POLICY MEASURES TO ENHANCE THE CONTRIBUTION OF INTENSIVE COMMODITIES IN THE NAMIBIAN AGRICULTURAL SECTOR

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Why the focus on intensive commodities?

- Dairy, broilers, eggs, pork, vegetables, fruits...
- Output per unit higher
- More employment intensive:
  - Poultry = 2.2 jobs / 100 tons
  - Eggs = 4 jobs / 100 tons
  - Dairy = 2.86 jobs / 100 tons
  - Tomatoes = 3.5 jobs / ha
  - Flowers = 13 jobs / ha
  - Carrots = 3 jobs / ha
  - Pecan nuts = 1.3 jobs / ha
- Potential development contribution

A leaf from the South African NDP

Three approaches to identify industries that can contribute to significant growth in employment:

- Large export industries with high labour requirements.
- High volume imports that can be substituted with locally produced goods.
- Growing small industries with high labour requirements.

The employment creation matrix
Relevance for Namibian agriculture?

• Negative trade balance with South Africa
• “Growth at home” campaign to stimulate economic growth
• Need to create jobs in agriculture
• Could provide socio-economic benefits
• Points for discussion:
  • Policy options
  • Options allowed under SACU, SADC and WTO
  • Cost and benefits of policy options
  • Political economy

How do we select an industry for protection?

• The costs of production should eventually be below the costs of technologies currently utilized; and
• Future savings in costs should compensate for the initial cost of supporting the infant industry.
• Some form of market failure, e.g., imperfect financial markets;
• Protection should be temporary, so that special interests into prolonging protection will not be created

Protection of infant industries

• Policy choices clearly a difficult issue
• Options are:
  • Quantitative restrictions
  • Tariffs
  • Production Subsidies
• The decision to protect should depend on
  • the (learning) potential of the industry and,
  • the possibility of substituting domestic with foreign goods

Policy options (cont)

• Quantitative import restrictions linked to local procurement rules
• Import tariffs
• Development levy on imports
• State investment in infrastructure such as irrigation schemes
• Incentives (subsidies, tax exemption, adjusted fees for energy and fuel, etc.)
• Various other support mechanisms
### Allowable under the WTO
(Namibia as developing country)
- **Special Safeguard measures:**
  - surge in imports (volume trigger), or
  - fall of the import price below a specified reference price (price trigger).
- **Special differential treatment (SDT),** can be argued on the basis of:
  - a right to maintain trade barriers to deal with balance of payments problems,
  - protecting "infant" domestic industries,
  - right to offer governmental support to their domestic industries using various industrial and trade policy measures.
- **Net food importer** (Namibia is still on the WTO list of net-food importers).
  - negative effects in terms of the availability of adequate supplies of basic foodstuffs from external sources on reasonable terms and conditions, and
  - short-term difficulties in financing normal levels of commercial imports of basic foodstuffs.
- **Subsidies** for agriculture is allowed under Green box, using arguments of:
  - Safety nets, Protection of environment, plant or animal welfare, Income insurance,
  - Food security

### Rules under SADC Trade Protocol
- Article 3 of SADC (Trade in goods) allows member states to apply for re-introduction of tariffs and other protection measures
- Article 9 has general exceptions, almost similar to those covered in the WTO, i.e.,
  - protection of human beings,
  - food safety, animal and plant health, and
  - prevention of critical shortages of foodstuffs.
- Article 20 deals with safeguard measures in the same way as the WTO does.

### SACU agreement of 2004
- Article 18 of SACU (on free movement of goods in the customs territory) paragraph two gives member states the right to impose restrictions on imports for:
  - Health reasons (humans, animals and plants),
  - Environment and
  - Intellectual property
- Article 26 (protection of Infant Industry). Namibia is already allowed to use a temporary levy up to eight years under this provision.
- Other reasons that Namibia can consider are covered under industrial policy (article 38), agricultural and competition policies (Articles 39 and 40, respectively).

### Impacts of different policy options
- Any policy option will always have winners and losers
- Quantitative restrictions / import tariffs, etc
  - Increase domestic price
  - Producers benefit but consumers loose
- Other support measures (incentives, tax breaks, subsidies)
  - Lower marginal costs – could increase supply
  - Benefits producers as well as consumers but potentially at the expense of the fiscus.
- Quantitative restrictions (quotas) usually considered more distortive than subsidies or tariffs
  - But will this bring socio-economic benefits? What is the evidence?
### Political Economy
- Important to understand the different interest groups / stakeholders
  - Consumers
  - Farmers
  - Agribusiness firms
  - Political parties / bureaucrats
- Is there a political will to invest in infrastructure; to support private investment in value-added
- What is the incentive structure in the economy to encourage private investment
- What are the political and socio-economic factors that prevent potential investment
- Comparative advantage is compromised by either natural or political and socio-economic factors. Which is the critical one in Namibia?

### Concluding remarks
- Policy instrument choice is a political decision
- Availability of state resources critical
- Need to ensure that investment of government resources will generate a socio-economic return for the country
- Is it to South Africa's advantage to see poor economic growth of its neighbouring economies?