
67. Opening up to international trade means an opportunity to bring China's production in line with the country's comparative advantage, but also to protect the environment. By moving away from land- and water-intensive crops (cereals and oilseeds) and towards labour-intensive production (fruits, vegetables, tobacco, livestock), China could ease the transition and at the same time protect its natural resources.

Brazil

68. The Brazilian economy began a process of restructuring in the 1990s as a result of dramatic changes in economic policy. The government abandoned policies associated with the import substitution model, and the country initiated a process of shaping a new path of development. The government liberalised trade, privatised state owned enterprises, deregulated domestic markets, and helped to create a

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South American Common Market (MERCOSUR). The agricultural sector was no exception to this general pattern of change. The country carried out a transition from an agricultural policy regime designed for a closed economy with substantial state intervention, to a new regime tailored to an open economy and a curtailed role of the state.

69. Prior to the reform, Brazil used high variable tariff rates, along with complex import licensing requirements and agricultural marketing boards to protect its agricultural sector. It maintained minimum guaranteed floor prices and government-held stocks for basic commodities, and provided farmers with subsidised credit. At the same time, Brazil imposed Federal taxes on agricultural exports in addition to an array of State taxes. Brazil mostly taxed cocoa, maize and sugar, and subsidised rice, cotton, soybeans and wheat. During the mid-1990s, budget constraints led to the gradual elimination of many agricultural subsidies, including minimum guaranteed prices, government-owned buffer stocks, and low-cost credit.
70. For example, by 1999, government stocks of rice, beans, corn, wheat and soybeans had each been reduced to less than 2% of annual consumption. The legislation for most of the original support programmes remained valid, with minimum-support prices for cotton, edible beans, maize, rice, sisal, soybeans, manioc and wheat now being implemented. During the 2000s, additional funding has also been made available for various credit programmes for agriculture.
71. Trade policy in Brazil has been largely guided by two developments: the establishment of MERCOSUR and Brazil's entry into the WTO. Since liberalisation the government has enthusiastically pursued an export-agriculture model, with a good deal of success in many commodity areas.
72. The Brazilian government does not provide direct subsidies to exporters, but instead uses the Bank of Brazil Export Financing Programme (PROEX) for providing export credits and cash advances for export products. PROEX was designed to equalise the domestic and international interest rates for export financing, and to directly finance production of exportable goods. The Brazilian government in 1990 removed export taxes that it formerly imposed, including those on beef and soybean products.
73. In 1997, the Brazilian government created a new National Export Promotion Agency (APEX), aimed at promoting Brazilian products overseas and bringing more small- and medium-size businesses into the export business. APEX began work in 1998, with a special fund of US\$50 million to be allocated on a yearly basis. Several export market development trade organisations work with APEX. These

include ABEP (Brazilian Poultry Exporters Association), ABEP (Brazilian Pork Exporters Association), ABIEC (Brazilian Beef Industry and Exporters Association), IBRAF (Brazilian Fruit Institute), ABICAB (Brazilian Cocoa and Confectionery Manufacturers Association), ABIMCI (Brazilian Plywood Industry and Exporters Association), ABRABE (Brazilian Beverage Association), CICB (Confederation of Brazilian Hides and Skins Industries), ABECITRUS (Brazilian Association of Orange Juice Exporters), ABIOVE (Brazilian Association of Oilseed Crushers), and SRB (Brazilian Rural Society). Matching funds provided by APEX cannot be over 50% of the total export promotion budget of each organisation.

74. NAMC is also interested in a number of very specific issues regarding a number of other key international producers as follows:

Argentina

75. The main government policy intervention in the **Argentinean oilseed and wheat** sector is the use of export taxes and rebates. For soybean and related by-products, export taxes range from 5 – 23% depending on the level of processing. Soybean meals and oils are taxed at lower rates. For wheat products the tax rate is set at between 5 – 20%, and the decline of flour exports in the last few years has been attributed to the high rate of tax for this product, which is set at the top rate of 20%. Exports are eligible for export rebates which are set at a higher level for processed products vis-à-vis primary commodities. Rebates are designed to offset taxes collected during the manufacturing process. Income tax is also charged to export operations based on the price of the commodity at the time that a sales contract is drawn up, or on the date of export – whichever is higher. The law relating to this tax has only been in place for c. 12 months, and it is still unclear how it will finally be implemented.

76. As in most other areas of the agricultural sector, the government of Argentina does not have a strong policy for the **poultry sector** per se beyond the use of export taxes, which range from 5 – 23%. However, macro-economic policies of maintaining the exchange rate, looking to open up new international markets and attention to phytosanitary conditions have all benefited the poultry sector in particular. The creation of an official provincial bank to assist the sector, especially designed to help with the construction of new out grow units for major processors, is being mooted. The Chamber of Poultry Processors, with the support of ExportAR (the promotional arm of the Government of Argentina), has participated in a number of international food shows, the most recent of which have been in Asia and Latin America.

Canada

77. Support to agricultural producers in terms of the % PSE has fallen from 34% in the period 1986 – 88 through to 2001 – 03, and now stands at two-thirds of the OECD average. The dairy sector continues to receive the highest level of support, but recent re-increases in terms of PSE have also been redirected at the red meat sector as a result of the outbreak of BSE and drought conditions. The combined share of market price support, output and input payments in PSE has fallen from 82% in 1986 – 88 to 59% in 2001 – 03, and prices received by farmers were 40% above those on world markets in 1986 – 88, but only 13% higher than in 2001 – 03. The overall composition of support continues to move towards less distorting forms such as payments based on historical entitlements, or farm income. At 31%, the share of these payments in the PSE is still relatively high compared to other OECD countries. The % CSE fell from 22% in 1986 – 88 to 15% in 2001 – 03. Support for general services provided to agriculture, which was 20% of the TSE in 1986 – 88, increased to 26% in 2001 – 03. Total support to agriculture in Canada has fallen as a % of GDP from 1.7% to 0.8% in 2001 – 03.
78. Canada is a significant producer of **cereal products**, and in a normal year production amounts to some 25 million tonnes. Imports are typically modest at less than 100,000 tonnes, but Canada is of course a major exporter of around 15 – 16 million tonnes per annum. The Canadian Wheat Board (CWB) is still a major player in the regulation of the cereals sector. The current CWB, which has been in existence for some 70 years, and has historically been one of the largest, if not the largest, seller of wheat in the international market, has come under increasing pressure from the likes of the WTO to modify how it operates. The US in particular has long claimed that the CWB operates as an “unfair trader” of international grains because of its historical position as a monopoly exporter of barley and wheat from Canada, and has cited evidence of unfair pricing, price pooling, cost pooling and government underwriting of initial producer prices and export credits.
79. The CWB in return has countered these claims by stating that its strategic role in world markets is of benefit not only to Canadian farmers, but also to developing countries where much of Canadian grain exports are destined. However, like many other State Trading Enterprises, the CWB will be put under pressure for further deregulation of its role in international grain trading and procurement over the next few years, and be made more accountable to Canadian farmers and other stakeholders in the international supply chain.
80. In terms of **sugar**, Canada grows beets on only c. 12,000 ha of land, which produces about 95,000 tonnes of product per annum, and has only one remaining

beet processor, based in Alberta. Over 1.3 million tonnes of sugar is then imported into the country, processed from sugar cane at three factories located around the country. Canada does not operate any subsidy scheme for sugar or sugar beets, but producers may join a scheme called the Canadian Agricultural Income Stabilisation Programme (CAIS) on a voluntary basis.

81. The Canadian **poultry** sector suffered from an outbreak of avian influenza in British Columbia in February 2004, which was declared officially over by August of that year. Typical production in a normal year in Canada is in the region of 950,000 tonnes per annum. Exports are made primarily to the US, accounting for c. 40% of the total of 80,000 tonnes, with other important markets traditionally being Cuba, Russia and South Africa. The poultry sector is an active member of the Supply Management 5 group covering major producer organisations in the dairy, egg, turkey, chicken and broiler sectors of the agri-food economy. The group has developed a common position for many of the current and perceived future issues that will be discussed at WTO talks vis-à-vis international trade and agricultural negotiations. They also lobby government to retain their domestic supply managed marketing structures, and to preserve the power to regulate the volume of domestic product that is actually marketed, to operate central desk selling systems and to pool returns.

Chile

82. In international terms, Chile is a modest producer of **wheat**, and in a normal year might produce some 2 million tonnes per annum with additional imports of some 250 – 400,000 tonnes. Exports are virtually nil. Imports of wheat are sourced entirely from a combination of Canada, the US and Argentina. The Chilean government has set floor and ceiling prices for wheat, which in November 2003 were at a level of US\$128 and 148 FOB per tonne. These price levels are due to remain fixed until 2007. In 2008, it is planned to adjust the price by 2% per annum until 2014, when a decision will be made whether to continue the system of price banding or abandon it altogether.
83. Production of **maize** is at a level of some 1.5 million tonnes per annum, with imports of a further 1 million tonnes. Exports are nil; the vast majority of imports are sourced in bulk from Argentina, with modest product flows from Brazil and the US. Latin American suppliers have the advantage of the MERCOSUR trade agreement which gives them an 80% preferential duty access to the Chilean market.

84. In the Chilean **sugar** sector, a single company called Iansa has created a virtual monopoly situation with regards to production, stocks and marketing and setting of prices. Production of sugar beets is at around 2.2 million tonnes per annum, which produces some 390,000 tonnes of refined sugar. Exports of Chilean sugar are nil, but the country imports around 150,000 tonnes per annum of refined sugar, mainly from other Latin American suppliers such as Argentina, Brazil, Colombia and Guatemala. Since the mid 1980s, Chile has supported its sugar industry through the use of price bands, which is seen as being the main tool with which the market is regulated.

Zimbabwe

85. Zimbabwe is still in the middle of a precarious economic and political crisis with the availability and affordability of basic foods at its centre. The infamous land re-distribution programme is seen by many as being at the very heart of many of the problems faced in the agricultural sector. The production base has in many cases reverted to small scale subsistence type farming, which makes a totally accurate picture of what is happening somewhat problematical, but USDA/FAO estimates are that maize production has fallen from 2.1 million tonnes in the late 1990s to under 1 million tonnes (which is an improvement over the last 2 years). The government has continued to buy in corn, and in 2003/4 is estimated to have purchased some 350,000 tonnes via the Grain Marketing Board, with another 80,000 tonnes bought by the private sector. Food aid shipments accounted for another 320,000 tonnes. The World Food Programme is the main source for these shipments, but other volumes are supplied by the EU, India and the US as well as some NGOs. Much of this product is sourced from or via South Africa. The wheat crop has fallen to about 80,000 tonnes, with imports via the commercial sector accounting for c. 275,000 tonnes. Large scale agricultural production has been reduced by the land resettlement programme from over 160,000 hectares to just 5,000 hectares.

86. The Zimbabwean **sugar cane** sector, which produces in the region of 4 million tonnes per annum, also faces a huge number of problems. Exports of sugar have fallen from 150,000 tonnes to 125,000 tonnes, with the main export markets being a combination of Botswana, Namibia and South Africa for refined products, and the US and EU under quota for raw products. Exports of refined sugar to South Africa have fallen from c. 12,000 tonnes to just 4,000 tonnes per annum. In contrast to wheat and sugar production, **oilseed production** in Zimbabwe has actually increased in the last few years. Government involvement in the sector has been almost nil.

Kenya

87. **Maize** production in Kenya has remained relatively stable at c. 2 million tonnes per annum over the last 4-5 years. A further 200 – 250,000 tonnes are imported from neighbouring countries, but are at times hampered by a combination of poor production conditions in key production sources, high prices (especially from South Africa), and a historical 25% import tax. High levels of contamination were found in many major agricultural markets and at NCPB warehouses.

88. Whereas in traditional agricultural commodities Kenya has suffered from a combination of macro- and micro-economic constraints, the country has experienced massive growth in the last 20 years in the development of **high value horticultural and floricultural exports** to the EU, and to a lesser extent the Middle East. The sub-sector is now the country's fourth largest export earner after coffee, tea and tourism. In particular, there has been rapid growth in the sector over the last 5-6 years. This is attributed to a number of factors, not least the revision of policy regarding government involvement in the sector itself, allied to the dynamic nature of the private sector, which now accounts for all of the sector's production and marketing activity.

89. A number of other important factors should also be taken into account, including the presence of two of the region's better organised and funded trade associations, the Kenyan Flower Council (KFC) and the Kenyan Fresh Produce Exporters Association (FPEAK). Prior to the emergence of the KFC and the FPEAK organisations, the sector was in effect controlled by a government agency, the Horticultural Crops Development Agency (HCDA).

Thailand

90. In terms of grain production, Thailand is a major producer and exporter of **rice**: production is in the region of 25–30 million tonnes per annum, and exports are c. 8 million tonnes. Exports are made to a number of key international markets including Latin America, the Middle East and Africa. Key African markets include Nigeria, Senegal, the Ivory Coast, and of course South Africa. The government supports the sector by setting market intervention prices and the Paddy Mortgage Scheme, but in recent years market prices have been higher than the government intervention levels. Imports are regulated by an annual import quota following the WTO agreement on market access.

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91. Thailand produces some 4 million tonnes of **maize** per annum, and a significant percentage of this is accounted for by demand from the poultry feed sector. The problems in the poultry export business due to the outbreak of HPAI, which saw Thai exports banned from a number of key international markets, has put a temporary brake on the sector. Imports are marginal, but have in the past seen small volumes sourced from South Africa. The decline in imports is seen as a sign that Thailand has reached self-sufficiency in corn production. **Wheat** production in Thailand is only 500 tonnes per annum, and so significant imports of around 800,000 tonnes per annum are sourced from the US, Canada and Australia. In an effort to strengthen the competitive position of its food processing sector, the Thai government has reduced the import tariff for wheat from Baht 1.0 per kg down to Baht 0.10 per kg, and the tariff on wheat flour from 40% of the C&F price down to just 25.5%. This measure was introduced in 2003, and in 2005 the import tariff for wheat flour will be reduced to just 5%.
92. **Oilseed production** in Thailand is based around soybeans and palm oil. Production of soybeans is relatively modest at 250 – 300,000 tonnes per annum, and the country imports significant volumes of up to 1.7 million tonnes per annum, mainly sourced from the US, Argentina, Brazil and Canada, as well as modest volumes from China. The Government has decided to stop all production support to the soybean sector as it has realised that domestic production will increasingly struggle against other international competitors; the only form of support to the sector is through the use of import controls to stabilise domestic prices.
93. Thailand produces some 70 – 75 million tonnes of **sugar cane**, but the industry is saddled with a huge debt burden incurred by the state-run Cane and Sugar Fund. The situation has forced the Government to re-assess its support to the sector, and this is now limited to the 65 million tonne mark for cane and a liberalisation of the ethanol industry. Production in Thailand is currently regulated through the use of quotas for domestic consumption, for raw sugar for long-term international contracts, and for other international export business.
94. There are no government price interventions or export subsidies for the **Thai poultry** sector, and some Government policies could actually be considered to hinder the industry's ability to be cost competitive.
95. However, since the disastrous HPAI outbreak, the Thai government has announced the following support measures to assist the industry get back on its feet:
- a so-called "Stamping Out" campaign which involved pre-emptive culling in a radius of 5km of an infected farm, surveillance over a 50km radius of any

outbreak on an infected farm, control of the movement of avian species over a 60km radius, the development of a public awareness campaign to facilitate better communication from across the industry and community, and post outbreak operations which will see more rigorous monitoring and traceability of disease-free areas over a 5 – 6 month period

- a compensation scheme of some US\$765 million to be used for animal de-population. The government is co-operating with banks to lend money for poultry farmers who have to de-populate by extending repayment periods and reducing interest payments for existing loans and those that will be used for improving on farm facilities to more modern closed cooling systems
- a further US\$140 million has been allocated for compensation for those farmers impacted by the Stamping Out Policy, through the supply of breeding stock, suspension of debt payments, provision of soft loan assistance, and introducing improved bio-security management systems etc
- poultry slaughterhouses have had all factory fees suspended for a period of 5 years
- labour in rural areas has been assisted by the introduction of re-training schemes and assistance with job seeking, and further training in the areas worst affected by the outbreak.

96. The government of Thailand has also protected the domestic market by the use of import permits which are difficult to access, and high bound WTO rates of between 30 – 40% depending on the nature of the product, and an import permit fee of c. US\$250 per tonne. In effect, this means that only products that do not compete with the local Thai industry can be imported. The Thai government has also in some cases restricted imports from countries where outbreaks of avian type diseases have been identified – which includes the US.

DOWNSTREAM SUPPLY CHAIN AND MARKET TRENDS

97. The spread of **globalisation** continues to impact on markets across the world, be they developed or developing markets. The net result of globalisation is that a number of trends become evident across all geographic markets under consideration in this report, with most markets showing broadly similar demand patterns.

98. **Retail markets** show evidence of consolidation at the national level, with the number of key players reducing through mergers and acquisitions. This inevitably leads to the development of powerful players within the supply chain that are able to make demands of their suppliers.
99. At the same time, the desire to expand has seen key players, such as Carrefour or Wal-Mart for example, expand into new markets overseas. Systems and working practices are then taken from the domestic market into new geographic markets. In some instances, this will result in the development of greater sophistication of the supply chain in the new geographic market.
100. However, expansion across borders encourages the need for supply on a pan-regional level in some market segments and regions. This is most notable in Europe, where players such as Aldi, for example, will require suppliers to manufacture for all markets: Germany, France, Spain and the UK. Large scale supply and the associated bulk purchasing will drive demand for further discounts and the reduction of prices to the consumer, as evidenced by Wal-Mart's "Every Day Low Pricing" initiatives.
101. While **foodservice** has traditionally been viewed as the "poor relation" of food retail by food manufacturers, the development of the market for eating out of home, driven by changing consumer consumption patterns and lifestyles, sees this sector of the food and drink market becoming increasingly more important. In all markets under consideration foodservice is growing, albeit at different rates.
102. With market growth and the emergence of chain players at both the national and international levels, so levels of sophistication in terms of purchasing, logistics and supply increase. In broad terms, the market is developing in a similar way to the retail sector, with the emergence of large, organised players with centralised purchasing and sophisticated supply needs.
103. While foodservice offers opportunities for manufacturers and suppliers, it also brings with it challenges, not least the ability to supply to a highly fragmented customer base. More importantly, foodservice operators are looking for increasingly sophisticated solutions to issues such as food preparation and cooking, with demand for ready-to-cook or pre-prepared meal solutions. Foodservice will offer opportunities for growth while food retail markets continue to show minimal growth rates; however, accessing and working with customers in these markets requires in depth knowledge not only of operators' needs, but also those of the consumer.

104. Consumer demand is constantly evolving and developing, but even here we can see the emergence of commonalities across the world. Changing lifestyles and consumption patterns have driven development of new retailing formats, such as hypermarkets, convenience stores and forecourt shops in developed markets, alongside a whole range of new products, such as ready meals, Home Meal Replacement, or fresh cut produce that all contribute to greater convenience in both purchase and preparation of food. Such trends, while currently most visible in developed markets, will become increasingly more significant across the world.
105. In developed markets, together with the need for convenience, manufacturers face new and pressing concerns. Demand for healthy food has been a growing consumer focus for many years. However, it has largely remained a niche – albeit a large niche – with the emergence of the "balance sheet" consumer who looks for indulgence foods, and will balance out the consumption of these products with consumption of "healthy" products as well. Growing rates of obesity in developed markets, however, is seeing governments place increasing emphasis on healthy eating, and though legislation around this subject does not yet exist, manufacturers are being put under pressure to act in a more "ethical" way, for example in terms of advertising sweets and snacks to children.
106. Linked to this healthy eating pattern is the trend of the "ethical" consumer. Recent food scares, such as BSE in Europe, has seen greater consumer concern regarding food production methods, such that we see a growth in demand for organic and Fairtrade products. There is also a growing movement towards demand for locally produced foods. Currently, such issues remain niche markets, beyond the reach of all but the most concerned consumers with high levels of disposable income, who can afford (or whose moral thinking demands payment of) the premium such products attract. However, issues surrounding safe production of food and the payment of fair prices to producers are unlikely to disappear in the near future.

THE EVOLUTION OF THE SUPPLY CHAIN

107. The development of an effective supply chain from the point of production through to the final point of sale (POS) has become essential for any source of supply if it is to be successful in the international market against fierce international competition. Investment in the supply chain can be expensive, but has to be seen as an ongoing requirement if any degree of success is to be sustained over a period of time. The key points to note in the development of an effective international supply chain would include the following:

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- In many parts of the world, it is noticeable that for successful producers and exporters, the overall level of production is becoming increasingly concentrated in one or perhaps two main areas. In some cases, the production of specific crops is so concentrated that as much as 90% of the country's production is taking place in one key area.
- Many of the most successful production, processing and export countries in the world's agri food sector can be characterised as having a very open attitude towards inward investment, either in terms of where they are willing to invest themselves, or in their attitude to others investing in their own industries. This attitude can also extend in some cases to R&D.
- Most of the successful food production and processing sectors and those that have excelled in international markets have invested heavily in the area of R&D over a period of time, although there is something of an ongoing trend in how this is funded. In many developed markets, government is looking to reduce its funding to agricultural R&D work for at least the more short term applied work that is now increasingly seen as the area for industry to cover. Many formerly government-financed and supported R&D stations are also, if not being fully privatised, having their status changed to a situation where they are more responsible for recovery of costs from more commercially-funded work. If the R&D function is left to erode by lack of government support, or if it is left purely to market forces, then this could jeopardise this mid to long term process.
- Post harvest systems and infrastructure need to see themselves very much now as part of a sophisticated international food industry rather than as an extension of the farm activity, which they have often done in the past. Ongoing investment is a requirement for packhouses, processing facilities and storage units that can combine achieving economy of scale and efficiency of operations, with a need to be aligned more closely with the demands of international procurement groups and retail/foodservice customers.
- Successful suppliers to the major international agri food markets have all managed to develop a range of transport linkages that allow them to move products around, often at short notice, to meet the needs of key customers. In an ideal world, a combination of both air freight (for high value products and niche market windows) and sea freight (for low cost and higher volumes) might be available, and depending on the nature of the products this might actually be highly desirable. However, given the choice, sea freight would be the preferred option.

- In most developed markets such as the EU and North America the overall quality of the in country infrastructure will be very good: roads, storage facilities and depots are all of a high standard, invariably well managed and operating effectively. Major players in the retail sector however are always looking at ways of cutting out what might be seen as additional or unnecessary costs from the distribution chain. All of this activity is designed to cut costs and often maximise the use of the retailer's own transport and logistics infrastructure.
 - Category Management is a process which nearly all the major international retailers are introducing to their businesses in some shape or form. It has taken root most rapidly in the North American and UK markets, but in other EU markets various other interpretations of the same process can be seen. The process essentially revolved around the reduction of the number of key suppliers (in some cases down to just one), and a much closer working relationship being developed between the supplier and the retailer. Supply sources who do not invest in understanding the implications of the Category Management process, and the players with whom they need to be developing a more strategically based relationship in the supply chain, are putting themselves in a compromising situation.
 - Managing international markets effectively from afar is exceptionally difficult. Most of the successful international export sectors have invested in their own in country representation, either with their own staff or selective use of locally appointed sub-contractors – occasionally (but probably most effectively) a mixture of both.
 - Many of the most successful export oriented countries in the agri food sector have invested significantly in the generic promotion of their products in key target markets over an extended period of time. Often in the past funding has come from central government to assist with this, but the overall trend is to look for at least some form of matched funding from industry, and this is likely to be the case in the future.
108. We have also seen that a “whole chain” approach does require to be undertaken; it is of only limited value to work at improving one part of the supply chain and then ignore other elements of it. Only by looking at the supply chain in its totality and understanding the linkages and inter-relationships between them will an effective supply chain be developed.

KEY CONCLUSIONS

109. The main findings of this study can be summarised as follows:

Production

110. The work carried out on production shows that in terms of its ability to compete against other international producers:

- South Africa can compete in a number of areas such as the fresh fruit and wine sector, where its performance in terms of productivity and yield can be regarded as being “best in class”
- There are a number of areas where South African productivity will be a huge way behind what might be seen as the “best in class”, such as the US in maize, the Ivory Coast in pineapples and Mexico in avocados. Regardless of any eventual deregulation in the international agricultural sector, the competition might already be well out of sight for South African producers, and deregulation might even accentuate these differences
- Looking at comparative costs of production data can be a minefield, and at times misleading. Even when some industries appear to be significantly disadvantaged in terms of key production inputs (a classic example of this is the cost of labour in the citrus sector, where the US industry would appear to be at a considerable disadvantage to the Brazilian sector) they can in fact be at least as (if not more) efficient in the mid to long term
- As a result we are of the opinion that it might not be just a simple case of “*what the inputs cost*”, but rather, “*its how you apply them that counts*”. This case study can be found to hold true time and time again. In most cases where low cost production has found international success, such as poultry from Thailand and Brazil, as production costs begin to rise, any commercial advantage becomes less and less sustainable without taking other factors into account. In this example, both Thailand and Brazil will be put under increased pressure from China and forced to look for added value in all aspects of their export business in terms of products, customers and service levels
- **In this situation, the role of R&D, technology transfer and training are all increasingly important, and are areas that come under the general heading of GSSE**

- In the case of South Africa, therefore, basic production would not appear to be the biggest constraint, especially in the areas where South Africa has already demonstrated its credentials against other significant world producers. As a result, we feel that post farm gate activity will be the key area for attention in the future
 - We believe that South Africa should concentrate on what it is good at, and where it already enjoys a degree of comparative advantage. This should be capitalised on. South Africa should not expect to develop an agri food economy where it can compete on an international basis against many of the other recognised producers in the market: South Africa cannot be all things to all men, but must concentrate on where it is already inherently strong.
111. Underpinning any of these production based factors is the need for macro economic and political stability. One of the key factors that will determine the level of inward and in some cases outward investment vis-à-vis the South African agri food sector will be a reasonable degree of stability in this respect. One of the key factors which has prevented many of the ACP countries from exploiting any degree of tariff advantage that they might enjoy in the EU market has been the lack of stability in terms of politics and economic factors (such as exchange rates and inflation), which has acted as a key constraint on developing the infrastructure and the attraction of further inward investment into pre and post harvest infrastructures. Instability has also taken its toll at various times on the agri food sectors in Latin America: Argentina and Brazil come immediately to mind.

Levels of government support

112. The overall level of support – especially made through the mechanism of the PSE – is without doubt massive. The figure of US\$257 billion per annum is falling, and in many areas is being re-allocated under systems where farm producers will not be rewarded for straight production but more on the basis of meeting market needs and environmental good practice. However, it might take 10 – 20 years before significant changes are made to the agricultural systems of the EU, Japan and North America at the rate at which the cuts in funding are being made.
113. The most distorted market(s) as a result of the OECD expenditure on PSE are:

OECD producer support estimates by commodity, 2001-03

	US\$ million	Percentage PSE
Rice	22,254	78%
Sugar	6,127	51%
Milk	43,393	48%
Other grains	8,208	41%
Sheepmeat	3,842	38%
Wheat	15,173	37%
Beef and Veal	27,513	33%
Other Commodities	76,800	26%
Maize	9,694	24%
Oilseeds	6,680	24%
Pigmeat	10,624	21%
Poultry	6,514	17%
Eggs	1,377	8%
Wool	113	5%
All commodities	238,310	31%

114. All major agricultural countries support their domestic and export industries in some form or another. The EU is by far the worst culprit in terms of how it supports its agriculture, but on a pro rata basis Japan is also highly protected. The importance of the EU to South Africa's position is that it is by far the most important export market, and at the same time by far the most protected. Although a compelling argument can be made for further deregulation of the sector at the global level, were South Africa to deregulate further while others do not, South African producers would be put at a serious disadvantage vis-à-vis the competition.

115. In the future, as PSE payments are gradually reduced, more attention may well be given to areas that come under the definition of GSSE, and will include training, market promotion, R&D etc. This is an area where South Africa, based on our past experience of working in country, has not allocated as much funding as some of its international competition, and is an area where further activity and funding could well be justified in the future.

116. Further investments in production technology will clearly be required in the future. However, it is absolutely certain the South Africa will also need to be a better marketer in the future, as key international markets become less regulated and the intensity of market activity at the Point of Sale, be it in retail or foodservice, increases.

117. However, as primary producers are required to provide varying degrees of matched funding for the activities that are carried out under the auspices of the

GSSE, they will also hold the implementing organisations involved, be they government bodies; trade associations; export development agencies, more accountable for their performance. New levels of value for money in terms of service levels and demonstrable benefits will be necessary if these organisations are to rely on a higher degree of (primary) producers' support. The USDA co-operator organisations, especially in the West Coast fresh fruit sector, have already felt the full force of this sort of pressure from their member growers and packers.

Downstream supply chains and international markets

118. Understanding the implications of key supply chain and market trends will be critical to ensuring that South Africa remains competitive as a supplying nation in the global market. Most particularly, given the current importance of Europe as the key market for fresh produce and wine, South African producers must be aware of the need to meet and satisfy customer and consumer demand, and the competition it faces.
119. Increased competition in both geographic markets and across all market sectors is only to be expected. New areas of production are developing in Eastern Europe, in South America and in Asia (most notably China). These countries, too, will be looking to increase international trading, and in some areas (e.g. Brazil in pork and orange production) are already key suppliers. They will look to improve quality, and have a key advantage in low costs of production.
120. It is imperative then, that South Africa considers and seeks out new market opportunities beyond the core EU market. Developing economies in Asia and Latin America will offer opportunities for both new markets and new supply capabilities.
121. Key to success will be market access, which may have to be considered in terms of joint venture activities, which can range from those of an ad-hoc nature to formal acquisitions or direct investment. In an increasingly competitive world, partnership will offer a way forward. At the same time, the possibility of global supply, or at least pan-regional supply and customer demand for year round supply capabilities across a wide range of product categories, means that partnering with suppliers in other countries may offer opportunities in terms of meeting customer demand. While trading will always be an option, the challenge for suppliers is to extend relationships beyond basic supply and demand to understanding and offering products and services that meet customer need.

COMPETITIVENESS IN THE INTERNATIONAL AGRICULTURAL INDUSTRY

Executive summary

122. Dealing with major retail players across key markets, there will be an increasing demand for category management skills from suppliers. Retailers, facing intense competition, are looking to their suppliers to develop category and improve sales from them. Suppliers hold key knowledge about varieties, whether of fruit or wine, and can use this knowledge to better meet consumer demand and so increase category sales. The development of "category captains" – one key supplier for each category, supported by one or two smaller suppliers – will develop. Category management skills, therefore, will become essential to dealing with the organised retail sector.
123. Foodservice is likely to follow the same broad development patterns (consolidation, centralised buying, demand for meal solutions) across all geographic markets. However, there is still not enough emphasis on foodservice by many players. While the very largest branded food manufacturers have developed foodservice supply divisions, many players lack a dedicated focus on the foodservice sector. This results in a lack of understanding of the needs of foodservice suppliers, market demand and, accordingly, the products and services required from food suppliers and manufacturers. Without a thorough understanding, the opportunities offered by foodservice as a means of gaining greater influence and benefit from the supply chain will be hard to realise.
124. There will be an increased emphasis on food safety, traceability and quality assurance. Retailers are increasingly demanding that protocols in food production, such as EUREPGAP protocols in fresh produce, be met. The most demanding retail customers will also have their own protocols. This will require investment on the part of producers, but it must be recognised that such investment may not bring extra return – it will be a prerequisite for market access.
125. Such challenges must be faced and overcome with appropriate solutions if South Africa is to remain competitive as a supplier of food at the international level. Strategies developed for future supply must take into account not only the changing nature of global trading, but also of consumer demand in key markets, if the appropriate products and service are to be developed.

The competition and best in class

126. A number of key lessons can be learnt from looking at what we consider to be the Best in Class. South Africa needs in effect to benchmark itself against these factors, all of which are increasingly important for a successful export industry:

- Macro-economic and political stability in order to reduce the impacts of adverse investment and economic conditions such as high interest and inflation rates, which can lead to a lack of confidence in the export source amongst key international customers
- Scale of activity
- Strong public and private sector interaction
- Strong trade associations working across the supply chain
- Strong private sector players often spearheading the export development (i.e. Dole in Chile, Fosters in Australia etc)
- Investment in the physical infrastructure of processing, storage and distribution facilities
- Understanding the need for management control schemes such as HACCP and ISO as well as production protocols such as EUREPGAP
- New product development
- Investment in R&D
- Strong supply chain relationships
- Inward and outward investment
- Generic promotion as well as more brand focused activity is required over an extended period of time
- Investment in marketing is going to be increasingly important in the future
- Added value market opportunities must be sought as commodity markets and products come under more pressure from least cost producers and exporters
- Identifying and exploiting new market regions for export development

Final comments

127. The world agri-food market will become even more competitive in the next 10 – 15 years, and the pace of change being seen throughout the supply chain will not abate. There are many challenges ahead for the South African agri food sector in both production and processing, and especially in marketing. In future more careful targeting of assistance to the agri-food sector, especially in post-farm gate activity, is required.
128. South Africa competes very effectively in selected areas of the global agri-food sector; the real challenge will be to build on these advantages and look to learn from them. Learning from both the South African experience and competitors will give valuable insight for future success. If we were to rank South Africa against other suppliers in terms of competitive positioning currently, it would perhaps not be best in class, but it is by no means the worst, either.