Centre for Rural Legal Studies

Briefing paper: Agricultural trade, globalisation and farm workers

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"Globalisation" is a word that is used to describe changes in international and domestic economic policy-making. These changes affect how people trade in goods and how money moves around the world. Many South Africans blame globalisation for the loss of jobs in agriculture and predict that job losses will continue unless our government, together with other developing countries, challenges the way in which the "rules of trade" are made by international organisations.

This briefing paper explains how global political and economic developments have direct implications for South Africa. It describes how these affect the agricultural sector, its capacity to provide jobs for farm workers and the prospects for black farmers who want to enter into commercial production. Finally, this paper provides some ideas for how people who are concerned about rural development and agricultural trade can use this information to fight for change.

Why should South Africans be concerned about the effects of globalisation on the agricultural sector?

- **The agricultural sector is a major employer.** More people have jobs in agriculture than in any other industry in South Africa. Approximately 650 000 people are permanently employed on commercial farms[1]. Another 320 000 are employed on a temporary or casual basis. Besides this, the livelihoods of about another 6 million people in South Africa depend on agriculture. [2]
- **The agricultural sector is export-oriented. This makes it vulnerable to changes in the rules of international trade.** Despite contributing very little to South Africa's annual national income (GDP), agriculture accounts for a relatively high share of the total goods exported from South Africa: in 1999, 14% of the value of all exports from South Africa were in agricultural products. The ability of South African producers to sell their output at a good price on the international market is therefore an important determinant of incomes on farms.
- **Agricultural trade affects industries that are not directly involved in agriculture.** Few products are sold without being processed and getting 'value-added', like when fruit is made into juice or grapes are made into wine. About two-thirds of all agricultural output is used to make food and beverage products, textiles and garments, wood and furniture, etc. In addition, many industries and sectors depend on agricultural production because they make and sell things that farmers use, such as fertilizer and pesticides.

What is globalisation?

Globalisation is the process by which the economies of the world's countries have become more closely connected and dependent on each other. When people talk about the globalisation of agriculture, they mean two things:

- First, they mean that production is now an international process: South African agricultural products are not only produced for the South African market but are also exported as raw, semi-processed or ready processed goods to foreign countries where they are further processed or sold.
- Second, when people use the word "globalisation" they are also talking about a new international consensus, particularly a Northern consensus, on how national economies should be organised in relation to international trade. This consensus is based on a **liberalisation** or "free trade" approach to economic management whereby governments stay out of the way of markets and allow competition to take its course throughout the economy and across borders with very little state interference or regulation. Free trade is supposed to help economies by allowing

[1] *(1996 census)*

[2] *(National Department of Agriculture)*

the market to weed out (bankrupt) inefficient producers. Internationally competitive farmers/producers survive and consumers are rewarded with international variety and lower prices.

LIBERALISATION is the process of opening domestic markets to products (and producers) from foreign countries. It results in higher competition on the domestic market and as a consequence leads to lower prices for products on the domestic market.

Trade liberalisation is heavily promoted by international bodies like the IMF and the World Bank and by the large multinational corporations whose economic activities are split between different countries. Free trade is now enforced through the legal rules governing the WTO. **Liberalisation** in agricultural trade means that the role of the South African state in protecting the agricultural economy from the negative effects of international trade is limited.

How is state protection of the economy limited by liberalisation?

Nations ordinarily manage the impact of trade on sectors like agriculture or industry with a variety of protective tools:

- One tool is the **tariff**. Governments charge an extra tax, or a tariff, on foreign goods that are being imported into their countries. This makes foreign goods more expensive when they compete with similar goods produced in the home country. In developing countries, tariffs on imported goods are used to protect domestic industries or economic sectors that cannot yet produce goods as cheaply as the same goods can be produced in rich countries.
- A second tool a nation might use to manage trade and protect its own economy is the **subsidy**. Nations **subsidise** certain economic sectors by giving money to producers. Producers getting state money can charge less for their products at home and in foreign countries. Selective or targeted subsidies can be used to help some producers compete better than other producers. In South Africa, for example, targeted subsidies might be used to help emerging black farmers compete with big, established agri-businesses, both at home and abroad.

Rich countries use a combination of tariffs, subsidies, and other methods to protect their markets from direct competition with products produced with lower wages in developing countries. Both **tariffs** and **subsidies** are strongly discouraged in the new international consensus on trade.

How has globalisation affected South African trading practices?

In order to lower the tariffs South Africa´s products face in foreign markets, the government has made a number of trade agreements with other countries. These agreements are supposed to promote agricultural exports and increase South Africa´s share of the world market. The two agreements with the biggest implications for the South African economy are:

- the World Trade Organisation (WTO) Agreement on Agriculture and
- the Trade, Development and Cooperation Agreement (TDCA) with the European Union.

In negotiating these agreements, South Africa was under pressure to liberalise its trading practices and to reduce **barriers** to international trade (like tariffs).

BARRIERS TO TRADE can occur in different forms. One barrier is a quantitative restriction on imports, called a quota. The WTO Agreement on Agriculture prohibits the use of quotas. The most common type of barrier is the tariff. In the course of trade liberalisation, barriers to trade are gradually being removed.

The liberalisation of South Africa's agricultural trading practices was hoped to help the country's economy by increasing trade and attracting foreign investment. Pressure to liberalise trade in agricultural products is especially high for developing countries because these countries have less bargaining power than the rich countries in influencing international trade agreements. In many rich countries, farmers are a powerful political force and they often manage to avoid agricultural liberalisation in their home countries.

What did South Africa agree to in the WTO?

As a member of the **World Trade Organisation (WTO)**, South Africa is bound by agreements made by the WTO, including the WTO **Agreement on Agriculture (AoA)**, which came into force in 1995.

The World Trade Organisation's Agreement on Agriculture (AoA) contains regulations that aim to create "a fair and market-oriented agricultural trading system." Members of the WTO must:

- cut **export subsidies** (government payments that encourage traders to export products at prices lower than those charged in the home market. The EU is the main export subsidiser, "dumping" large amounts of agricultural products on the international market all at once at very low prices);
- lower **barriers to trade** in agricultural products (allow foreign products/producers to compete more freely with national products/producers on the domestic market); and
- cut **domestic support measures** (government payments to producers to subsidise production).

South Africa´s new government has pushed through a series of reforms in the agricultural sector since 1996. These reforms bring South Africa into greater compliance with the WTO Agreement on Agriculture by promoting the **deregulation** and **liberalisation** of the sector. Under apartheid, farmers were heavily subsidised and protected from foreign competition. In the twin processes of liberalisation and deregulation, the South African government:

- cut agricultural subsidies and;
- stopped regulating the prices of agricultural products.

These measures are contained in the "Marketing of Agricultural Products Act" of 1996. These changes, among others, mean that South Africa is now one of the countries with the least market distortions (state control over market outcomes) in the world.[3]

DEREGULATION is the relaxation of regulations or laws in the economy. In agriculture, government stopped controlling the prices of agricultural products. Government also committed itself to limiting its agricultural health and safety standards to levels accepted in the rules of international trading bodies.

Will reducing domestic support subsidies make South African agriculture internationally competitive?

The WTO Agreement on Agriculture requires nations to reduce domestic support measures, but rich nations have made few real concessions. While South Africa is cutting its agricultural subsidies (what the WTO calls domestic support measures), other countries are maintaining levels of support that make it difficult for South Africa's products to compete internationally:

- The United States, Japan and the European Union, together with other industrialised countries, spent US$ 360 billion on supporting farmers in 1999.[4] This is around seven times more than the amount they gave to poor countries in international

[3] *(Agricultural Policy in South Africa, p. 4.)*

[4] *OECD figure in Trade and Economics Briefing Paper, No. 2, Nov. 2000*

development assistance. The EU alone is responsible for about a quarter of this amount, which makes it the biggest domestic supporter of all.

Rich countries' agricultural subsidies allow their producers to dump cheap, subsidised products on poor countries; this practice hampers the development opportunities of less-developed nations.[5]

How will reductions in domestic support measures impact land reform?

Land reform beneficiaries and other new entrants to commercial agriculture, like black commercial farmers, need support if they are to compete with the established farmers whose businesses benefited from years of state subsidisation. The state has not abandoned the idea of selective financial support for land reform beneficiaries altogether, but it has severely limited the role subsidies will play in its support of small-scale agriculture.[6]

Is the Agreement on Agriculture a fair bargain for developing nations?

Because nations are required to cut their subsidies by percentages, poorer nations are disadvantaged because they were spending less than developed nations to begin with. Fewer percentage point cuts are required for developing nations, but this benefit does not offset the impact of reducing subsidies from a starting point of relatively low subsidisation. South Africa was classified by the WTO as a developed nation. This means South Africa starts out with lower subsidies than highly developed nations but must reduce its subsidies by the same percentages.

Until there are substantial reductions in the support given to farmers in rich countries, poor countries that comply with the WTO have slim chances of success.

What did South Africa and the European Union agree to in the TDCA?

South Africa finalised the **Trade, Development and Cooperation Agreement** (TDCA) with the EU in 2000 after five years of negotiations. The most important element in the TDCA is the agreement to establish a **free trade area** between the **European Union** and South Africa.

A FREE TRADE AREA (FTA) is a stage of economic integration in which two or more countries agree to remove the barriers to their trade with each other. An FTA is aimed at fostering trade between the member countries through easier market access (fewer barriers like tariffs and quotas) and consequently reduced prices. The EU and SA will reach FTA status after a 12-year transition period of gradual tariff reductions.

THE EUROPEAN UNION consists of most European countries and all the most economically powerful countries in Europe, including Britain, Germany and France. The member countries of the EU work together on economic policy for the region.

The free trade area is meant to benefit both partners through increased trade. Increased trade with the EU is important to South Africa because the welfare of the South African economy is linked to EU trade: approximately 40% of all South African agricultural exports are sold in the European Union.[7]

How did South Africa's dependence on trade with the EU effect the terms of the TDCA?

Because South Africa is the more dependent trading partner to the arrangement, the TDCA is an unequal agreement. For example:

[5] *Agrekon, 38 (Special Issue), p. 423*

[6] *Agricultural Policy in South Africa, p.10*

[7] *Lewis, p. 38*

- The EU committed itself to grant 61% of all South African agricultural products barrier-free access to European markets after a period of 10 years. In return, South Africa agreed to grant improved access to 81% of EU agricultural products after 12 years. This means that South Africa has given 20% more free trade to the EU than the EU will give to South Africa in return.
- Both countries managed to prevent the free trade provisions from affecting a number of "excluded products."[8] The EU maintained high tariff levels for 39% of agricultural goods imported from South Africa. South Africa, on the other hand, only maintains tariffs on 19% of all agricultural products from the EU.

How do these inequalities affect South Africa?

Some people argue that these unequal arrangements are not a problem for South Africa because South Africa has much lower production costs (like wages) than the EU. But European producers are made competitive with high **domestic support subsidies**. The EU spends 85 billion US dollars every year in subsidising European farmers. With the help of these subsidies, European products enter the South African market at far cheaper prices than they would without support. South African farmers are confronted with cheap competition and are forced to lower the prices of their products. As a consequence, they must reduce production costs (the cost of inputs like labour) in order to be able to withstand this competition.

What does globalisation mean for agriculture in SA?

The agreements that govern international agricultural trade have a number of consequences for the agricultural sector in South Africa. Since the mid-1990s, there have been significant changes in commercial agriculture. These changes impact farmers, farm workers and emerging farmers:

- **South African farmers have to face increased competition with foreign producers.** They have to compete with cheap foreign imports and they also face strong competition in exporting their produce to other countries. At the same time, the privileges they enjoyed under apartheid, like subsidies, have been revoked. Many South African farmers are therefore trying to reduce production costs by cutting labour costs (the number of people they employ).
- **As a result, farm workers' employment has become increasingly insecure.** Many workers have lost their jobs and among those who have kept their jobs, many are now employed on a contractual basis, as casual or seasonal workers.
- **Retrenched farm workers find it hard to find new employment.** New jobs increasingly require higher skill levels and are out of reach for most farm workers. Workers who have not had access to much formal education to are having trouble maintaining their living standards.
- **Job losses undermine the realisation of socio-economic rights.** With more and more workers losing their jobs and facing difficulties in finding alternative employment, the guarantee of basic human rights and hopes for a better quality of life have become more remote for a large number of South Africans living in rural areas.
- **Small-scale commercial producers are often unable to compete with cheap imports.** This has led to the closure of some farms. New entrants to agriculture, including black farmers, find it hard to establish themselves and be successful in their businesses.

Who benefits from globalisation?

- The benefits from increasing South African exports are not automatically distributed equally among all participants in

[8] *Partners in Progress*

agriculture. Most of the benefits of liberalised trade are enjoyed by agribusiness and large-scale producers. Larger producers, both domestic and multinational, are able to mechanize and lower prices enough to compete on the international market. Small farmers and workers, on the other hand, lose out in this process. Trade liberalisation prevents the state from intervening.

CASE STUDY: DAIRY INDUSTRY

This case study shows how trade agreements have affected farm workers, farmers and industries that process agricultural products.

Johnny has been working on a dairy farm in Paarl for the last 10 years together with 2 other workers. *The three are responsible for the 200 cows of Mr. Burger, the farm owner.* ***Recently, Mr. Burger told Johnny that he has to retrench one of his three workers.*** *He explained that he is under great pressure: he has to cut down the costs of production in order to maintain the profitability of the farm.*

The reason behind the farmer's decision to retrench is the fact that milk prices are much lower than they were a few years ago. *Whereas in 1997 Mr. Burger received R1,32 for a litre of milk, he is now getting only R1,13 cents per litre from Milkyway, the dairy company he has been selling his milk to for years.*

Mr. Burger is not sure why the prices paid for milk have gone down. In previous years, prices have risen during the winter months when there is normally a decline in milk production and therefore less milk to go around. When a product is scarce, its price goes up.

The manager of the dairy company Milkyway, Mrs. Dlamini, explains to Mr. Burger that she cannot pay higher prices for his milk. There is now high competition due to the presence of foreign products on the South African market. *She says that, before 1994, Milkyway's cheeses and yoghurts only had to compete against other locally produced cheeses and yoghurts.* ***The fact that the government loosened restrictions on imports – in fulfilment of its commitments under international trade agreements – has had a considerable impact on the entire dairy sector.*** *With easier access into South Africa, foreign dairy products have flooded the country, with the following results:*

- ***There is now less demand for Milkyway's yoghurts and cheeses due to the increased presence of foreign products on South African supermarket shelves.*** *The firm's sales figures have fallen significantly because consumers often prefer the less expensive foreign products. The fact that Milkyway and other South African dairy manufacturers cannot sustain their profitability affects the prices they can afford to pay for products they buy from farmers.* ***Milkyway itself has dismissed 10% of its workforce as a direct result of these developments in order to prevent being taken over by a multinational company.***
- ***In addition to this, there is now a much higher supply of imported 'concentrated' milk products, such as milk powder.*** *Milk powder is a susbstitute for fresh milk and is therefore a direct competitor to fresh milk. The availability of imported "dry" milk caused a sudden oversupply which prevented the usual winter downturn in milk availability and the associated price rise.*

Mr. Burger is desperate. ***Not only did he have to retrench a number of farm workers in 1996 when the government stopped its support payments for agricultural production, but now the recent developments threaten his chances to maintain his source of income.*** *If he does not find more efficient ways of producing his farm products, he might have to give up the farm completely. In the immediate future, he needs to cut costs.*

For Johnny and his family, the future is equally gloomy. If he loses his job on Mr. Burger's farm, he will have great difficulties in finding a new one elsewhere.

What does the future look like? Where are we heading?

Many of the changes in international trade regulations that are described here would have less serious consequences if the international playing field for trade were equal and fair. That is, restrictions on subsidies and tariffs would be less harmful if rich countries followed the rules, too. The South African government is working on putting its voice forward in international fora and trade negotiations together with other countries in similar situations, but has not worked closely with civil society and people's organisations to ensure that this process is democratic.

The WTO talks to negotiate a second step of improving trade in agricultural produce started in 2001. Further reductions in export subsidies, tariffs and particularly in domestic support are on the agenda. As the European Union and Japan are still very reluctant to make clear commitments to lower domestic support, any progress on this issue will probably be far less than South Africa and its allied partners in the **Cairns Group** are demanding.

The CAIRNS GROUP is a group of agricultural exporters who have allied themselves together in order to push for reforms in agricultural trade policy at the previous WTO trade talks from 1986 to 1993. They are trying to achieve a complete abolishment of domestic support measures in agriculture. South Africa became a member of the Cairns Group in 1998 and is the only African member of the group.

It is important to note that all of the **least developed countries** (LDC's)–and all African countries except for South Africa–opposed a new round of talks in the WTO. These countries do not see another round of multilateral tariff and subsidy reductions as the answer to their economic problems.

What can be done by workers, government and the private sector?

- **Workers' organisations** like trade unions have traditionally dealt with employers and their organisations. The impact of international trade on the agricultural sector, and the destruction of jobs, means that farm workers' interests need to be promoted through new strategies. It may be strategically important for farm workers and their organisations to forge strong links with workers in other sectors – especially since the urban labour movement has become well informed and very vocal on trade issues. It is important that farm workers organise, share information with each other, and work with their representatives to ensure that farm workers' voices are heard by government.
- **The South African government** needs to acknowledge the negative effects of trade liberalisation and either join other poor countries in challenging the authority of the WTO or create alternative solutions for the "losers" of globalisation, by prioritising retrenched farm workers in public works programmes and land reform. Whatever it does, the government needs to be transparent in its approach to trade and consult workers' organisations and other stakeholders who are affected by changes to the trade regime.
- **The private sector** can play an important role in ensuring that both government and big business contribute towards compensating those who lose out in globalised trade. Export agriculture is vulnerable to the perceptions of consumers in foreign countries, who can choose whether or not to buy South African produce. This is an opportunity to influence business behaviour, by requiring farmers who export to comply with codes of conduct that regulate fair labour practices. The Ethical Trading Initiative in the wine sector is an example of a private sector initiative that has the potential to positively impact on the situation of workers. The major problem with it is that is will not save jobs, only ensure that those who have jobs have decent working conditions.

You can find out more about the changes happening in agriculture, and what is being done to address some of these problems, by contacting these organisations:

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