

## INTERNATIONAL *TradeProbe*

This *TradeProbe* is the first in a series of *TradeProbes*. The objective is to create a general awareness of trade related issues by discussing/reporting trade statistics, inviting viewpoints from people working in the area of trade, reporting on trade related research and to stimulate debate.

Covered in this issue in sequence of presentation is;

- South African trade performance, generally
- Updates of current trade activities
- Two contributed viewpoints
- Executive summaries or abstracts of NAMC funded trade research

## SECTION 1 – TRADE PERFORMANCE

### 1.1. SOUTH AFRICA'S TRADE<sup>1</sup>

This section presents South Africa's trade performance in global markets for 2005 and 2006. Table 1 shows the value of imports and exports for 2005 and 2006, as well as the percentage change between the two years. Exports and imports increased by 20 and 32 percent, respectively from 2005 to 2006. Moreover, total exports increased from R331,405,258 to R396,528,773 and imports increased from R351,664,964 to R465,040,203. A closer look at monthly trade flows shows that exports decreased (by 1%) in January and decreased (by 6%) in April in a year on year comparison. Imports on the other hand show an increase throughout the reviewed period.

**Table 1: Value of import and export to/from South Africa**

Month	2005 values		2006 values		Percentage changes 2005 to 2006	
	Export (R 000)	Import (R 000)	Export (R 000)	Import (R 000)	Exp	Imp
Jan	21,737	23,917	21,595	30,570	-1%	28%
Feb	23,267	23,776	26,676	30,609	15%	29%
Mar	26,233	27,915	30,002	32,847	14%	18%
Apr	28,253	28,187	26,618	29,072	-6%	3%
May	28,239	31,366	30,762	37,763	9%	20%
June	30,907	30,158	35,601	39,861	15%	32%
July	28,152	29,546	34,910	42,750	24%	45%
Aug	28,722	32,107	35,934	41,326	25%	29%
Sept	29,391	33,192	37,532	37,878	28%	14%
Oct	26,054	31,664	39,785	52,807	53%	67%
Nov	30,797	33,977	40,456	53,053	31%	56%
Dec	29,646	25,853	36,651	36,499	24%	41%
<b>Annual Total</b>	<b>331,405</b>	<b>351,664</b>	<b>396,528</b>	<b>465,040</b>	<b>20%</b>	<b>32%</b>

Source: DTI (2007) and own calculations

<sup>1</sup> Trade refers to overall trade unless specified.

## 1.2 MAJOR DESTINATIONS FOR SA EXPORTS AND ORIGINS OF IMPORTS

### 1.2.1 Export expressed in values (Rands)

Table 2 shows the Top 10 export destinations in terms of value for 2005 and 2006. The value of exports increased for all destinations shown with the exception of the United Kingdom. Exports increased to China and the United States at a rate of 60% and 31% respectively. Also note that the EU countries dominate the Top 10 list. The major markets of Asia are not well represented in the export data and interesting is that only China and Japan are included in the top 10 export markets. The total value of exports from South Africa to the top 10 major export destinations amounted to R173,406,315 (52% of total exports valued at R331,405,258) and R210,861,440 in 2006 (or 53% of total exports valued at R396,528,773).

**Table 2: Top 10 export markets for South Africa (value)**

Country	2005 (R 000)	2006 (R 000)	% change
Japan - (North-East Asia)	33,156	41,315	24.61%
United States - (NAFTA)	31,453	41,157	30.85%
Germany - (EU)	21,076	26,867	27.47%
United Kingdom - (EU)	32,377	31,717	-2.04%
Netherlands - (EU)	14,893	18,068	21.32%
China - (Chinas)	8,763	14,019	59.99%
Spain - (EU)	8,713	10,001	14.78%
Belgium - (EU)	8,967	10,174	13.46%
Italy - (EU)	7,510	9,379	24.88%
France - (EU)	6,493	8,158	25.64%
Total exports to top 10 destinations	173,406	210,861	21.60%
Total exports from South Africa	331,405	396,528	20%

Source: DTI (2007) and own calculations

### 1.2.2 Imports expressed in values (Rands)

**Table 3** shows the Top 10 countries from where South Africa imported goods and services in 2005 and 2006. In 2005 imports from these origins accounted for 63% of the value of total imports into the South African market and 60% in 2006.

Worth noting is that for the period under review the value of imports from these regions all experienced positive growth. The growth in the value of imports was the highest for China (48%), Italy (35%), the USA (29%) and Iran (28%). Of the top 10 import origins there was no African country included, yet they are geographically closer and are well endowed with natural resources.

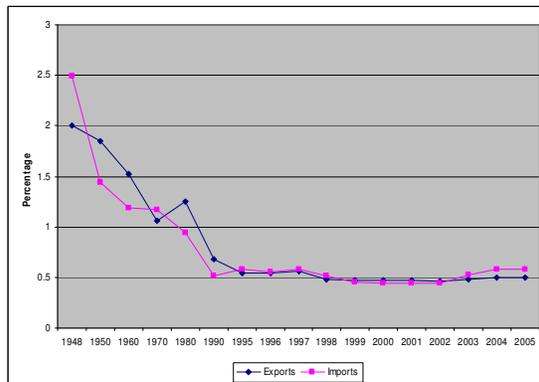
**Table 3: Top 10 import origins (value)**

Country	2005 (R 000)	2006 (R 000)	% change
Germany - (EU)	49,196	57,844	18%
China	31,476	46,718	48%
United States - (NAFTA)	27,354	35,176	29%
Japan - (North-East Asia)	23,750	30,261	27%
United Kingdom - (EU)	20,129	23,099	15%
Iran - (Middle East)	14,324	18,328	28%
Saudi Arabia - (Middle East)	19,407	24,544	26%
France - (EU)	15,428	16,985	10%
Italy - (EU)	10,349	13,959	35%
Korea Rep South - (North - East Asia)	9,244	11,872	28%
Total imports of top 10 destinations	220,661	278,792	26%
Total imports into South Africa	351,665	465,040	32%

Source: DTI (2007) and own calculations

### 1.3 SHARE OF SOUTH AFRICA'S TRADE IN TOTAL WORLD TRADE

South Africa's share in world trade has been on a steady decline since 1948. **Figure 1** shows South Africa's imports and exports as share of world imports and exports dropped considerably from 1948 up until the early 1990's (for imports it dropped from around 2.5% to around 0.6% and for exports it dropped from about 2% to 0.6%). From 1990 onwards the share of imports and exports stabilized between 0.4 and 0.6 percent of the world totals.



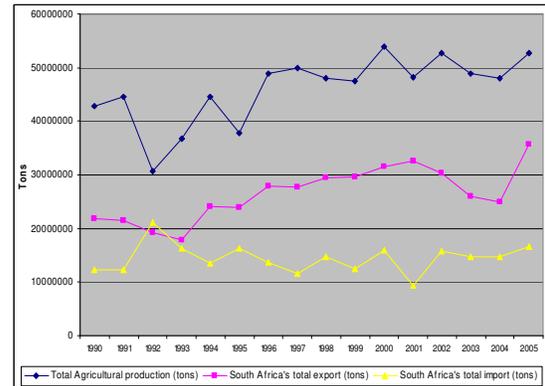
**Figure 1: South African trade as a share of world trade**

Source: WTO (2007)

### 1.4 AGRICULTURAL PRODUCTION AND TRADE BY SOUTH AFRICA

**Figure 2** shows South African production and trade flows of agricultural products from 1990 to 2005. Over the period under review agricultural production increased from around 40 million to around 50 million tons. When production reached its lowest level in 1992 imports were at its highest level showing the impact of adverse climate conditions on the ability of agriculture to remain a net exporter, and consequently an earner of foreign exchange for the country. Since

1992 agriculture was able to maintain its role as an earner of foreign exchange.



**Figure 2: Agricultural production and trade, for South Africa, for 1990-2005**

Source: FOASTAT (2007)

### 1.4.1 TRADE IN AGRICULTURAL PRODUCTS FOR 2006

Tables 4 and 5 present the top ten agricultural imports and exports. Rice topped the list of imports at about R1.678 million, followed by ethyl alcohol at R1.501 million in 2006. At the top of the list for exports is wine at R3.565 million, followed by citrus at R3.525 million and sugar at R2.573 million. Maize features in both tables showing a high degree of intra-industrial trade.

**Table 4: Values (Rand terms) of the top 10 import products**

Product	Value in 2006 in R Million	Weighted Avg Share -% (97 - 06)
Rice	1,678	9.0%
Ethyl alcohol	1,501	6.2%
Wheat	1,014	5.8%
Oil-cake	1,069	5.4%
Palm oil	793	4.4%
Meat of Poultry	1,244	4.2%
Tobacco	565	3.9%
Food preparations	794	3.5%
Maize	757	3.0%
Soya-bean oil	879	2.9%

Source: SADC Trade Database

**Table 5: Values (Rand terms) of the top 10 export products**

Product	Value in 2006 in R million	Weighted Avg Share -% (97 - 06)
Wine	3,565	11.3%
Citrus fruit, fresh or dried	3,525	10.6%
Sugar	2,573	8.8%
Grapes	1,981	7.1%
Apples, Pears and Quinces	1,530	5.5%
Fruit, nuts and other edible parts	1,124	5.1%
Maize	972	4.5%
Fruit Juices	973	3.2%
Fish fillets and other Fish meat	424	2.3%
Frozen Fish	545	2.3%

Source: SADC Trade Database

In Tables 6 and 7 South African agricultural export and imports by the main regions are presented respectively. In terms of exports, the EU remains the main destination for South African agricultural products.

In terms of imports, MERCOSUR remains the leading source of South Africa's agricultural imports. SADC as an origin of imports maintained its position as the 3<sup>rd</sup> most important source of agricultural imports over the last three years.

Compared to 2006, the SADC region performed better as an export market for South Africa in the first half of 2007 ranking 3<sup>rd</sup> as opposed to 6<sup>th</sup> in 2006.

**Table 6: South African agricultural exports by the main regions**

Region	EXPORT (R'000)					Rank 2006	Proportion 2006	
	Jul-07	2007*	2006	2005	2004		% Total	Cum.
EU	766,936	5,393,983	6,146,405	6,718,762	6,610,215	1	43.1	43.1
N/E- ASIA	296,204	1,468,256	2,320,092	2,777,047	2,367,331	2	16.3	59.4
SADC	93,315	660,107	780,345	659,887	586,435	6	5.5	64.9
MIDDLE-EAST	129,183	578,267	954,027	755,362	637,274	4	6.7	71.6
NAFTA	87,105	496,305	1,496,720	1,856,962	1,180,407	3	10.5	82.1
CHINAS	125,717	489,861	883,206	749,139	606,134	5	6.2	88.3
ASEAN	80,945	461,239	544,924	523,997	353,716	7	3.8	92.1
EAST EUROPE	101,049	312,047	440,598	261,377	351,131	8	3.1	95.2
WEST AFRICA	19,961	115,238	146,241	173,162	113,532	9	1.0	96.2
EFTA& OTHERS	13,349	106,272	142,158	118,964	106,271	10	1.0	97.2
OTHER	58,823	350,541	400,829	467,688	515,890		2.8	2.8
<b>Total Region</b>	1,772,587	10,432,116	14,255,545	15,062,347	13,428,336		100	100

\* - Jan 07 to July 07

Source: The Department of Trade and Industry: [www.dti.gov.za](http://www.dti.gov.za)

**Table 7: South African agricultural imports by the main regions**

Region	IMPORT (R'000)					Rank 2006	Proportion 2007	
	Jul-07	2007*	2006	2005	2004		% Total	Cum.
MERCOSUR	251,460	1,356,289	1,512,169	711,875	1,216,932	1	31.3	31.3
ASEAN	105,701	695,624	980,971	730,030	648,735	2	16.0	47.3
SADC	96,729	654,710	938,395	891,128	1,185,445	3	15.1	62.4
NAFTA	110,757	495,370	518,692	681,189	765,262	4	11.4	73.8
EU	53,212	354,286	863,849	589,644	495,608	5	8.2	82.0
SAARC	31,648	226,867	318,857	198,780	202,265	6	5.2	87.2
CHINAS	43,140	182,563	283,773	178,800	192,747	7	4.2	91.4
WEST AFRICA	12,944	77,886	85,065	72,367	83,360	11	1.8	93.2
N/E AFRICA	12,445	72,064	98,245	57,972	63,935	10	1.7	94.9
MIDDLE EAST	5,319	65,912	98,965	108,961	75,522	9	1.5	96.4
OTHER	27,553	157,073	386,418	470,634	638,100		6.2	6.2
<b>Total Region</b>	750,908	4,338,644	6,085,399	4,691,380	5,567,911		100	100

\* - Jan 07 to July 07

Source: The Department of Trade and Industry: [www.dti.gov.za](http://www.dti.gov.za)

## SECTION 2 - NEGOTIATIONS

### 2.1 WORLD TRADE ORGANISATION-WTO

By  
Günter Müller<sup>2</sup>

The Doha Round<sup>3</sup> commonly known as the Doha Development Agenda (DDA) was launched in Doha, Qatar in 2001 and constitutes a package deal with the premise that *nothing is agreed until everything is agreed*. The Round was suspended in July 2006. The suspension was mainly because of differences in the agricultural negotiations on the reduction of domestic support and improvements in market access. Negotiations resumed in January 2007.

Considerable progress has been made since the launch of the Doha Round in November of 2001. Highlights of the Round are the July Framework and the Hong Kong Ministerial Declaration. Notable in the Hong Kong Declaration is the agreement to eliminate all forms of export subsidies by 2013.

The major feature distinguishing the Doha Round from the Uruguay Round is the emergence of the G-20 and the active participation and unity amongst developing countries. It should also be noted that the Doha Round is much broader than the Uruguay Round, with substantially more at stake in various areas of international trade and domestic economic policy.

The DDA has now once again reached a critical stage with continued progress hinging on major political decisions. The objective remains to agree on modalities before the end of 2007 or early 2008. If an agreement is not reached within the next few months, a real danger exists that the hard work done to date in the negotiations could be lost through a lengthy suspension.

In agriculture, the major outstanding issues remain the size of the actual tariff reductions and the size of the reduction in trade and production distorting domestic support. In this regard, the major focus is on the European Union and the USA, respectively. Further, the selection and treatment of sensitive and special products, the Special Safeguard Mechanism for developing countries, product specific disciplines in relation to domestic support, the scheduling of the phase-out of export subsidies, export credits, liberalization of tropical products and preference erosion are some of the remaining unresolved issues.

For South Africa, the major objectives in the agricultural negotiations are the improvement of market access for

products with export potential, a substantial and real reduction in trade and production distorting support and a strong link between further market access commitments for South Africa and other developing countries and a reduction in trade and production distorting support by developed countries.

Further, to do justice to South Africa's developmental needs, policy space needs to be maintained in the domestic support pillar to enable effective implementation of South Africa's land reform, farmer settlement and rural development programmes.

In July 2007, the Chair of the agricultural negotiations, Ambassador Crawford Falconer, released his first draft modalities paper for the agricultural negotiations. This draft modalities paper represents substantial progress in the agricultural negotiations; however, major gaps remain before modalities can be agreed.

After close to six weeks of detail discussions based on the Chair's modalities paper in September and October of this year, some of these gaps could be closed, but major differences remain. The USA, for example, indicated its willingness to work within the ranges indicated by the Chair for the reduction in domestic support but has given no indication on the accompanying rules and disciplines. Equally, little progress has been made on the selection and treatment of sensitive and special products.

Of special concern for developing countries is the balance in the ambition between agriculture and non-agricultural market access (NAMA). It is the view of most developing countries that the level of ambition must be established in the agricultural negotiations. At this stage, the NAMA negotiations are more advanced than the agricultural negotiations and much more ambitious in demands on developing countries. This leaves very little space for negotiation and leverage to developing countries and does not reflect the developmental nature of the round.

It is expected that new agriculture and NAMA modalities texts will be released by the middle of November 2007. Progress in the DDA will to a large extent be dependant of the content of these draft modalities. The key will be a reflection of the development imperative of the Round and an adequate balance in the demands on developed and developing countries.

More information on the DDA can be found at [www.wto.org](http://www.wto.org).

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<sup>3</sup> The Doha Round is the ninth round of WTO negotiations which was launched in November 2001 at Doha.

## 2.2 AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA)

The African Growth and Opportunity Act<sup>4</sup> (AGOA) is aimed to include finance, infrastructure development and product quality standards in addition to current trade facilitation aspects.

Bilateral trade between Sub-Saharan Africa and the USA was \$71 billion in 2006. Of this trade the value of the products traded which are classified as AGOA eligible was valued at \$44.2 billion (SADC trade website).

### 2.2.1 Make AGOA Work for Black Farmers

By  
*Helieh Konstant*<sup>5</sup>

The unilateral preferential market access to the US is a rare advantage for African countries to develop export products for a market that has pockets of special sentiment towards economic growth in the continent. A good example is the Whitaker Group which brings together African American business people, sympathetic towards the marginalization and extensive poverty experienced by many Africans, and motivated to do business with the countries of Africa with the goal of empowering and assisting them towards economic independence. In the case of South Africa, these business people are particularly keen on dealing with black producers directly.

At the last AGOA Forum held in Accra, Ghana, in July 2007, representatives of American business stressed a number of important factors with regard to doing business with African producers. These were:

- The strength and capacity of the producers' organizations: They are willing to work with and assist interested organizations to provide training with regard to quality standards, trade administration and market information. It should be noted they would prefer to work with producers' organizations rather than individual exporters.
- Connection with reliable agents in the US: Producers' organizations need to establish connections with reliable agents in the US so that they can market their products widely.
- Supply consistency: Export readiness for producers should be achieved by supplying sufficient quantities of a product, on a regular basis, of a quality acceptable to the importing market. Individual producers should have a

common vision, be properly organized and be able to collaborate if they want to export successfully under AGOA.

- Creation of producers organizations at the regional level: Producer organizations that are spread over two or more countries tend to be stronger. This is largely due to the fact that they are already exposed to handling business beyond their own borders. Regional organizations are also more effective in terms of sharing the benefits of any assistance from American buyers.

Black producer organizations in South Africa therefore have an opportunity to deal with African American business people in the US, on terms that will benefit their organizations, with regard to capacity building and the development of the emerging farmers, as well as reaping the benefits of preferential access under AGOA.

## 2.3 SADC-EC EPA NEGOTIATIONS

By  
*Joyce Letswalo*<sup>6</sup>

The aim of Economic Partnership Agreements (EPA) negotiations is essentially to replace the non-reciprocal trading preferences that ACP countries have been receiving from the EC (under the Lomé Agreement) with reciprocal free trade arrangements. The EPAs are being negotiated on a regional level. They will also have to be in compliance with the WTO rules of non-discriminatory trading arrangements. EPAs are expected to be in force from 2008 onwards.

The EC has entered into these partnerships with groups of countries in each ACP region. These include the Africa configurations i.e. ECOWAS, CEMAC, ESA and SADC EPA Group, as well as some Caribbean and Pacific groupings.

The SADC EPA Group consists of 8 countries: all the members of SACU (Botswana, Lesotho, Namibia, Swaziland and South Africa), Angola, Mozambique and Tanzania. The EC and SADC EPA group negotiations continued after the EC formally accepted South Africa to form part of the SADC EPA group. For South Africa, these EPA negotiations effectively constitute the review of the Trade Chapter of the SA/EU Trade Development and Cooperation Agreement (TDCA). The TDCA is a free trade agreement between SA and the EU, which entered into force in 2000.

<sup>4</sup> African Growth and Opportunity Act (AGOA) is a preferential market access (duty free) for certain products into the United States of America's market.

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The EC offered all ACP countries, except South Africa duty free quota free (DFQF) market access for all products except for sugar and rice, where a transitional period will apply. It tabled separate tariff liberalization offers for SA in the areas of basic agriculture products, processed agricultural products and various areas of non-agricultural products. SACU submitted a combined offer to the EC, which took into account BLNS sensitivities.

SA has submitted a list of offensive interests to the EC. Discussions to finalise tariff offers will continue during the next round of negotiations, scheduled to be held in November 2007.

### SECTION 3 - CONTRIBUTED ARTICLES

This section presents contributions from Mr. Lambert Botha and Mr. Chris Gladwin. The first article provides arguments on the potential to increase support to South African agriculture, while the second article looks into the issue of Geographical Indicators and the implications for South Africa.

#### 3.1 DOES THE SO-CALLED “GREEN BOX” PROVIDE SCOPE FOR ADDITIONAL SUPPORT FOR SOUTH AFRICAN AGRICULTURE AND RURAL COMMUNITIES?

By  
*Lambert Botha*<sup>7</sup>

There was a lot of talk following the release of the recent, 2006, study compiled by the Organisation for Economic Development and Cooperation (OECD) on agricultural support in South Africa. The report indicated that South Africa's *Total Support Estimate* (i.e. a combination of producer support and general services support) was on average (from 2001-03) 0.6% of GDP. This level of support is in stark contrast with the OECD average of 1.2% of GDP. The issue which raises a concern as to whether the South African farming sector is sufficiently gaining from the policy space, provided for in the World Trade Organisation Agreement on Agriculture, for farm support.

Discussing the finer details of so-called “green box” subsidies, provided for in Annex 2 of the Agreement on Agriculture, is beyond the scope of this article. Having said that, it is however worth mentioning that any form of support purporting to fall in this category must comply with the fundamental prerequisite namely, that it must have no, or at most minimal trade distorting effects or effects on production. In addition, support needs to be provided through a publicly - funded programme, not involving transfers from consumers and should not have the effect of providing price support to producers. Such

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“green box” support measures are perfectly allowable under the WTO subsidy regime.

The Agreement makes provision for several types of publicly funded programmes, including decoupled income support as well as payments for relief from natural disasters. Support for research, pest and disease control, training services, advisory services (including means to facilitate the transfer of information and the results of research to producers and consumers), inspection services, marketing and promotion services and infrastructural services fall under “general services” which can be the target for support measures.

The proposed wine plan for the reorganization of the EU wine market released on 4 July 2007 may serve as an example. Several support measures to be provided to wine farmers in terms of the plan could possibly be classified within the definition of “green box” support. The EU is to provide approximately €1.3 billion/year in the form of various support programmes to its wine farmers. At least €120 million/year is earmarked for the promotion of EU wine outside the EU. To establish whether some or all of these programmes qualify for “green box” subsidies calls for a study on its own.

It would be unreasonable to compare the *levels* of support provided to EU farmers to what the South African budget can afford. However, it may be worth the while to compare the *type* of support programmes made available by our competitors to their farming communities to what are available in South Africa. A close reading of Annex 2 together with other provisions of the Agreement on Agriculture such as Article 6.2<sup>8</sup> allowing for “*government measures of assistance, whether direct or indirect, to encourage agricultural and rural development*”, “*investment subsidies*” and “*agricultural input subsidies to low-income and resource-poor producers*”, may well provide a helpful framework within which the South African farming community could engage with the South African Government on the issue of farm support.

#### 3.2 GEOGRAPHICAL INDICATIONS - SYSTEMS OF PROTECTION AND IMPLICATIONS FOR SA

By  
*Chris Gladwin*

Geographical Indications (GIs) have recently been called the sleeping beauty of the intellectual property world<sup>9</sup>. This because while they have been around a long time, and are recognized by most

<sup>8</sup> Article 6.2 does not fall within the scope of the green box and is available for developing countries only.

<sup>9</sup> Statement made by WIPO lawyer, Marcus Hopperger at the 2007 International Symposium on GIs (quoted in the WIPO Magazine, July 2007).

countries at national and international level (in terms of various multilateral and bilateral agreements), there has only recently been an awakening to their potential business value. South Africans were to some extent exposed to the concept through the European Union (EU)/South African (SA) Trade Development and Cooperation Agreement (TDCA). In terms of the Wines and Spirits Agreement (which forms part of the overall agreement) South Africa agreed to phase out the use of certain names including port and sherry, which are registered GIs in the EU. It follows that, in the public opinion, GIs were perceived to be a danger, associated with losses and were seen as a tool used by the rich world to the detriment of South Africans.

One of the more confusing aspects of GIs is the variety of means employed by individual countries and trading blocks to protect GIs. A number of different approaches (or a combination of different approaches) are followed including *sui generis* registration in terms of specific GI laws, unfair competition laws, consumer protection acts, agricultural quality control measures and laws governing trademarks, collective marks and certification marks. Adding to this confusion is the fact that in South Africa a specific *sui generis* system applies for wines and spirits (Liquor Products Act of 1989), while a combination of the other systems would apply in the case of other farming products<sup>10</sup>.

Most countries are however members of the WTO and it is in terms of TRIPS<sup>11</sup> (Agreement on Trade Related Aspects of Intellectual Property Rights) that we have the most commonly accepted definition of GIs. TRIPS also provides the basis for the minimum level of protection afforded to GIs that all WTO Members States are bound to adhere to (including South Africa).

Article 22 of TRIPS defines GIs as *...indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.*" The good in question therefore has a certain quality or reputation that is necessarily linked (and attributable) to the area or region of production. This is best illustrated by an example. Comté cheese has been produced in the Franche-Comté region of France since the 12<sup>th</sup> Century. This is a mountainous region subject to harsh winters and this has traditionally forced farmers to convert milk into very large round cheeses that can be kept for a long period (through the long winter months). Due to the large quantities of milk required to make the cheese, farmers had to organize their production around certain local cheese dairies. The quality and reputation of the cheese is rooted in the agro-ecological conditions found in the area and on the local knowledge (with regard to animal husbandry, cheese manufacturing and

maturing). Comté cheese is a protected GI in terms of the French as well as the EU GI systems.

A South African example would be the reputation and quality associated with wine from the Paarl or Stellenbosch region in the Western Cape. When local (or international) consumers pick up a bottle of Stellenbosch wine they associate the product with the traditional wine producing Stellenbosch area, the rolling hills, the historic buildings and the mountains in the background. And they expect a certain quality that is associated with these images from the wine in the bottle. This quality or reputation is backed up by a legislated Wine of Origin System which ensures that what is claimed on the label about the origin of the wine is true.

As a WTO member South Africa is bound to afford the basic protection envisaged in Article 22 of TRIPS for non wines and spirits GIs, and Article 23 for wines and spirits GIs. The means of protection is not specified and as mentioned earlier WTO Member States employ a wide variety of approaches. Two broad approaches can be distinguished however. The first involves designing specific legislation aimed at the protection of GIs while the second involves protection via existing intellectual property and competition laws. These differing approaches also define the battle lines of the current multilateral negotiations on TRIPS. It is largely the so called "old world" countries (although specific legislation does exist in India, Thailand, China, South Korea and Brazil) that have adopted the first approach while the so-called "new world" countries, including the US, Australia and Canada have adopted the second approach. As mentioned earlier South Africa has adopted both approaches. It should be remembered that GIs are a relatively new area of intellectual property (IP) in many WTO Member States in contrast to many European Countries where they are already embedded in existing systems. The current main points of debate at a multilateral level relate to the establishment of a multilateral system of notification and registration of GIs for wines, and the extension to other products of the higher level of protection which the TRIPS Agreement (Article 23) currently provides for GIs for wines and spirits. [We plan to explore the current state of negotiations and South Africa's position more comprehensively in a future article.]

In the case of non wines and spirits products South Africa meets its TRIPS obligations to protect GIs through a combination of consumer, unfair competition and trade mark laws. The minimum level of protection required by TRIPS is provided, and the law of trade marks is currently the only means to establish a registered GI in South Africa.

Why is a discussion on systems of protection for GIs relevant? A number of products can be

<sup>10</sup> There are currently no products (other than wines and spirits products) that are registered as GIs in South Africa – although the framework does exist for possible registration.

<sup>11</sup> South Africa as a WTO Member is a signatory of the TRIPS Agreement.

identified in South Africa that could be viewed as GI type products. By GI type products we mean products that similarly to the TRIPS definition of GIs have a certain reputation or quality that is attributable to the region or area of production or origin. Examples include honeybush tea, rooibos tea and karoo lamb. What we have seen in the example of rooibos tea (where the rights to use the name rooibos in the US were exclusively registered in the name of a South African company and subsequently sold to a private US company) is that the reputation of products that are considered uniquely South African (originating in and linked to specific regions or areas), could potentially be usurped and used to generate commercial value on products not from the region or potentially not even from South Africa. What is worse in the latter case is that no benefits would accrue to South Africans on a product where the reputation has been established and nurtured exclusively in South Africa. The rooibos example led to renewed interest and research in this area. And one of the aspects looked at was how best can South African interests be protected with regard to GI type products to avoid a similar situation in future.

Obviously one of the potential options would be to register these products as GIs. As mentioned the only route currently open to applicants in South Africa (in the case of non wines and spirits products) is registration through the law of trade marks. However there are significant differences with regard to the application process, the institutional frameworks in place and the system of enforcement between this route and what would apply in the case where a country has specific GI legislation. There is an ongoing debate regarding the appropriateness of the current South African system in light of need to adequately protect GI type products while also developing local communities. And the view has been expressed that it might be more appropriate for South Africa to introduce specific legislation for GIs. In order to make a positive contribution to this debate we plan to explore the two systems in more detail in a future article looking at some of the potential advantages and disadvantages.

#### SECTION 4 – ABSTRACTS FROM SELECTED STUDIES<sup>12</sup>

This section presents summaries or abstracts of studies conducted through funding from the NAMC and/or in collaboration with the NAMC secretariat.

##### 4.1 Examining the India, Brazil and South African (IBSA) triangular trading relationship

By  
*Ron Sandrey and Hans Grinsted Jensen*

##### Summary and general conclusions from the analysis

The question of a closer trading relationship between India, Brazil and South Africa (the so-called IBSA

countries) has generated a lot of interest. Following a comprehensive examination of the most recent merchandise trade flows between the relevant countries this paper uses a computer model to look at the possible economic results from removing all merchandise<sup>13</sup> tariff barriers between the three IBSA partners.

This analysis includes the other SACU members of Botswana, Lesotho, Namibia and Swaziland (BLNS) joining as well, but ignores the political complication of Brazil also belonging to a free trade agreement. The study does not model the estimation and removal of non-tariff barriers, services trade or some of the more sophisticated but speculative gains from technological change or other dynamic effects. Recent research, some of which is cited in the paper, has highlighted that most of these fancier assumptions are misleading to policy makers.

An analysis of the data shows all three IBSA countries to be important global trading nations, with global exports from Brazil, South Africa and India of \$118 billion, \$52 billion and \$100 billion respectively during 2005, and similarly imports of \$74 billion, \$55 billion and \$138 billion for the same countries. The respective bilateral trade between the IBSA partners is also important, with most of the pairings ranking in the high teens-early twenties as bilateral partners<sup>14</sup> for both exports and imports and a range from \$0.32 billion (South African exports to Brazil) to \$2.65 billion (Indian imports from South African) in value.

**The IBSA agreement is potentially good for all major parties with similar welfare gains of between one to one and a half billion dollars at 2015, but with this translating into larger gains for South Africa when measured as a percentage of real GDP** as South Africa has a smaller economic base to work from. The gains to South Africa are spread across the contributing factors of allocative efficiency, labour's contribution, capital and the terms of trade gains from both (a) better relative prices between exports and imports and (b) more efficient use of capital. As is generally the case in this type of analysis, those countries not part of the FTA find that their overall welfare declines modestly, and here the biggest welfare decline in dollar terms is in the EU, with all other countries/regions except Nigeria also facing lower welfare. Unfortunately this group also includes both Botswana and 'rest of SACU' or the

<sup>12</sup> Full versions of these papers are available online at [www.tralac.org](http://www.tralac.org) as working papers.

<sup>13</sup> We have used the interchangeable terms of 'merchandise', 'goods' and 'products' either together or separately in this paper. They generally refer to the actual physical items that are traded. The celebrated definition from the *Economist* magazine is that these are items that hurt when dropped on your foot, and the terms are used to preclude the trade in services.

<sup>14</sup> For example, during 2005 Brazil was South Africa's 11<sup>th</sup> main source of imports (\$1,305m) but only 30<sup>th</sup> destination of exports (\$317m).

model aggregation of Lesotho, Namibia and Swaziland combined, although these welfare losses are very low and may be misleading given that intra-SACU trade and therefore any changes in this trade will not be picked up in the model's database given the poor quality of this trade data.

Another feature of the analysis is that it uses as a 'base' or starting platform for the simulation to assess the FTA against a trade picture that includes all the known global updates, and this includes simulating the effects of the Trade, Development and Cooperation Agreement (TDCA) with the EU in such a way that enables us to isolate these effects from the base. Results from this TDCA simulation suggest that a full and comprehensive IBSA FTA is of greater value (in fact about double the welfare gains) to South Africa than the partial TDCA as it now stands. This is mainly because (a) South Africa faces manufacturing tariffs that are modest, thus the preferences are not that significant, and, more importantly, (b) South Africa gains little preference into the highly protected European agricultural market from the TDCA. Conversely, for IBSA, South Africa is deemed to have gained comprehensive access into the relatively highly protected Indian market, thus gaining a considerable advantage over global competitors in both agricultural and non-agricultural goods.

The first section of the full report examines the current trade flows between the IBSA partners and hypothesises that the interesting results for South Africa may concentrate upon the sugar trade in agriculture and the motor vehicle trade in the non-agricultural sectors. Neither of these proved to be significant for South Africa. Sugar production actually declines in South Africa despite gaining better access into India, as this access is taken up by Brazil rather than the presumably less efficient South African production. Similarly for motor vehicles, where South African production declines by 1.6 percent in the face of more efficient production and consequently imports from Brazil in particular and to a lesser extent India.

Given the extent to which China has displaced South African domestic production of clothing with its dramatically increasing exports over the last few years, it should be no surprise that India, although currently not a major source of South African imports but a country with enormous production capacity perhaps second only to China, should compete strongly in South Africa if tariffs were to be eliminated. Clothing production declines by 8.7 percent, and this is a massive decline for an individual sector.

However, **the major finding from this GTAP exercise, and one not anticipated from the trade data, is the massive gains to South Africa from attractive access into India from a zero rather than 15 percent duty on gold.** This is a happy juxtaposition on the world's leading gold producer meeting a large jewellery exporter that enables both partners to prosper as India's costs are reduced. Indeed, it is this sector that is driving a

considerable portion of the welfare gains to both South Africa and India, and the policy implication is very clear: reducing the Indian tariffs on gold is a win-win situation and must become a priority for negotiators.

The study provides three alternative scenarios to judge the full and complete removal of merchandise tariffs. These are (a) a 50 percent tariff reduction rather than the full 100 percent, (b) a realistic Doha Round agreement, (c) a full 100 percent IBSA simulation post-Doha. Results for (a) show that this gives 43 percent of the gains for South Africa and a lesser 30 percent for Brazil but is much better for India who maintain 62 percent of their full gains as the relative prices move around and consequently the trade outcomes are not a linear 50 percent. **Results for Doha (b) show that gains from a possible Doha agreement are extremely modest for agriculture in particular for all parties once special and sensitive exemptions are made to tariff reductions globally.** However, much larger global gains in non-agricultural sectors (NAMA) compensate for this disappointing agricultural outcome for South Africa. Results from (c) show that since the Doha results are modest, their diminution of the original IBSA 100 percent results are similarly modest for South Africa.

**Overall, the results for the agricultural sector are modest.** Initial agricultural products have been a very minor part of South Africa's exports into India's heavily protected market, while agricultural imports from India are concentrated in the duty-free imports of rice. Brazil has become a major global player in agricultural exports, and sends large quantities of soybean products and poultry meats, pork and beef to South Africa. Following the FTA South Africa increases **exports** to India by \$184 million and Brazil by an insignificant \$7 million. Overall some \$144 million of the increase is trade diversion from previous destinations and leaves a global increase of only \$46 million overall. Increases are in vegetable oils and fats (\$69m) and wool (29m) to India take place, while there are global reductions in exports of (a) vegetables, fruit and nuts and (b) other food products. For **imports**, there is a similar but slightly larger overall increase of \$93 million, driven mostly by increased imports from Brazil of \$75 million (other crops, other meats and vegetable oils and fats).

The implication for the **BLNS countries** of Botswana, Lesotho, Namibia and Swaziland are disquieting, as they see declines in their welfare. This mostly comes from terms of trade losses as the better access for South African non-agricultural goods into India consequently increases the relative prices for SACU imports from South Africa. Exports of sugar products (we presume from Swaziland) to India increase, but this is mostly at

the expense of reduced exports to the EU overall. Exports from Botswana reduce marginally in the manufacturing sector as their costs increase (but also marginally). Imports from India increase, but almost all of this is a substitution away from the traditionally-based South African source. There are very low and insignificant changes in the trade flows with Brazil. In agriculture, there are no (or almost no) changes to trade flows other than the sugar exports to India.

Finally, the study undertakes some alternative scenarios around the unskilled labour market closure assumptions in the primary model. It expands from the standard assumption that employment is fixed and the adjustment is through the wage rate to use the closure whereby unskilled labour supply is a function of the unemployment rates in each country and the adjustment therefore varies between changes in employment and the wage rate depending upon that initial unemployment rate. The study also simulates a scenario where the closure has the real wage fixed and all adjustments must come through the number of unskilled persons employed. Here the results are striking: employment is up by 2.84 percent, welfare more than doubles from the primary model results to \$3,015 million and inflation is a significantly lower 0.47 percent. This dramatic result clearly highlights that if South Africa is serious about increasing both welfare and employment in the economy, **more policies should be aimed at creating jobs rather than rewarding those actually in employment.**

#### **4.2 SOUTH AFRICAN AGRICULTURE: A POSSIBLE WTO OUTCOME AND FTA POLICY SPACE — A MODELLING APPROACH**

By

*Ron Sandrey and Hans Grinsted Jensen*

##### **Summary and general conclusions from the analysis**

The stalling of the talks in the Doha Round at the World Trade Organisation (WTO) in Geneva are leading to questions about the value of such a Round for South Africa, and against this setting there is a feeling that the Republic may have gone too far in liberalising its agricultural sector and that perhaps an increase in border tariffs may be justified given the continued global distortions to agriculture.

This paper uses the Global Trade Analysis Project (GTAP) computer model to simulate (a) a likely outcome for agriculture from the Doha Round of the WTO and (b) the impacts for South Africa of raising its tariffs by 25 percentage points across all agricultural sectors. A feature of the analysis is that it uses as a 'base' or starting platform for the simulation to assess the FTA against a trade picture that includes all the known global updates. This then enables us to isolate the effects of only the particular scenario in either (a) or (b) being investigated. Following the analysis of part (b) the report then explores whether South Africa actually has the policy space within its multilateral World Trade Organisation (WTO) commitments and bilateral Free

Trade Agreement (FTA) commitments to undertake such a unilateral action. The institutional issue of South Africa undertaking these actions within the mandate of the Southern African Customs Union (SACU) Agreement is ignored, although the implications from the model's output for the wider SACU is explored.

To set the scene a preamble to the WTO is provided. This includes the major issues from the agricultural negotiations in the WTO, an examination of the influence of the previous WTO Uruguay Round on agriculture in South Africa, and a review of some of the more recent analyses of a likely Doha Round outcome for African and South African agriculture. The striking feature of the latter is that the estimated benefits to agriculture globally are reducing as (1) the limitations of a likely outcome from Doha are being realised and (2) more realistic trade modelling is being done by researchers.

Next, a profile of South African agricultural imports is given to set the scene. This includes an analysis of the changes in the trade over the last ten years, imports by destination, and the main import sources with their tariff rates and associated trade preferences.

##### **The likely Doha outcome**

In this part of the report the trade model used for simulations is introduced and described. Firstly, the 'base' or platform that takes into account all known changes and simulates South African trade through to 2015 is developed. From there the assumptions pertaining to the most likely Doha outcome (assuming there is one) are placed into the model and then an outcome is simulated. An important part of these assumptions is that there will be a degree of flexibility that enables countries to preserve their tariff protection on a few selected lines, and this protection is allocated by the model to the most heavily protected tariff lines (**the so-called special and sensitive products**).

**The global welfare gains from Doha are estimated to be some \$47.5 billion, with a lesser \$2.5 billion of this from agricultural reform and the greater \$45 billion from the liberalisation of markets for non-agricultural goods. South Africa gains some \$318 million, with \$42 million of this from agricultural reform and the remainder from non-agricultural reforms.** The big gainers are China, Japan, EU and our 'rest of the world', while the US suffers a loss in welfare. Botswana has a loss in welfare of some \$9 million, while the 'rest of SACU' aggregation of Lesotho, Namibia and Swaziland gains by \$13 million. We show that these results are consistent with those presented in the literature review of recent analysis, and reinforce that the shielding of some sensitive

and special products considerably reduces the global gains from agricultural liberalisation.

By product, the **gainers in South Africa are the beef and sheep meat and dairy products sectors** where output and consequently exports increase. Production and trade in the wheat and sugar sectors decline (where South Africa largely chose to utilise its protective flexibility in the sugar sector). Beef exports to the EU and 'rest of the world' are the big export gainers. There is a **very slight increase in agricultural imports**.

#### **Increasing South African agricultural tariffs**

This part of the study was undertaken as a separate exercise **raising all tariffs by a uniform 25 percentage points** from the original base that did not consider a Doha Round outcome. Overall, the welfare results were positive for South Africa to the extent of an increase of \$45.4 million at 2015 despite a reduction in allocative efficiency in the South African economy. Botswana has a reduction in welfare (by \$15m), but the other SACU aggregation benefited by \$27.2 million. Most productive activities increased, while trade flows of both exports and imports declined as more domestic production was used locally. **On the face of it this move is marginally welfare enhancing for South Africa and South African agriculture.**

The **problem comes when the 'policy space' available to make these changes is considered**. Here we find that the combination of breached WTO bound tariffs, the lower and similarly bound WTO in-quota tariff rates and bilateral tariff preferences negotiated with the EU and non-SACU Southern African Development Community (SADC) members means that there is little or no 'policy space' available to make these changes except in wheat, possibly other grains (maize) and vegetable oil seeds (an import that is used as feedstuff in the domestic chicken sector). **While this lack of space and the downstream effects of increasing input costs need to be further considered at a more detailed level, it appears that the limited policy space available will restrict South Africa's abilities to unilaterally raise border protection for the agricultural sector.**

#### **4.3 SOUTH AFRICAN AGRICULTURE PROTECTION: HOW MUCH POLICY SPACE IS THERE?**

By

*Ron Sandrey, Olubukola Oyewumi,  
Bonani Nyhodo and Nick Vink*

#### **Summary and key points**

South Africa has negotiated two major preferential access agreements (with others 'in the pipeline'). The most important ones are the TDCA, with the EU and the duty-free access granted to other SADC countries. Given these international and bilateral obligations there may be limited scope for South Africa to provide more support to the agricultural sector by raising tariffs.

By products, the main agricultural imports are rice, wheat, whiskies, soybean products for animal feeds, chicken and palm oils. By source, the EU and Mercosur (Brazil and Argentina) are the most important ones with nearly one quarter share of the imports each and they are followed by SADC countries collectively and then the US. Over the last ten years agricultural imports have been growing at 15.5 percent annually, a figure that is well above the average growth of 12.5 percent for all South African imports combined.

The object of this paper is to assess the amount of 'policy space' that is actually available to increase this tariff protection to South African agriculture. We have used the World Trade Organisation (WTO) definitions for agricultural products, and sourced import data (expressed in US dollars) from the World Trade Atlas, applied tariff data from the Southern African Customs Union (SACU) Tariff Schedule and South African bound tariff rates and tariff quota information from the WTO website. Note that we are only looking at tariff protection, and not examining other policy options such as support in the form of marketing and export promotion or assessing non-tariff measures impacting on the sector.

We have concluded that in general the tariff-raising policy space available to South African agriculture is limited because:

- Some 14.1 percent of the imports are 'locked' by the WTO bound rates, with another 7.5 percent almost at those bound rates.
- Another 22.9 percent is effectively 'locked' as at least 50 percent is sourced from the European Union (EU)/ Southern African Development Community (SADC), and this can be combined with an additional 15.2 percent 'almost locked' with at least 40 percent of the imports from these same destinations.
- This gives a total of 59.7 percent of agricultural imports that is, for all practical purposes, locked into the current tariff policy regime. Any changes to these tariffs would necessitate South Africa reneging on and renegotiating its international and/or bilateral and regional agreements.
- **Of the remaining imports**
  - (i) we have classified 14.6 percent as animal feed inputs, thereby raising the caution flag that increasing these tariffs will directly pass a cost increase onto poultry and meat producers;
  - (ii) we have isolated the imports of wheat (6.7% of the total) and argued that while there is policy space to increase there tariff rates we consider that they are staple foodstuffs;

- (iii) this leaves a grand total of only 19 percent of all imports where we see at least some policy space, but caution that the majority of imports in this category are subject to WTO tariff rate quotas (TRQ) obligations and thus not totally under the control of South African trade policy authorities.

#### Summary of the policy space available

<b>No policy space, as applied rates are at bounds (\$378.2m, 14.1 % of total imports)</b>					
Rice	\$230.0m	Oth animal prod	\$46.5m	Coffee	\$37.7m
<b>Very limited space, as EU/SADC imports combined &gt; 50% (\$611.8m, 22.9% total)</b>					
Spirits, etc.	\$185.8m	Processed food	\$129.3m	Cotton	\$69.0m
<b>Limited space, as EU/SADC imports still &gt; 40% (\$406.3m, 15.2% total)</b>					
Tobacco	\$77.7m	Animal feeds	\$67.3m	Fats/oils	\$61.4m
<b>Very limited space, as applied rates are close to bounds (\$200.8m, 7.5% total)</b>					
Casein	\$111.0m	Cocoa/choc	\$69.6m	Spices	\$20.2m
<b>Policy space, but a major animal feedstuff (\$391.4m, 14.6% total)</b>					
Palm oil	\$128.6m	Soybean cake	\$118.7m	Soybean oil	\$110.0m
<b>Policy space but a staple food (\$180.6m, 6.7% total)</b>					
Wheat	\$180.6m				
<b>Yes, there is clear policy space (\$507.5m, 19.0% total)</b>					
Poultry	\$147.2m	Sugar products	\$69.2m	Pork	\$47.3m

Source: tralac calculations

We have not assessed whether or not South Africa is in a position to increase its production of many of these agricultural products to replace imports should protection be increased or other forms of support such as marketing support be provided to the sector. This is a separate line of enquiry that also needs to be examined.

#### 5. SOME INTERESTING FACTS/ STATISTICS

##### Useful websites:

- <http://www.wto.org/>
- <http://www.sars.gov.za/tradestats/>
- <http://unstats.un.org/unsd/trade/default.htm>
- <http://comtrade.un.org/>
- <http://www.agoa.info/>
- <http://www.ita.doc.gov/td/industry/otea/>
- [http://www.customs.go.jp/toukei/info/index\\_e.htm](http://www.customs.go.jp/toukei/info/index_e.htm)
- <http://www.worldbank.org>
- [http://www.ic.gc.ca/sc\\_mrkti/tdst/engdoc/tr\\_homep.html](http://www.ic.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html)

- <http://ec.europa.eu/trade/issues/bilatera/data.htm>
- <http://www.dfat.gov.au/publications/stats.html>
- <http://trade-info.cec.eu.int/>
- <http://masetto.sourceoecd.org/>
- [http://mkacddb.eu.int/mkacddb2/statistical\\_form.htm](http://mkacddb.eu.int/mkacddb2/statistical_form.htm)

##### Facts/Stats:

- AGOA (including GSP) exports to the US by **South Africa** amounted to US\$1321mn from Jan to Aug 2007 (Source: USITC)
- AGOA (including GSP) exports to the US by **Nigeria** amounted to US\$17 777mn from January to August 2007 (Source: USITC)
- Geographical indicators (GIs): ([www.dgiovannucci.net/facts.htm](http://www.dgiovannucci.net/facts.htm))
  - Nearly 10,000 protected GIs globally;
  - Developing countries all together, have less than 10% of these;
  - EU = 5,250 protected GIs;
  - US = 950 protected GIs.
- Brazil has 19% of the world's arable land (i.e. 550 million hectares). Of this Brazil has only used approximately 55 million or 10% (Source: FAO)
- Brazil is the number 1 exporter of Soybean complex, Sugar/Ethanol, Beef, Coffee, Tobacco & Orange Juice (Source: SEFEX, 2005)
- According to the World Economic Forum's (WEF's) Global Competitiveness Index, South Africa has slipped from the 36th position last year to 44th this year (2007).
- According to the World Bank's Doing Business 2008 survey of global ease-of-doing-business rankings, South Africa has slipped from the 29<sup>th</sup> to 35<sup>th</sup> position.

Poverty is not natural. It is man-made and can be overcome and eradicated by the actions of human beings. Overcoming poverty is not a gesture of charity. It is an act of justice.  
-- NELSON MANDELA

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