

INTERNATIONAL TradeProbe

No. 11, October 2008

TradeProbe is a joint initiative by the NAMC and the Department of Agriculture's Directorate: International Trade. The aim of this initiative is to create knowledge of trade-related topics by discussing/reporting trade statistics, inviting perspectives from people working in related sectors, reporting on trade-related research and stimulating debate.

This issue of the TradeProbe covers the following topics:

- Trade profiles
 - ✓ Apricots
 - ✓ Peaches
- Contributed articles
 - ✓ Market Access Challenges in the Rapidly Growing Chinese Market
 - ✓ USA fruit and vegetable juices – market overview and trade potential

SECTION 1 – TRADE PROFILE

Export trends of Apricots and peaches (11 year period)

The value of apricot exports increased from R 108 million in 1996 to R 173 million in 2007, while the value of peach exports increased from R 200 million in 1996 to R 406 million in 2007. It is important to note that peach exports decreased between 2003 and 2006, but picked up in 2006/07. Apricot exports have been slow, but increasing.

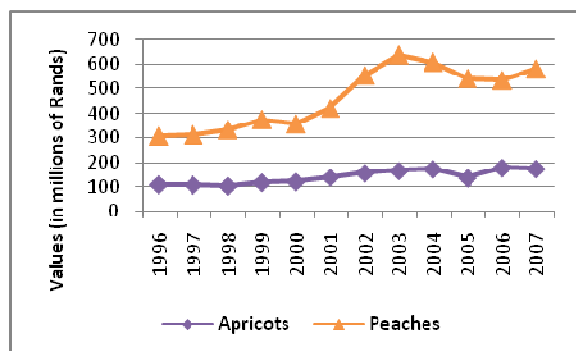


Figure 1: South Africa's export of apricots and peaches
Source: World Trade Atlas, 2008

1.1 Apricots (HS – 200850)

Table 1 presents a list of the top ten exporters of apricots in 2006, expressed in value terms. The top ten apricot exporters accounted for 90 % of world apricot exports in 2006. The top three were Spain, South Africa and Greece, accounting for 21 %, 18 % and 15 % of the value of world exports, respectively. The other African country in the list was Morocco, ranking number four and accounting for 12 % of world exports.

Table 1: Leading exporters of apricots in 2006 (HS-200850)

| Exporters | Value exported in 2006, in US\$ thousand | Share in world exports, % |
|---------------------|--|---------------------------|
| Total world exports | 151 041 | 100 |
| Spain | 31 229 | 21 |
| South Africa | 26 446 | 18 |
| Greece | 22 661 | 15 |
| Morocco | 18 211 | 12 |
| Germany | 9 885 | 7 |
| Italy | 6 599 | 4 |
| China | 6 479 | 4 |
| Netherlands | 6 077 | 4 |
| Belgium | 4 014 | 3 |
| France | 3 118 | 2 |

Source: ITC calculations based on COMTRADE statistics

Table 2 lists the top ten leading importers of apricots in 2006, expressed in value terms. The leading apricot importers accounted for 81 % of world imports. The top two, France and Germany, were by far the leading importers, representing 25 % and 22 %, respectively. The United Kingdom ranked third and accounted for 6 % of the value of world imports. Notably, there was no African country in the list.

Table 3 presents the leading export destinations of South African apricots during 2006. The first observation is that there was no African country in the list. The top ten leading importers from South Africa accounted for 88 % of South Africa's exports of this product. The top three importers were Germany, the United Kingdom and the Netherlands accounting for

33 %, 13 % and 9 % of the value of South Africa's exports of apricots, respectively.

Table 2: Leading importers of apricots in 2006 (HS-200850)

| Importers | Value imported in 2006, in US\$ thousand | Share in world imports, % |
|---------------------|--|---------------------------|
| Total world imports | 175 270 | 100 |
| France | 44 332 | 25 |
| Germany | 39 372 | 22 |
| United Kingdom | 11 094 | 6 |
| Belgium | 10 684 | 6 |
| Netherlands | 9 204 | 5 |
| Russian Federation | 7 288 | 4 |
| Australia | 6 921 | 4 |
| Austria | 6 619 | 4 |
| Italy | 4 629 | 3 |
| Japan | 3 599 | 2 |

Source: ITC calculations based on COMTRADE statistics

Table 3: Leading export destination of apricots exported by South Africa in 2006 (HS-200850)

| Importers | Exported value 2006 in US\$ thousand | Share in South Africa's exports, % |
|------------------------------|--------------------------------------|------------------------------------|
| South Africa's total exports | 26 446 | 100 |
| Germany | 8 681 | 33 |
| United Kingdom | 3 359 | 13 |
| Netherlands | 2 399 | 9 |
| Belgium | 2 274 | 9 |
| Australia | 1 906 | 7 |
| Japan | 1 493 | 6 |
| France | 900 | 3 |
| New Zealand | 861 | 3 |
| Switzerland | 746 | 3 |
| Italy | 657 | 2 |

Source: ITC calculations based on COMTRADE statistics

It is important to look at apricot imports by Germany, which is a leading destination of apricot exports by South Africa. This will give an indication of the competition that South Africa faces in this market. **Figure 2** lists the top six import origins from where Germany imported apricots in 2006. The top origins of Germany's imports were Greece, South Africa and Spain, representing 32 %, 19 % and 15 %, respectively. The other African country that exported apricots to Germany in 2006 was Morocco, accounting for 9 % of Germany's imports.

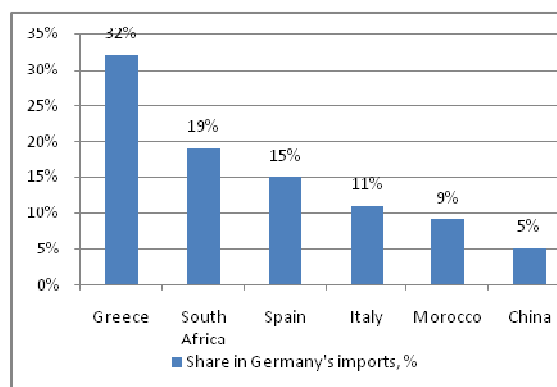


Figure 2: Leading sources of apricots imported by Germany in 2006 (HS-200850)

Source: ITC calculations based on COMTRADE statistics

1.2 Peaches (HS-200870)

Table 4 presents the list of the top ten exporters of peaches in 2006, expressed in value terms. They accounted for 90 % of the value of world exports of this product in 2006. The top three were Greece, China and Spain, accounting for 35 %, 11 % and 9 %, respectively. South Africa ranked number five, accounting for 7 % of the value of world exports, and was the only African country in the list.

Table 4: Leading exporters of peaches in 2006 (HS-200870)

| Exporters | Value exported in 2006, in US\$ thousand | Share in world exports, % |
|---------------------|--|---------------------------|
| Total world exports | 690 879 | 100 |
| Greece | 239 566 | 35 |
| China | 75 748 | 11 |
| Spain | 63 076 | 9 |
| Chile | 52 953 | 8 |
| South Africa | 51 418 | 7 |
| Thailand | 47 299 | 7 |
| Germany | 27 702 | 4 |
| Argentina | 27 426 | 4 |
| USA | 21 701 | 3 |
| Italy | 17 068 | 2 |

Source: ITC calculations based on COMTRADE statistics

Table 5 lists the top ten importers of peaches in 2006, expressed in value terms. The top 10 importers accounted for 50 % of the value of world imports of this product in 2006. This list was led by Germany, the USA and Japan, accounting for 13 %, 11 % and 9 % of world imports, respectively. Note that Germany was also among the top ten leading exporters. There was no African country in the top ten importers of peaches.

Table 5: Leading importers of peaches in 2006 (HS-200870)

| Importers | Value imported in 2006, in US\$ thousand | Share in world imports, % |
|---------------------|--|---------------------------|
| Total world imports | 644 920 | 100 |
| Germany | 85 255 | 13 |
| USA | 72 709 | 11 |
| Japan | 58 757 | 9 |
| Mexico | 43 894 | 7 |
| United Kingdom | 35 340 | 5 |
| France | 30 294 | 5 |
| Poland | 25 465 | 4 |
| Thailand | 21 772 | 3 |
| Canada | 21 601 | 3 |
| Netherlands | 18 808 | 3 |

Source: ITC calculations based on COMTRADE statistics

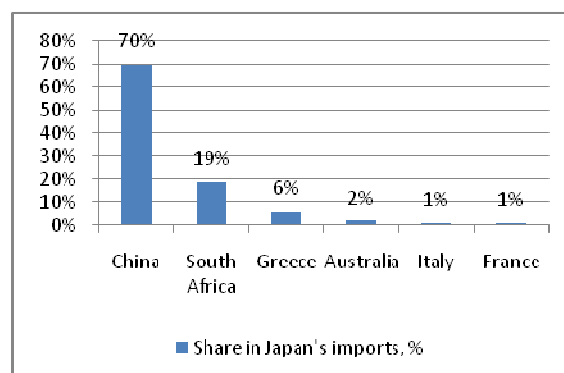
Table 6 presents the top ten importers of peaches exported by South Africa in 2006, expressed in value terms. The top three importers were Japan, Hong Kong and the United Kingdom, representing 19 %, 14 % and 9 % of South Africa's share of exports of this product, respectively. There was no African country in the list of top ten importers of peaches from South Africa. The European countries dominated the list, accounting for 78 % of South Africa's exports.

Table 6: Leading importers of peaches exported by South Africa in 2006 (HS-200870)

| Importers | Exported value 2006 in US\$ thousand | Share in South Africa's exports, % |
|------------------------------|--------------------------------------|------------------------------------|
| South Africa's total exports | 51 418 | 100 |
| Japan | 9 645 | 19 |
| Hong Kong (SARC) | 7 312 | 14 |
| United Kingdom | 4 636 | 9 |
| Australia | 4 069 | 8 |
| Canada | 2 945 | 6 |
| Switzerland | 2 812 | 5 |
| Belgium | 2 364 | 5 |
| Germany | 2 357 | 5 |
| Netherlands | 2 119 | 4 |
| Republic of Korea | 1 758 | 3 |

Source: ITC calculations based on COMTRADE statistics

Figure 3 lists the six import origins from where Japan imported peaches in 2006. It is noteworthy that China constituted about 70 % of Japan's imports of peaches. South Africa ranked second, with a 19 % share of Japan's imports of peaches. Greece ranked third, with a 6 % share of Japan's imports. The top three exporters of peaches to Japan (China, South Africa and Greece) accounted for 95 % of the imports of peaches by Japan.

**Figure 3:** Leading exporters of peaches imported by Japan (HS-200870)

Source: ITC calculations based on COMTRADE statistics

SECTION 2 - CONTRIBUTED ARTICLES

2.1 Market access challenges in the rapidly growing Chinese market¹²

China has recently registered unprecedented levels of economic growth with its real GDP growth rate notching 11.4 % in 2007; despite the 2008 financial crisis it is expected to remain above 9 % next year. The per capita GDP rose from US\$ 1 490 in 2004 to US\$ 2 017 in 2006. The number of people living on less than US\$ 1 per day decreased by 10 % between 2005 and 2006 as a result of sustained economic growth. China is the fourth largest recipient of Foreign Direct Investment (FDI) in the world, and the highest among the developing countries. This signifies the increased openness of its economy, which was underpinned by its accession to the WTO in 2001.

China is an aggressive trade liberaliser in all areas, with the exception of agriculture and basic foods. Trade plays a pivotal role in China's economy; in 2006 its total merchandise trade (imports and exports) was about 65 % of GDP, and over 13 % of world merchandise trade. Thus, economic growth in China has been driven largely by the export-oriented manufacturing sector (exports of manufactured goods account for 92.4 % of China's merchandise exports) and investment, which outpaced domestic consumption. This is also evident in the nature and pattern of trade between South Africa and China, namely that South Africa exports mainly mineral resources and imports value added manufactured goods.

In agriculture South Africa traditionally exported raw wool, sugar, hides and marine products to China. Over the past year, South African wine, citrus fruits,

¹ Sphamandla Mazibuko is an Economist, Directorate International Trade, Department of Agriculture

² This article was compiled from the Trade Policy Review of China by the WTO secretariat.

grapes and processed pork have found their niche in that market. China has a high rate of urbanisation that, accompanied by rising incomes, has resulted in an increase in the aggregate demand for agricultural products. It is also the most populous country in the world (above 1.3 billion) and a net importer of agricultural products. Thus, the rapidly growing Chinese market presents large trade potential for the food-exporting countries, including South Africa. While South Africa is hard-pressed to export basic agricultural products in bulk, she is capable of exporting speciality value added foods, beverages and snacks to China.

This may require an intensive and creative marketing strategy. There are growing numbers of African expatriates in China who would appreciate foods with familiar flavours. However, there are numerous challenges faced by South Africa in the Chinese market. China applies an average agricultural tariff protection of 22.94 % (compared to South Africa's 9.3 %). Grain products in China continue to benefit from higher than average tariff protection. South Africa trades with China based on the Most Favoured Nation applied tariffs, while our exports are also subjected to numerous non-tariff barriers (NTBs) such as import licensing and import prohibitions.

Tariff rate quotas (TRQs), sanitary and phytosanitary measures (SPS), technical standards, testing, certification and labelling requirements are applied in conjunction with state trading in commodities. Other associated costs and constraints are transportation costs, distribution networks and marketing. China has concluded a number of FTAs with South Africa's competitors. These include the ASEAN countries, Chile, New Zealand, Pakistan, and others that are still in the process of negotiation (Australia, Gulf Cooperation Council). The high rate of urbanisation, rising incomes, changing consumption patterns, the influx of foreigners and the openness of the Chinese economy all converge to present lucrative market access opportunities for South Africa's agricultural products.

The positive growth trend in South Africa's agricultural exports to China indicates the possibility of expansion and further diversification of exports. Given the intensity of competition and the existing trade barriers in the Chinese market, government could play a significant role in negotiating a more balanced trade regime with China that could catalyse improved market access for South African agricultural exports.

2.2 USA fruit and vegetable juices – market overview and trade potential³⁴

USA soft drink market forecast

According to a Datamonitor report, *Soft Drinks in North America to 2011*, the USA soft drink market exceeded US\$ 113 billion in terms of sales value in 2007. The market is expected to grow steadily at a compounded rate of 1.5 % per annum until 2011, and should then be on the brink of US\$ 120 billion in terms of value sold in that year. Fruit juices were the second largest category of drinks behind carbonated drinks with a 17 % share, or some US\$ 19.5 billion. Fruit juices are expected to grow at a slower pace of 0.5 % year-on-year. Fruit juices are expected to concede second place to the fast growing bottled water category (8 % per annum) by 2011, but should remain firmly in third place with a share of close to 17 % of the USA multi-billion dollar soft drink market.

USA fruit juice imports

In 2007, the USA overtook Germany as the world's leading importer of fruit and vegetable juices. The USA was responsible for 12.5 % of world fruit and vegetable juice imports in 2007, or some US\$ 1.7 billion. Over the 5 year period between 2002 and 2007 the USA import demand for juices grew by 14.5 % per annum - higher than the average world growth of 13.4 % per annum over the same period (Figure 4).

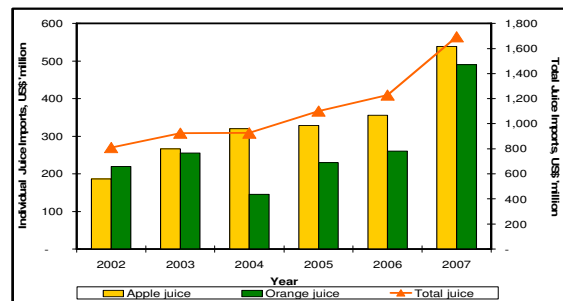


Figure 4: USA fruit juice imports, 2002-2007

Source: ITC Trade Map

Two categories of juices, namely apple juice (31.9 %) and frozen orange juice (29 %), constituted 61 % of total fruit and vegetable juice imports by the USA in 2007. A third product, other fruit and vegetable juices, was responsible for another 19 % of market share. The top three categories dominated the import share with a combined share of 80 %. China dominated the supply of apple juice with a 72 % contribution, while Brazil supplied 53 % of the orange juice imported into the USA. South Africa ranked in the top 10 supplying countries for both apple and frozen orange juice,

³ Jacobus Verster is an Economist, Directorate: International Trade, Department of Agriculture

⁴ This article was compiled from the ITC TradeMap (www.trademap.org) and Datamonitor (www.datamonitor.com)

however her market share was less than 1 %. South Africa featured 19th in the other fruit and vegetable category with a share of 0.6 %, behind Iran (15 %). China and Brazil dominated the total fruit and vegetable juice supply with market shares of 26 % and 22 %, respectively. South Africa occupied the 15th position in total juice supply with a market share of 0.6 %.

Preferential market access

South Africa enjoys preferential market access for a number of agricultural products in the USA market under the African Growth and Opportunity Act (AGOA). Fruit juices, the topic of this analysis, count among the agricultural products that enjoy a zero tariff. AGOA was passed in the USA as part of the Trade and Development Act of 2000. It provides duty-free, quota-free access to the USA market for almost all products exported from 41 eligible sub-Saharan African countries, including South Africa. AGOA is the cornerstone of the USA policy on trade and investment in Africa, which aims to promote free markets, expanding USA-African trade and investment, stimulating economic growth and aiding sub-Saharan Africa's integration into the global economy. AGOA covers over 6 000 product items, of which 600 are agricultural tariff lines. AGOA has afforded sub-Saharan African countries an opportunity to get liberal market access to the USA despite not having any free trade agreement in place.

South African fruit juice exports to the USA

During 2007 South Africa exported fruit and vegetable juices to the value of US\$ 9.7 million to the USA. This was considerably lower than the US\$ 20.4 million exported in 2002, a 14.8 % decline per annum, and in contrast to the 7.5 % per annum increase in South African fruit and vegetable juice exports to the rest of the World over this 5 year period. The USA was the recipient of 7.3 % of South African juice exports in 2007 and was the third largest market behind Japan (16.5 %) and the Netherlands (15.4 %).

Over the 5 year period South Africa performed dismally in the three major USA juice import categories, with apple juice exports registering a 1 % growth, frozen orange juice a 35 % decline and other fruit and vegetable juices a 15 % decline. As a combined group, South African exports of the top 3 juice categories to the USA dropped by 18.6 % year on year. Figure 5 depicts South African juice exports to the world and the USA, with emphasis on the declining trend in the top 3 USA import categories.

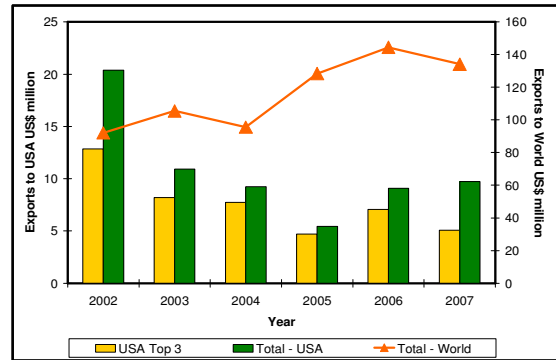


Figure 5: SA fruit and vegetable juice exports to the World and the USA, 2002 - 2007

Source: ITC Trade Map

Even with the preferential market access that AGOA affords South African exporters into the USA, South African exports of most juices are not competing favourably with competitors. One reason is that the USA has preferential trade regimes other than AGOA from which some main competitors emerge. For example the Dominican Republic (preferential tariff for CAFTA countries; the main competitor in orange juice not frozen), Belize (preferential tariff for CBI countries; the main competitor in grapefruit juice), and Mexico (preferential tariff for Mexico under NAFTA; the main competitor in single citrus fruit juice), face zero duties on their juice products in the USA as well. Apple juice, the leading import category, carried a MFN duty of zero, which points to the fact that sub-Saharan countries, South Africa included, do not benefit from a wide margin of preference in fruit and vegetable juices under AGOA. Another reason is the relatively lower unit price that South African juice exporters receive for their product in the USA compared with other main destinations. In general, South African fruit and vegetable juice exports over all categories recorded higher unit values in the other main destinations than was the case in the USA. For example, South African exports of grapefruit juice to the Netherlands, Japan and the USA recorded unit values of US\$ 1 419, US\$ 1 997 and US\$ 1 322 per ton, respectively, in 2007.

Trade potential of South African juices in the USA

A symmetric Export Specialisation Index (ESI)⁵ for agricultural products as defined by the WTO Agreement on Agriculture (AoA) was constructed between South Africa and the USA. This revealed South African juices with specialisation potential (between 0 and 1) and a comparative disadvantage (between 0 and -1) in the USA market (Table 7).

⁵ The export specialisation index is a slightly modified RCA index, in which the denominator is usually measured by specific markets or partners. It provides product information on revealed specialisation in the export sector of a country and is calculated as the ratio of the share of a product in a country's total exports to the share of this product in imports to specific markets or partners, rather than its share in world exports.

Table 7: Annual growth and symmetric export specialisation index of South African juice products in the USA market, 2007

| HS code | Description | Annual growth 2002 – 2007 % | Symmetric ESI score | Theoretical potential exports US\$ '000 |
|---------|--------------------------------|-----------------------------------|---------------------|--|
| 200929 | Grapefruit juice, unfermented, | 61 | 0.98 | 3 600 |
| 200990 | Mixtures of juices unfermented | -29 | 0.94 | 18 286 |
| 200919 | Orange juice, not frozen | 68 | 0.92 | 3 163 |
| 200949 | Pineapple juice, unfermented, | 21 | 0.83 | 12 349 |
| 200969 | Grape juice, unfermented | -75 | 0.76 | 11 155 |
| 200980 | Fruit & vegetable juice, other | -15 | 0.67 | 19 283 |
| 200939 | Single citrus fruit juice | 59 | 0.40 | 2 715 |
| 200979 | Apple juice, unfermented | 1 | -0.11 | 13 021 |
| 200911 | Orange juice, frozen | -35 | -0.82 | 6 713 |

Source: ITC Trade Map and Directorate International Trade calculation

Isolating total demand and total export capacity provides a rough estimate of the extent to which countries could 'theoretically' trade between themselves. South Africa exported US\$ 21.7 million of grapefruit juice to the rest of the world in 2007. USA import demand for grapefruit juice in 2007 was US\$ 3.9 million. Of this demand, South Africa supplied US\$ 316 000 to the USA. Given this information, the theoretical potential imports of grapefruit juice to the USA from South Africa in 2007 were US \$ 3.6 million.

Despite the overall decline in juice exports to the USA it is evident from Table 7 that three categories of juices (single citrus juice, grapefruit juice and orange juice, not frozen) recorded stellar growth over the period under review. All three of these products had a positive ESI score that portray their respective comparative advantages in the USA market. The only other juice category that registered both a positive annual growth and a positive ESI score was pineapple juice. A trade analysis of these four categories follows.

Trade analysis

Single citrus juice (HS 20.09.39), the chief South African contributor to juice exports to the USA in 2007, achieved a 59 % growth per annum over the 5 year period. This was higher than the 45 % per annum growth experienced in exports to the rest of the World over the same period. This category of juices was only responsible for 1 %, or some US\$ 17.8 million, of total USA juice imports in 2007; however the import demand grew by 18 %, higher than the 14.5 % average for juices. In 2007 South Africa held the second position in the USA market behind Mexico, with exports of single citrus to the value of US\$ 2.9 million.

Mexico (43 %), South Africa (22 %) and Argentina (18 %) dominated exports to the USA in this category. The USA was the main destination for South African single citrus juice exports, with a 52 % share. Theoretically South Africa could have exported another US\$ 2.7 million of this category to the USA in 2007 according to Table 7. The preferential duty facing South African exporters was 0 %, while the

MFN duty in 2007 was 1.6 %. Although grapefruit juice (HS 20.09.29), with a value of US\$ 316 000 was only South Africa's 6th largest juice category export to the USA in 2007, this category experienced a 61 % increase in value exported per annum between 2002 and 2007.

This was higher than the 41 % growth per annum experienced in exports to the rest of the World over the same period. Despite its relatively small size (0.2 % of total USA juice imports), this category of USA imports, among other USA juice imports, registered a year-on-year growth of 66 % over the period under review. South Africa occupied the third position behind Belize (71 %) and Mexico (11 %) with an 8 % share of this fairly insignificant juice category in the USA market. The USA was the recipient of only 1.5 % of South African grapefruit juice exports. In theory South Africa could have exported some US\$ 3.6 million extra to the USA in 2007. South African exporters faced a zero duty compared to the MFN duty of 1.8 % in 2007.

In terms of value among the three high growth juice exports to the USA, orange juice, not frozen (HS 20.09.19) was the smallest, with US\$ 239 000 shipped in 2007. As with grapefruit juice the market for this category in the USA was small in comparison to other juices, with a share of 0.2 % of total USA juice imports. Although this category of USA imports showed only a 4 % annual growth over the 5 year period, South African exports to the USA grew at 68 % per annum. This was higher than the growth of 23 % per annum experienced in exports to the rest of the World over the same period.

South Africa occupied the fourth position, with a 7 % share of the USA market, behind the Dominican Republic (42 %), Canada (18 %) and Italy (12 %). Nearly 3 % of South African orange juice, not frozen was shipped to the USA in 2007. Theoretically South Africa could have exported another US\$ 3.1 million to the USA in 2007. Whilst the MFN duty was 13.1 % in 2007, South African exporters enjoyed a 0 % duty under AGOA. Pineapple juice (HS 20.09.49) was South Africa's 7th largest juice category export to the USA in 2007, with a value of US\$ 178 000. The

category experienced a 21 % growth in value exported to the USA per annum over the 5 year period. This was higher than the year-on-year growth of 16 % experienced in South African exports to the rest of the World over the same period. In terms of import value, pineapple juice was the leading category among the four analysed with a 3.4 % share of total USA juice imports.

The USA import demand of pineapple contracted by nearly 5 % per annum over the period under review. South Africa occupied the 7th position in the USA market, with a share of less than 1 %, behind Philippines (67 %), Thailand (24 %) and Indonesia (5 %). In theory South Africa could have exported some US\$ 12.3 million extra to the USA in 2007. South African exporters' preferential duty under AGOA was 0 % compared to the MFN duty of 7.3 %.

© 2008. Published by the National Agricultural Marketing Council in cooperation with the Department of Agriculture, Republic of South Africa.

Disclaimer:

Although everything has been done to ensure the accuracy of the information in this TradeProbe the NAMC and DoA does not take responsibility for the accuracy or the opinions contained in this publication. Results of actions based on this information, will not be the responsibility of the NAMC and the DoA.