

INTERNATIONAL *TradeProbe*

This is the second *TradeProbe* in a series of *TradeProbes* by the NAMC¹ in collaboration with the Department of Agriculture's Directorate: International Trade. 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;

- Trade statistics of wines of fresh grapes and fresh apples
- Brief overview of African Growth and Opportunity Act (AGOA)
- Five contributed papers

SECTION 1 – TRADE PROFILES

The previous edition of the *TradeProbe* outlined the top 10 agricultural export products in terms of value for South Africa at the HS 4 and 6 levels. In this edition two of the top 10 products are presented in more detail, namely: Wines of fresh grapes and fresh apples. Information presented per product pertains to leading world exporters, leading export destinations for South Africa and the share of exports going to each of these destinations.

1.1 Trade profile for wine (HS2204: Wine of fresh grapes)

Table 1 shows the leading world exporters of wines of fresh grapes in value terms (US\$). The total value of world wine exports in 2006 was US\$22,47 billion. The top three exporters were France, Italy and Australia. The only African country in the top 10 list of exporters in 2006 was South Africa at number 9 with an export value of US\$527,9 million.

There were only two South American countries in the list of top 10 exporters [Chile at number 5 (export value of US\$1,04 billion) and Argentina at number 10 (export value of US\$421 million)].

Table 2 shows the top 10 export markets for South African wine of fresh grapes. The United Kingdom (UK) is by far the largest export destination in terms of both value and quantity, followed distantly by the Netherlands and Germany as the second and third largest export destinations. These three markets have a combined value that is more than double that of the

other 7 markets together. It should be noted that no African countries are present in the top 10 export destinations for South African wines. The EU is the most important export region.

Table 1: World leading exporters of wines of fresh grapes (HS code: 2204)

Leading exporters	Export value 2006 (US\$ thousand)
World estimate	22,477,257
France	7,830,415
Italy	4,014,708
Australia	2,084,692
Spain	1,888,394
Chile	1,044,147
USA	834,824
Germany	796,913
Portugal	667,395
South Africa	527,954
Argentina	421,027

Source: ITC calculations based on COMTRADE statistics

Table 2: Export markets of South Africa's wines (2006)

Main destinations	Export value (US\$ thousand)	Export quantity (ton)
United Kingdom	148,571	85,703
Netherlands	57,068	35,475
Germany	56,829	38,017
Sweden	54,699	22,879
USA	38,295	11,308
Canada	28,877	10,920
Denmark	27,189	11,237
Belgium	16,212	7,715
Ireland	14,815	4,427
Finland	8,966	3,682

Source: ITC calculations based on COMTRADE statistics

Figure 1 shows the share (value) of South African wine exports to the top 10 markets. The top 10 export markets for South African wines absorbed 85 percent of wine exported by South Africa in 2006. The UK absorbed 28 percent, the Netherlands and Germany absorbed 11 percent each, Sweden absorbed 10 percent and the USA absorbed 7 percent.

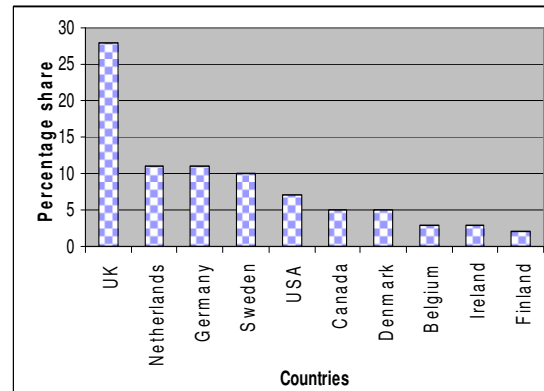


Figure 1: Export markets of SA's wine exports and their shares

Source: ITC calculations based on COMTRADE statistics

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1.2 Trade profile for apples (HS: 080810 Apples, fresh)

Table 3 presents the global value of apple exports, as well as the value of exports for the top 10 exporters of fresh apples in 2006. The total value of world fresh apple exports in 2006 was US\$4,4 billion (6,338,843 tons were exported). The top 3 exporters of apples in 2006 were France (US\$574,2 million), Italy (US\$562,7 million) and the USA (US\$560,7 million). Only two South American countries (Chile and Argentina) are represented. South Africa is the only African country included. South Africa ranked number 10 in the top ten list and exports from South Africa represented 4 percent of world exports.

Table 3: List of world leading exporters of fresh apples

Leading exporters	Export value 2006 (US\$ thousand)
World estimate	4,430,227
France	574,203
Italy	562,781
USA	560,781
Chile	503,388
China	372,561
Netherlands	295,242
Belgium	223,522
New Zealand	209,038
Argentina	193,493
South Africa	160,107

Source: ITC calculations based on COMTRADE statistics

Table 4 shows the top 10 export markets for South African apples. The value of apple exports by South Africa in 2006 amounted to US\$160,1 million with about 267,863 tons of fresh apples exported. The three leading export destinations for fresh apples, in 2006, were the UK (US\$64,9 million), Malaysia (US\$12,8 million) and Belgium (US\$8,8 million). Two African countries (Angola and Benin) and two Asian countries (Malaysia and Singapore) are included in the top 10 list of apple export markets.

Table 4: Export markets of fresh apples exported by South Africa (2006)

Main destination	Exported value (US\$ thousand)	Export quantity (tons)
United Kingdom	64,891	103,951
Malaysia	12,861	25,915
Belgium	8,860	12,831
Netherlands	7,857	16,146
Benin	5,701	9,030
United Arab Emirates	5,598	8,795
Singapore	4,490	7,674
France	4,210	7,244
Angola	3,944	5,399
Ireland	2,649	4,597

Source: ITC calculations based on COMTRADE statistics

Figure 2 shows the share (value) of South African apple exports to the top 10 markets. The UK is by far the largest market for fresh apples from South Africa, absorbing 41 percent of total apple exports. Malaysia (8%), Belgium (6%) and the Netherlands (5%) are the next biggest destinations. The top 10 export markets absorbed 77 percent of South Africa's fresh apple exports.

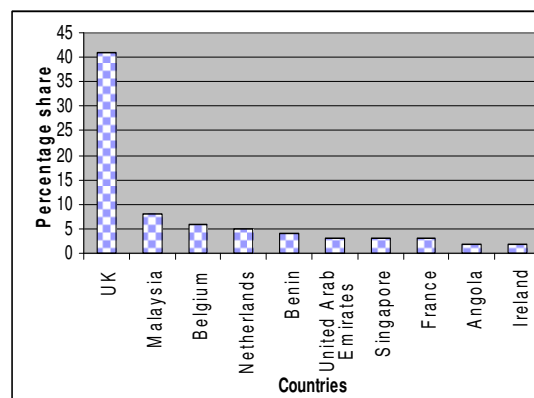


Figure 2: Export markets of SA's apples and their share of exports

Source: ITC calculations based on COMTRADE statistics

SECTION 2 - AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA)

This section provides an overview of AGOA. It is important to explore AGOA in more detail as it provides preferential market access for eligible countries to the USA market.

2.1 Brief overview

On 18 May 2000, President Clinton signed into law the Trade and Development Act of 2000, containing the AGOA. The Act provides unprecedented opportunities and aims to promote:

- (a) increased trade and investment between the US and sub-Saharan African countries by providing eligible African countries with liberal access to the US market;
- (b) economic development and reform in sub-Saharan Africa, moving across a wide range of industries, granting tangible benefits to entrepreneurs, farmers, and families; and
- (c) increased access and opportunities for US investors and businesses in sub-Saharan Africa.

The fundamental objective of the Act is duty free access into the USA markets for certain (eligible) products from eligible African countries.

AGOA was formulated to cover 8 years ending in 2008. With the expiry date drawing closer, there have been some proposed amendments to expand AGOA to go beyond 2015.

2.2 Who is eligible to benefit from AGOA

There were 34 sub-Saharan Africa countries eligible for the trade benefits given under AGOA in October 2000. The sequence of other countries that qualified includes Swaziland in 2001, Côte d'Ivoire in 2002, Gambia in 2003 and Central African Republic towards the end of 2003, while Eritrea was removed.

The total number of AGOA eligible countries is currently 39, while Sudan and Zimbabwe are not eligible AGOA members. Eligibility to AGOA is a prerogative of the USA president as outlined in section 107 of AGOA with some fundamental requirements that need to be met.

Some of these fundamental requirements include:

- Establishment or continual progress on market based economy;
- Democracy and good governance;
- Protection of intellectual property rights;
- Opening up of markets to USA trade and investment;
- Efforts to combat corruption and poverty reduction; and
- Protection of human rights and workers, and elimination of child labor.

For a country to be AGOA eligible it is inevitable that such a country must have qualified for the Generalized System of Preferences (GSP). But qualifying for the GSP does not automatically guarantee AGOA eligibility. Out of about 48 countries in sub-Saharan Africa about 45 are eligible for GSP while 37 are AGOA eligible.

2.3 Product list

More than 1,835 product lines are eligible for AGOA². All the products specified in the list come from the eligible countries. Of the AGOA eligible products, clothing and apparel are treated differently, as separate rules of origin apply to them. Moreover, clothing and apparel products are subjected to further compliance requirements to be eligible AGOA products. Only when eligible countries comply with the relevant rules of origin, is duty free access granted. Under this condition, it is prescribed that a certain percentage of value adding of a product must have taken place in the eligible countries' territory.

The product lines specified in AGOA are based on the 8-digit Harmonized System (HS).

2.4 Southern African Customs Union (SACU) statistics under AGOA

In the past four years the trade balance between SACU and the USA remained more or less the same. The USA continued to export more to SACU than it imported from SACU. **Figure 3** presents the imports from the USA and exports to the USA by SACU from since 2004. Since 2004 SACU recorded a trade deficit. Even though exports to the USA continued to grow over the depicted period, imports from the USA continued to outstrip exports.

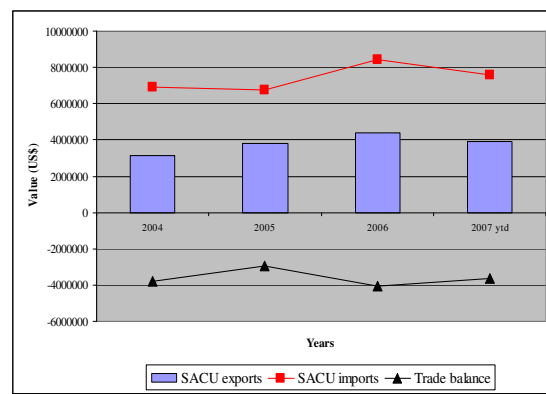


Figure 3: Overall SACU and USA trade since 2004

Source: AGOA.info

Table 5 presents trade statistics between the different SACU members and the USA. South Africa has by far the largest trade share with the USA and also the largest trade deficit. Interesting to note is the significant growth in the trade deficit of Botswana.

Table 5: SACU countries trade with USA

Country	2004	2005	2006	2007 ytd
	(US\$ million)			
Botswana Exports	51,6	67,1	26,7	40,3
Botswana Imports	72,9	178,1	252,1	143,3
Trade Balance	-21,3	-110,9	-225,4	-102,9
Lesotho Exports	5,4	4,0	4,0	3,3
Lesotho Imports	467,0	403,4	408,4	323,2
Trade Balance	-461,5	-399,4	-404,3	-319,9
Namibia Exports	66,0	92,9	113,2	80,7
Namibia Imports	238,2	129,5	115,6	173,9
Trade Balance	-172,1	-36,6	-2,4	-93,1
SA Exports	2,977	3,652	4,234	3,787
SA Imports	5,926	5,854	7,497	6,817
Trade Balance	-2,948	-2,201	-3,263	-3,030
Swaziland Exports	11,7	11,4	11,3	25,2
Swaziland Imports	198,7	198,8	155,8	114,1
Trade Balance	-187,0	-187,3	-144,5	-88,9

Note: 2007 = Jan to Sept.

Source: AGOA.info

² See <http://www.agoa.info>

3. CONTRIBUTED ARTICLES: AGRICULTURAL TRADE ISSUES

3.1 Geographical Indications and Multilateral Negotiations

By

Chris Gladwin³

An article in the previous edition (November 2007) of the *TradeProbe* looked at some of the current systems of protection for GIs employed by WTO Member States and introduced the current debate surrounding the most suitable system of protection for GI type products in South Africa. A future article is planned that will focus more on systems of protection, unpacking the differences and drawing some comparisons. This article, which also follows on from the November article, focuses on the ongoing negotiations regarding GIs at a multilateral level.

International cooperation with regard to intellectual property issues (and the existing international intellectual property system) originated with the Paris Convention⁴ (1835) and Berne Convention (1886). The Paris Convention was the first attempt to harmonize the various approaches and standards used to register GIs. Both the Paris Convention and the later Madrid Agreement⁵ (1891) refer to “Indication of Source”. However the Lisbon Agreement⁶ (1958) goes further by referring to “appellation of origin” and indicating that it means “the geographical name of a country, region or locality, which serves to designate a product originating therein, the quality and characteristics of which are due exclusively or essentially to the geographical environment, including natural and human factors.” There are however currently only 26 signatories to this latter agreement.

The TRIPS⁷ Agreement (negotiated at the end of the Uruguay Round in 1994 - after intense lobbying by the US, EU, Japan and certain other developed countries) introduced the principle of minimum intellectual property standards, providing the basis for all future multilateral and bilateral intellectual property negotiations. TRIPS contains requirements that all nations' laws must meet (including for GIs and

trademarks) and specifies enforcement procedures, remedies, and dispute resolution procedures. There are two basic obligations with regard to GIs contained in Article 22 and Article 23.

Article 22 (which applies to all products) obliges countries to provide legal opportunities in their own laws for the owner of a GI registered in that country to prevent the use of marks that mislead the public as to the geographical origin of the good, or that constitute an act of unfair competition. Countries are also obliged to provide protection against registration as a trademark if use of the GI in the trademark would mislead the public as to origin.

Article 23 (which applies to wines and spirits only) requires governments to provide the owners of GIs the right (under their laws) to prevent the use of a GI identifying wines not originating in the place indicated by the geographical indication (even where the public is not being misled, where there is no unfair competition and where the true origin of the good is indicated or the geographical indication is accompanied by expressions such as “kind”, “type”, “style”, “imitation” or the like). Similar protection must also be given to geographical indications identifying spirits. In terms of Article 23 governments may also refuse to register (or may invalidate) a trademark that conflicts with a wine or spirits GI (whether the trademark misleads or not). It is clear from the above that Article 23 (which applies only to wines and spirits) provides a higher degree of protection than Article 22. Article 22 requires the owner of the GI to prove that there is unfair competition or that the public is being misled as to the origin of the product. In the case of Article 23 the GI owner only needs to show that the (wine or spirit) product does not originate in the place indicated by the (wine or spirit) GI.

Article 24 of TRIPS provides a number of exceptions to the protection of geographical indications that are particularly relevant for geographical indications for wines and spirits (Article 23). For example, Members are not obliged to bring a geographical indication under protection where it has become a generic term for describing the product in question. Article 24 also provides the basis for WTO Members “to enter into negotiations (multilateral and bilateral) aimed at increasing the protection of individual geographical indications under Article 23” while making it clear that the exceptions (discussed above) “shall not be used by a Member State to refuse to conduct negotiations”.

It should also be pointed out that Article 23.4 specifies that “in order to facilitate the protection of geographical indications for wines, negotiations shall be undertaken in the Council for TRIPS concerning the establishment of a multilateral system of notification and registration of geographical

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⁴ Paris Convention on trademarks (1883): Determines that intellectual property systems, including patents, of any contracting state are accessible to the nationals of other states party to the Convention. [171 Member States (incl. RSA)]

⁵ Madrid Agreement for the Repression of False and Deceptive Indications of Source on Goods (1891) [34 Member States].

⁶ Lisbon Agreement on the Protection of Appellations of Origin and their Registration (1958) [26 Member States]. There are 868 GIs registered in terms of this Agreement with 794 in force (France alone has 564 registered GIs).

⁷ Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). South Africa as a WTO Member is a TRIPS signatory. The TRIPS Agreement was adopted as part of the Final Act of the Uruguay Round of Trade Negotiations in 1994.

indications for wines eligible for protection in those Members participating in the system.

A discussion of the above TRIPS Articles is particularly relevant as they are the focus of the ongoing multilateral negotiations on GIs. The main points of discussion are:

- The establishment of a multilateral system of notification and registration of GIs for wines and spirits
- Issues related to the extension of the protection of GIs provided in Article 23 to products other than wines and spirits

Multilateral system of notification and registration (for wines and spirits)

The aim of registering GIs is to facilitate protection against illegitimate use by providing Countries with a list of GIs recognised in the respective countries of origin. As indicated above, negotiations on the establishment of a multilateral system of notification and registration of GIs for wines is part of the built-in agenda of the TRIPS Agreement (Article 23.4). However at the Ministerial Conference in Singapore in 1996, it was decided to also include spirits. Negotiations began shortly after the conclusion of the TRIPS Agreement. Two main camps could be observed. The European Union and others⁸ proposed that all products should be included in the register (not just wines and spirits), participation in the multilateral system should be mandatory for all WTO Members and that registrations should have binding legal effect. According to the EU proposal registration should establish a “presumption” that the GI deserves protection in all WTO Members. Australia, Argentina, Japan, the United States (and various other countries⁹) proposed a system of voluntary participation where notified GIs would be listed in a database. In terms of this proposal non-participating countries would not be obliged to consult the database. Some of the key issues debated included the costs and administrative burden for governments and the possible legal effect in Member States.

Negotiations on the register were held in special sessions of the TRIPS Council. However Member States had such widely divergent views on the key questions surrounding the register that it was not possible to complete negotiations by the deadline (set by the Doha Ministerial Declaration) of the 5th WTO Ministerial Conference in Cancún (September 2003). Although negotiations are continuing on this issue in

⁸ Switzerland, Hungary, Bulgaria, Cyprus, the Czech Republic, Georgia, Hungary, Iceland, Malta, Mauritius, Moldova, Nigeria, Romania, the Slovak Republic, Slovenia, Sri Lanka and Turkey.

⁹ Canada, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Namibia, New Zealand, Philippines and Chinese Taipei.

the framework of the Doha Round, WTO Member States are focusing on agriculture, market access for industrial products, the Singapore issues¹⁰ and cotton, and very few discussions have taken place.

Extension of Article 23 Protection to products other than wines and spirits

As mentioned above, Article 23 of TRIPS provides a greater degree of protection for wines and spirits than is the case under Article 22 for all products. This can be illustrated through an example. In terms of Article 22 an indication such as “Gruyere cheese produced in South Africa” can be used legitimately¹¹ whereas in terms of Article 23 “South African Tequila” cannot be used legitimately. It is therefore argued that wines and spirits producers enjoy an “unfair” advantage over producers of other products.

WTO Members advocating extension (the so-called “Friends of GIs”¹²) aim was to get a clear mandate, confirming negotiations on extension as part of the Single Undertaking of the Doha Round. WTO Members opposing extension¹³ contested the view that extension was part of the Doha Round mandate. The issue was eventually included under paragraph 12 of the Doha Declaration (adopted at the end of the Ministerial Conference in Doha in November 2001) dealing with implementation issues. At the first meeting of the Trade Negotiations Committee (TNC) in 2002 it was decided that issues related to extension would be addressed in regular meetings of the TRIPS Council (which would report to the TNC by the end of 2002).

Due to the divergent views of Member States on whether a mandate existed to launch negotiations on extension, it was not possible to reach consensus before the Ministerial Conference in Cancún (September 2003). The second Draft Ministerial Text submitted to the Ministers in Cancún therefore refers to extension as an implementation issue and proposing the continuation of consultations of the DG on the issue (with no specific deadline provided).

The “Friends of GIs” group in the course of the negotiations provided the TRIPS Council and the TNC with elements in favour of extension arguing that

¹⁰ The “Singapore issues” refers to four working groups set up during the WTO Ministerial Conference of 1996 in Singapore, namely investment protection, competition policy, transparency in government procurement and trade facilitation.

¹¹ This would not be the case where countries have signed separate Agreements that provide a greater degree of protection than is provided for in TRIPS e.g. the Lisbon Agreement.

¹² Including Bulgaria, China, Cuba, the Czech Republic, the European Communities and its Member States, Hungary, Jamaica, Liechtenstein, Kenya, Mauritius, Nigeria, Pakistan, the Slovak Republic, Slovenia, Sri Lanka, Switzerland, Thailand and Turkey.

¹³ Argentina, Australia, USA, Canada, Chile, Chinese Taipei, Colombia, the Dominican Republic, El Salvador, Ecuador, Guatemala, Honduras, New Zealand and Panama.

extension would provide benefits for producers and consumers and for sustainable development. The opponents of extension have provided some of the following reasons for their position:

- Implementation of extension would mean extra costs for governments (in terms of administrative burdens and implementation costs), producers (trade and production disruptions) and consumers (consumer confusion)
- The fact that some countries have more GIs to protect than others will create an imbalance
- Immigrants who make use of skills developed in their country of origin to produce certain products (which are registered as GIs in their country of origin) would no longer be able to produce these products
- Improved protection for GIs is seen as a barrier to trade. Certain markets would be closed and producer's activities would be affected.

The complexity of these discussions and the fact that they cannot be seen in isolation is illustrated by the fact that the EU has tied the issue of GI extension to negotiations on the multilateral register for GIs for wines and spirits. The EU have also indicated that it cannot move in the area of agriculture unless progress is made with regard to GIs.

Related to the above two issues (extension and the multilateral register) is the so-called "clawback proposal" of the EU which was made in Agriculture Negotiations. The EU has also tied negotiations on the register (and the question of extension) to a proposal for a "clawback" of 41 GIs, meaning that they should be protected retrospectively regardless of their use elsewhere. Opponents¹⁴ see this as an attempt by the EU to include "non-trade" concerns in Agriculture Negotiations.

In calling for a voluntary and flexible registration system (that does not result in an increased administrative and financial burden on countries) South Africa has aligned itself with the groupings opposing extension and arguing for a voluntary register.

From the above it is clear that on a multilateral level progress with regard to negotiations on GIs has been relatively slow, complex and challenging. The focus of the current negotiations is however on agriculture, market access for industrial products and the Singapore issues, and the GI related issues seem for the moment to be on the back burner. However some Member States, in particular the "Friends of GIs", in an attempt to break the deadlock, are currently engaged in awareness campaigns on the usefulness

¹⁴ US, Cairns Group and G-20

and the economic, commercial and social benefits of GIs for WTO Members, in particular for developing countries.

3.2 Modelling the South Africa - China trading relationship: A trade brief

By

Ferdinand Meyer¹⁵, Cecilia Punt¹⁶, Sanri Reynolds¹⁷,
and Ron Sandrey¹⁸

3.2.1 Introduction

The objective of this brief is to provide an overview of the impacts of a possible free trade agreement (FTA) where all the tariffs between the Southern African Customs Union (SACU) and China are reduced to zero. Three models were used to analyse the scenario. The global impacts were simulated using a global computable general equilibrium (CGE) model, known as the Global Trade Analysis Project (GTAP) model. The GTAP model indicates, amongst others, the expected changes in trade levels and import and export prices faced by different regions of the world. Results from the GTAP model were applied in a single country computable general equilibrium (CGE) model for South Africa (called the PROVIDE model), with the objective of estimating the welfare and distributional impacts of an FTA for the South African economy, while at the same time highlighting the implications for the agricultural sector at a provincial level. Lastly, the price impacts from the GTAP model were also introduced in the BFAP sector model in order to simulate industry impacts.

Only the sugar and apple industry impacts are included in this brief. This trade brief presents an effort to combine the technical results of a possible FTA between SACU and China from three distinct modelling approaches. The methodology that was followed to ensure the compatibility of the modelling outputs is not presented in this brief. The outcomes of the models are discussed and the main findings summarized. Important to note is that the analyses does not take any non-tariff barrier reductions into account.

3.2.2 Summary and key modeling results

A feature of South African imports in recent years has been the increasing penetration of the market by China and the dominance of this market in sectors where China actively competes. SACU and China are deliberating about a bilateral free trade agreement

¹⁵ The Bureau for Food and Agricultural Policy (BFAP), University of Pretoria.

¹⁶ PROVIDE Project and BFAP, Western Cape Department of Agriculture

¹⁷ BFAP & Western Cape Department of Agriculture.

¹⁸ Trade Law Centre from Southern Africa (TRALAC)

(FTA). The possible impacts of such a FTA can be summarized as follows: The overall results show gains. South Africa's gains are \$278 million and the increased real GDP is 0.23 percent, a figure similar but lower than China's \$314 million at the assessed end point of 2015. South African exports to China will increase modestly by around 1.1 percent or \$0.58 billion.

There is little change in agriculture or natural resources, even though most agricultural prices increase marginally. The actions as a consequence of the FTA are concentrated in general machinery and 'other manufactures'. Conversely, imports from China are up by around \$1.6 billion, with \$846 million of this concentrated in the textile, clothing and footwear sectors. The largest loss in welfare comes from the EU mostly as a result of South Africa opening its market to Chinese competition and displacing EU imports (\$92 million), although it also loses some \$54 million as a result of South Africa displacing EU trade into China. For the total, it seems like the FTA is strongly welfare-enhancing for the world, as world welfare increases by \$567 million; this is mostly from capital accumulation effects.

In aggregate, most of this gain results from reductions in SACU tariffs and not Chinese tariffs. From the changes in import and export prices between different regions of the world that were simulated by the GTAP model, the changes in the weighted average import and export prices faced by South African producers and the 'rest of the world' could be determined in order to shock the PROVIDE and BFAP models. Of interest from an agricultural perspective is the increase in the export price of sugar (+0.66%), other horticulture crops (+1.19%), wool (+0.88%) and vegetables and fruit (0.09%) under the FTA scenario.

Production decisions are influenced by changes in relative prices fetched on the domestic and export markets. Total production, which comprises production for the domestic market and the export market, reflects the expansion or contraction of the different industries. The biggest decrease in volume of production is for electronic equipment (-0.54%) while the biggest increase is for other manufactures (0.96%). Production of grains (-0.05%) and oil seeds (-0.06%) decreases. However, there is an increase in the production of sugar cane, which supports the increase in production of sugar. The BFAP sector model was shocked with the increase in the export price of sugar (from GTAP model).

Table 6 presents the impacts on the sugar market over the period 2011 - 2015, as simulated in the BFAP sector model. An increase (0.22% on average) in the Recoverable Value of sugar cane induces an expansion in the area under sugar cane of only 0.05% on average. This clearly points out the inelastic nature of sugar cane production. Interestingly, there is no

shift in the domestic use of sugar and the increase in sugar production is completely absorbed by the export market. This can be explained by the fact that the domestic sugar price is a regulated price that is not directly affected by the export price of sugar or the domestic sugar cane price. Sugar exports increase by more than 0.10%.

Table 6: BFAP results – Percentage change in the SA sugar market

	2011	2012	2013	2014	2015
Area in sugarcane	0.03%	0.04%	0.04%	0.05%	0.05%
Sugarcane average yield	0.00%	0.00%	0.00%	0.00%	0.00%
Sugarcane production	0.02%	0.03%	0.04%	0.05%	0.05%
Sugarcane for sugar	0.02%	0.03%	0.04%	0.05%	0.05%
Sugarcane for ethanol	0.00%	0.00%	0.00%	0.00%	0.00%
Sugar domestic use	0.00%	0.00%	0.00%	0.00%	0.00%
Sugar exports	0.05%	0.07%	0.09%	0.11%	0.12%
Sugar recoverable value	0.21%	0.22%	0.22%	0.23%	0.23%
Sugarcane average price	0.21%	0.21%	0.22%	0.22%	0.22%

Source: BFAP model, 2007

The export price of vegetable and fruits increases by 0.09% (from GTAP model). The GTAP model makes no clear distinction between the various categories of vegetables and fruits and, therefore, the BFAP sector model could not be shocked with the shift in the export price. Yet, some of the industries that fall in this category could be very sensitive for a FTA of this nature, especially since China is a low cost producer and local industries could struggle to compete against cheaper imports. The apple industry serves as a good example. An independent assumption was made to shock the BFAP apple sector model. It was assumed that 10 000 tons of apples will be imported from China annually over the period 2008 -2012.

The results show that in 2008, the volume of apples sold in the domestic market increases by 3% and the local price decreases by 4.2% due to the increased level of imports. The 4.2% decline is equivalent to R149/ton (nominal terms). Due to the lower domestic price, more apples will initially be exported (exports increase by 1%) and less of the domestic crop will be allocated to the local market. The lower domestic prices lead to lower production and export levels over the long run. However, local production will decline over time as a consequence of lower domestic prices and, therefore, exports will also decline over the long run.

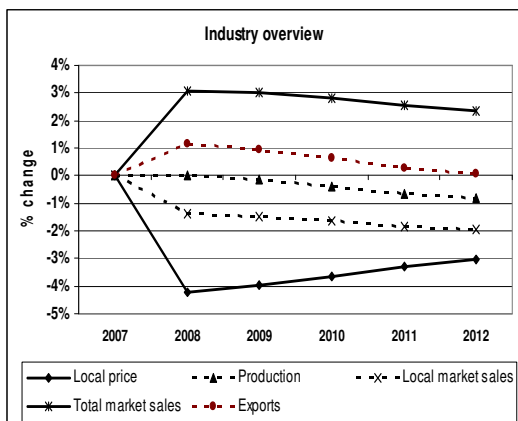


Figure 4: BFAP results – Percentage change in the SA apple industry

Source: BFAP model, 2007

Shifting the focus from a national to a provincial level, the PROVIDE model reports agricultural activities on aggregate per province. The weighted average changes in import and export prices for all commodities faced by the South African industries and markets, generated with the GTAP model, was introduced as a single shock to the PROVIDE model. Results indicate an increase in agricultural production by Gauteng province (+0.21%), followed by Eastern Cape (+0.12%), KwaZulu-Natal (+0.07%) and Mpumalanga (0.03%). The net impact on production in the Western Cape is negligible, while North West (-0.07%), Northern Cape (-0.05%), Limpopo (-0.03%) and Free State (-0.02%) experience a decline in production on aggregate. The results are driven by the combinations of products produced within each of the provinces.

The change in economic activity (not only agriculture but the complete economy) impacts on factor demands and wage rates. When the full employment assumption is relaxed for unskilled workers, aggregate labour income increases by 0.066% and 3 575 employment opportunities are created throughout the economy, of which 1 144 (32%) are created in Gauteng, followed by North West (697 or 19%).

Lastly, this brief only presents the technical analyses of a possible FTA between SACU and China under a selected set of assumptions. Different assumptions will produce different modeling results. There are also a large number of non-technical trade issues that need to be taken into consideration in order to obtain a better understanding of the possible implications of the FTA. A list of references for this article is provided¹⁹.

¹⁹ Meyer, FH. (2007). "An Application of the BFAP Sector Model", presentation at the 45th conference of AEASA, Fourways Johannesburg, September 2007.

Table 6: CGE results – Employment Creation

Province	Number	Share
Gauteng	1144	32%
North West	697	19%
Free State	511	14%
KwaZulu-Natal	373	10%
Eastern Cape	323	9%
Limpopo	247	7%
Western Cape	156	4%
Northern Cape	97	3%
Mpumalanga	28	1%
Total	3575	100%

Source: PROVIDE MODEL, 2007

3.3 SADC-EC EPA negotiations (November 2007)

By

Joyce Letswalo²⁰

3.3.1 Background

The EU is currently negotiating Economic Partnership Agreements (EPAs) with several developing and least developed country groupings. These EPA's will replace the existing Cotonou Agreement, which will expire on 31 December 2007. The EPA negotiations are gaining momentum given the looming 31 December 2007 deadline for completion. The last round of negotiations between SADC and the EC was held from 5 to 16 November 2007, in Brussels. These were conducted at technical, Senior Officials and Trade Minister's level, with the aim to finalise the agreement.

3.3.2 Latest Developments

1) Market access – tariff offers

The negotiations in this area are at a critical stage as both Parties are constantly exchanging improved market access offers. The EC proposed an interim arrangement to ensure that the developing countries are not left without preferential access into its market should the EPA not be finalized by 31 December 2007. For South Africa, the existing SA-EU Trade Development and Cooperation Agreement (TDCA) will continue to offer South African exporters access

Punt, C (2007). The socio-economic impact of a possible SACU/China Free Trade Agreement on the South African economy. Preliminary research results presented at a workshop during the 45th conference of AEASA, Fourways Johannesburg, September 2007.

Reynolds, S (2007). "The Impact of Importing Apples on the South African Apple Industry: An Econometric Analysis", presentation at the 45th conference of AEASA, Fourways Johannesburg, September 2007.

Sandrey, R and H.G. Jensen (2007). "Revisiting the South African-China trading relationship", TRALAC working paper, August 2007.

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into the EU market. In the absence of the interim agreement, Least Developed Countries (LDC's) will enjoy duty-free access under the Everything-But-Arms initiative (EBA), and other Developing Countries will qualify for Generalized System of Preferences (GSP) duties into the EU. GSP preferences are less favourable than the Cotonou preferences that they enjoy at present. In the SADC EPA group the countries that could potentially be affected by the latter are Botswana, Namibia and Swaziland.

2) Rules of Origin (RoO)

So far the provisions of the RoO are agreed upon with the EC at a technical level. It has been resolved with other African EPA groups that RoO would be negotiated at ACP level. Therefore, the same rules would apply to all EPA configurations. It is very important to negotiate RoO that are flexible and allow cumulation at all levels, in order to ensure that tariff preferences can be fully exploited.

3) Legal text on market access

During the round of 5 to 16 November 2007, intense negotiations were conducted in this area. The EC and SADC EPA group tabled individual proposals in this area. This round was used to consolidate the text in areas where there were concurrence and address the differences that still exist. Unfortunately, this could not be fully achieved yet. However, both parties agreed to continue electronic text proposal exchanges to resolve outstanding issues before the next round.

Unfortunately, the EPA could not be finalized at this round.

3.4 SADC regional economic integration: SADC -FTA due in 2008

By
Lentheng Tswai²¹

3.4.1 Tariff Phase Downs

In terms of the SADC Trade Protocol, SADC member states are scheduled to complete most of their tariff phase down commitments by 2008. An audit of Member States' compliance with their tariff phase down schedules was undertaken in July 2007 as instructed by the Ministerial Task Force on Regional Economic Integration. The purpose of the study was to assist in assessing Member States' readiness to achieve the free trade area (FTA) in 2008.

The audit study compared the applied rates with the yearly gazetted ones to verify compliance with tariff phase down schedules. The audit found that four Member States, namely Malawi, Mozambique, Tanzania and Zimbabwe are behind their schedules of reducing tariffs. Mauritius, SACU Member States and Zambia are on schedule. (Angola has acceded to the Trade Protocol but is not yet implementing. The DRC has not yet acceded to the Protocol. Madagascar has just acceded in 2006; implementation would have started in October 2007).

The SADC Secretariat is in the process of assisting Member States who are behind their schedules to fast track their phase down process. Zimbabwe indicated that it will gazette and effect the outstanding tariffs by November 2007.

3.4.2 Review of Rules of Origin (RoO)

The process of reviewing the RoO started in 2005 after realizing that the current rules are complex and therefore trade restrictive. To date substantial progress has been made to simplify the rules. There is however some outstanding rules to be agreed upon for a few products. For agriculture simplified rules are still outstanding for coffee, tea, cloves, sunflower and soybean oils. A last round of negotiations is scheduled for December 2007 to finalize the outstanding rules. Trade Ministers instructed that these rules be finalized before end of 2007.

3.4.3 Preparations for SADC Customs Union due in 2010

Preparations for establishing the SADC Customs Union started in September 2006 following from the Heads of States Summit in Maseru, Lesotho in August 2006. Part of the preparations was to undertake technical studies to advise on the appropriate model for a SADC Customs Union and also, assessing the compatibility of national policies to form the customs union. The studies have been completed and Member States used them to undertake national consultations to decide on how take the process forward.

The outcomes of national consultations were considered by the Ministerial Task Force on Regional Economic Integration during the meeting in Lusaka, Zambia on 7 November 2007. Ministers in general agreed that the studies provide valuable information for further work and negotiations on the establishment of the Customs Union. They further agreed that urgent and more detailed work needs to be undertaken in the areas of the common external tariff (including the

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RoO); revenue collection and the distribution mechanism (including the development fund); legal and institutional arrangements as well as harmonization of industrial, agriculture, competition and other relevant sector policies.

Ministers approved that four technical working groups be established to develop negotiation frameworks on the above identified key areas.

3.5 MERCOSUR opens a small door to SA agriculture trade

By
Heilien Konstant²²

South Africa is seen by Brazil and Argentina as a gateway of trade with Southern Africa and even a possibility of access to the rest of Africa. The South African market is also attractive as an emerging market with an increasing population of middle income, strong infrastructure and an open trade policy. Therefore it was only natural for the Latin American countries to approach South Africa for a free trade agreement during 2000.

Initially the negotiations were between South Africa and Brazil. After signing of the new SACU Agreement of 2002 though, South Africa's SACU partners (Botswana, Lesotho, Namibia and Swaziland) joined the negotiations, making this the first SACU endeavour towards a preferential trade agreement. Subsequently Brazil, being part of the MERCOSUR customs union, also drew in its partners (Argentina, Paraguay and Uruguay). This extended the negotiations to the two regional economic blocs of SACU and MERCOSUR.

The following factors were acknowledged at the beginning of the negotiations:

- The negotiating countries were significantly different with respect to the size of the market, production technology, economic development and expertise in global trade participation.
- There is a similarity in agricultural production due to same season production.

It was agreed that the countries would negotiate a preferential trade agreement (PTA) in which the two negotiating blocs would offer each other a list of selected products with a fixed discount on import duty (margin of preference). The aim of this exchange of preference is to open sizable markets for the selected

products between the two regions and examine the positive impact of trade on economic development of the nations involved.

The PTA between MERCOSUR members (Brazil, Argentina, Paraguay and Uruguay) and SACU countries (Botswana, Lesotho, Namibia, Swaziland and South Africa) was signed in December 2004. Currently the PTA is being further negotiated to "broaden and deepen the agreement for the benefit of the smaller countries of the two trading blocs". The aim is to conclude the negotiations in the next round which is planned for mid-December 2007. If the subsequent legal procedure is carried out smoothly, the agreement could come into force in 2009.

Brazil and Argentina are responsible for most of the trade in MERCOSUR, and South Africa has a similar role in SACU. There is a trade imbalance between the two regions in favor of MERCOSUR. Exports from South Africa to Argentina and Brazil, since 2000, have declined at the rates of 4 and 1 percent per annum respectively, while imports from those two countries have risen at annual rates of 3,5 and 8,5 percent respectively for all products. A similar pattern applies to agricultural products.

While agricultural trade forms a relatively small portion of total trade between the two regions, South African imports from Argentina stand at around R2 billion as opposed to exports of R18 million. Major South African agricultural exports to Argentina are preserved food, vegetable saps, cereals, beverages, grain seeds and live animals. Major agricultural imports from Argentina are fats and oils, cereals, food waste and meat (World Trade Atlas, 2006). South African trade with Brazil is similar, i.e. R2 billion imports against R41 million exports. Products exchanged are almost the same as with Argentina. South Africa is also experiencing more competition in these markets from Uruguay and Paraguay since these countries produce similar agricultural products than South Africa.

Penetration into the South American market is not an easy task. New products have to be introduced in creative ways, niche markets must be found and above all, heavy marketing investment over a relatively long period of time is required to establish new lines of exports of agricultural products to this region. The SACU-MERCOSUR PTA, however limited in its coverage at present, has the potential to be utilized at the starting point with the possibility of further expansion in coverage in future negotiations. The PTA becoming enforceable possibly only in 2009, gives the benefiting South African industries adequate time to prepare for increasing their exports to this region.

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