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National Agricultural Marketing Council
Strategic positioning of South African Agriculture in dynamic global markets

INTERNATIONAL *TradeProbe*

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

THIS ISSUE OF TRADEPROBE COVERS THE FOLLOWING TOPICS:

- Rebate item 470.03: Duty free imports of goods used in the manufacturing, etc. of goods destined for the export market
- AGOA and the New Partnership for Trade and Development Act: What is in store?
- Wine export requirements: EFTA markets

1. REBATE ITEM 470.03: DUTY FREE IMPORTS OF GOODS USED IN THE MANUFACTURING, ETC. OF GOODS DESTINED FOR THE EXPORT MARKET[1]

In line with its mandate, ITAC administers, among a variety of other rebate provisions, rebate item 470.03, which provides for a rebate of customs duties on components and materials which are used in the manufacture, processing, finishing, equipping or packaging of goods **exclusively for export.**

One of Government's primary economic objectives is the pursuit of sustainable economic growth and development, including the improvement of the international competitiveness of the industrial and agricultural sectors. The promotion of South Africa's exports is a key element in stimulating industrial development and economic growth.

Access to raw materials and other inputs at world competitive prices is essential for stimulating exports, and in view of this, provisions such as rebate item 470.03 and drawback item 521.00 have been introduced in terms of the Customs and Excise Act (Act 91 of 1964), to facilitate imports of raw materials and components at competitive prices for incorporation into domestically produced products for the export market. Drawback item 521.00 is similar to rebate item 470.03 except that the duty is paid upon importation of the materials and components and later refunded by the South African Revenue Service (SARS) when the export transaction has taken place.

The purpose of the 470.03 rebate item is to assist exporters in avoiding the strain imposed on their liquidity by the outlay of capital in respect of customs and other applicable duties payable on the raw materials or components at the time of importation.

A prospective participant in the scheme must first register with the nearest SARS Customs Office. The applicant should contact the local Customs and Excise Controller for details on procedures and requirements to register as a user of rebate item 470.03.

Applicants can obtain a 470.03 application form from ITAC's website, www.itac.org.za. The completed application form should be addressed to: The Chief Commissioner: International Trade Administration Commission of South Africa, Private Bag X753, Pretoria, 0001.

2. AGOA AND THE NEW PARTNERSHIP FOR TRADE DEVELOPMENT ACT: *WHAT IS IN STORE?*[2]

In 2007, US Congressman Jim McDermott tabled a proposed bill (New Partnership for Development Act – NPDA[3]) aimed to replace AGOA[4] by extending the current existing AGOA benefits to all Least Developed Countries (LDCs). However, after discussions and correspondence and submission of concerns between the parties involved, the bill was held back. On the 18th of November 2009, Congressman McDermott introduced an amendment to AGOA and Trade Act of 1974,[5] cited as the New Partnership for Trade Development Act of 2009 (NPTDA[6]). This newly proposed bill could extend AGOA beyond 2015 and bring new developments within AGOA and other preference programmes, i.e. General System of Preferences (GSP).

[1] This article was compiled by Ms. Manini Masithela (ITAC) and Thembinkosi Gamlashe (ITAC)

[2] This article was compiled by Ms. P Jara and Mr. Z Balindlela (both from Directorate International Trade, DAFF)
[3] For the full text on the NPDA, visit, H.R.3905
[4] AGOA notes are at: http://www.agoa.gov
[5] Trade Act of 1974: http://www.ctdol.state.ct.us/TradeAct/TradeActOf1974-AsAmended-Aug05.doc
[6] NPTDA – visit: H.R. 4101
Other important sources: MFAN; Initiative for Global Development

2.1 Expectations and focus points of the NPTDA

The NPTDA bill is expected to gear towards harmonising trade and US international development efforts. Thus it carries preference programmes that will maximise benefits for all LDCs and put more emphasis on trade capacity building.

However, the bill still recognises AGOA as the basis for the United States' policy towards the development of the poor countries of the world, since it preserves and builds on AGOA by extending its benefits to the LDCs in other continents (not just sub-Saharan Africa, as in the case of AGOA) and focusing on trade capacity building. The three focus points of the NPTDA are:

a) Extension of AGOA

The Act extends the current trade preference for all AGOA beneficiary countries until 2019. It also extends the AGOA third party fabric rule from 2012 to 2015 to increase predictability of clothing and textile trade under AGOA. In addition, it assists countries to build trade capacity, helping AGOA beneficiaries and other LDCs to remove barriers against efficient production and trade. Extension of benefits after 2019 depends on UN classification of the LDCs, including the countries of sub-Saharan Africa. This evaluation will be repeated every five years thereafter.

b) Extension of preference benefits to other LDCs

The NPTDA creates a new programme that will extend AGOA benefits (duty free and quota free market access) to LDCs anywhere in the world. However, there are some exceptions, such as protecting AGOA by imposing a quota on large non-AGOA LDC producers on specific apparel types at the beginning, gradually lifting the quota over 10 years. The beneficiary LDC countries are required to meet AGOA and GSP eligibility criteria, i.e. labour standards, governance, environment, etc. Secondly a new single rule of origin will be applied for all beneficiaries.

c) Extension of the GSP programme

The NPTDA extends GSP until 2019. It simplifies GSP by instituting a new single rule of origin and by reviewing the current statutory exclusions that were first established in 1974.

This involves reviewing one of the eligibility criteria of GSP by also including developing countries, not only LDCs. These countries will be put under the 'beneficiary developing countries' which are incorporated in the GSP programme.

However, not all developing countries will benefit from this initiative. To qualify, a country has to be designated as having a lower indicator of development by the President.

Thus, the President will establish clear and consistent benchmarks that will be used to determine the basis of eligibility of such countries. The decision to include such a country requires a transparent procedure and there is a timeline for regular review.

Further, it requires Advanced Developing Countries to grant meaningful preferences in order to continue receiving GSP benefits.

The bill also calls for the establishment of specific institutions in order to accomplish these efforts. These include an Office of Trade and Competitiveness for LDCs and African countries (non-AGOA LDCs and AGOA LDCs), residing in the White House. This office is expected to be responsible for planning, developing and coordinating trade capacity building (TCB), as well as private sector competitiveness programmes.

The main focus of TCB will be infrastructure, labour and environmental standards, as well as trade facilitation and economic opportunities. This committee is expected to work with non-governmental organisations (NGOs), private donors and contractors. Further, the committee will be made up of different stakeholders from different government entities.

2.2 Outlook

The bill still recognises AGOA as a priority and important mechanism for market access for SSA and LDC countries to the United States, as it still preserves the AGOA preferences and extends the programme beyond its expiry date of 2015. Further, the bill emphasises the trade capacity building of the beneficiary countries, whether under AGOA, non-AGOA LDCs and GSP programmes.

This is very important, as the current AGOA lacks this focus, and this will help the beneficiary countries to fully maximise the trade opportunities that exist in the US market in the long run. The bill also simplifies the rules of origin, which will make the programme easier to use. The AGOA beneficiaries will use the single rule of origin, side by side with the existing AGOA rule of origin.

However, to some extent the bill still raises some concerns. One of them is AGOA after 2019, as there is a likelihood of extending preferences for AGOA LDCs.[7] This might be a concern for South Africa as it is not an LDC country. However, failing to benefit from AGOA after 2019, it might still benefit from other programmes such as GSP, especially under the 'beneficiary developing country', provided that it meets the requirements that will be set in 2019.

In summary, this bill extends preferences to all LDC countries but under different group categories (AGOA, non-AGOA LDCs and GSP). This is likely to create competition amongst developing nations and some countries among current beneficiaries of AGOA are likely to lose some market share. This is compounded by the fact that the programme not only provides market access but also strengthens the trade capacity of the competing nations.

[7] "The bill extends preferences for all AGOA countries through to 2019 and for AGOA LDCs ongoing."

South Africa may find itself in the awkward situation of losing its AGOA preference and at the same time facing increased competition in the US market. Thus, it is vital for South Africa to find other avenues of maximising trade opportunities, including GSP preferences, which could be the only market access available for South Africa after 2019.

3. WINE EXPORTS REQUIREMENTS: EFTA MARKETS[8]

This section seeks to stimulate some discussion on how best the preferences secured in free trade agreements can be used. In this case, an overview of the tariff benefits enjoyed by South Africa's wine exports to European Free Trade Association (EFTA) countries is given. The section will also introduce some of the non-tariff requirements for wine exports to the EFTA countries.

In June/July 2006, SACU[9] and the EFTA signed a free trade agreement, as well as three bilateral agreements on agriculture. The agreement came into force on 1 May 2008. The bilateral agricultural agreements are with Norway, Switzerland/Liechtenstein and Iceland, respectively. Wine was incorporated into these agreements with tariff preferences as follows:

SACU-Switzerland/Liechtenstein:

- SACU – No preferences given to Switzerland.
- Switzerland:
  - ✓ Sparkling wine: Fixed duty of SFr 65/100kg gross. The MFN rate is SFr 91/100kg
  - ✓ Sweet wine, specialties and mistelles in containers of 2 litres or less: Free
  - ✓ Bulk natural wine for industrial use: Free
  - ✓ Bulk sweet wine: Free

SACU-Iceland:

- SACU – No preferences were given to Iceland
- Iceland:
  - ✓ All wines: Free

SACU – Norway:

- SACU – No preferences given to Norway
- Norway:
  - ✓ All wines: Free

Most of South Africa's wine enters EFTA countries as Duty-Free-Quota-Free (DFQF), except sparkling wine destined for Switzerland.

3.1 More specific details

The requirements for wine imports into EFTA might differ due to the fact that these countries maintain different agricultural policies for basic agricultural products. Furthermore, in some cases the requirements might be similar to those applied by the European Union (EU).

- **Switzerland[10]**

The production and importation of wine in Switzerland is regulated to a fairly high degree. The Swiss Federal Customs Office controls the importation of wine and collects import duties on behalf of the Swiss Alcohol Board. A monopoly tax is obligatory for all imported alcohol, which is CHF29 per litre of pure alcohol (100 per cent). Some beverages with lower alcohol content have a reduced rate. There is a special tax of CHF116 on alcopops.

To reduce administrative requirements, companies with an annual turnover of less than CHF75 000 are exempt from VAT liability.

As Switzerland has no seaport, most imported wine travels through an EU member country and is subject to the specifications and restrictions that apply to the EU.

With regard to labelling, there are numerous types of label requirements. Different countries (or even regions) have different regulations concerning what should be reflected on the label.

Table 1: Swiss labelling requirements for wines im ported from SA:

Compulsory	Optional	Prohibited
Country of Origin	Grape Variety	SO2 and other additives
Appellation of Origin Quality Standard Name & Address of Producer/Brand Owner	Vintage (Millésium) Name of Vineyard The Terms 'Dry'/ 'Medium Dry'/ 'Sweet'	
Bottle Content	Analysis / Tasting Notes / Approvals	
Alcohol Content The Term 'Wine' The Term 'Domain' Authenticity Seal		

- **Norway**

- Vinmonopolet[11], the Norwegian Wine and Spirits monopoly, has the exclusive right to retail wine, spirits and strong beer in Norway. The wine products are purchased through importers holding the required licence for import. A key element in Norwegian alcohol policy has been to remove the private profit motive from sales of wine, spirits and strong beer. As a result, Vinmonopolet is wholly owned by the state.

- Vinmonopolet purchases the products from importers holding the required licence and who have signed a purchase agreement with Vinmonopolet. Approximately 200 wholesalers have signed this agreement. Vinmonopolet distributes a Market- and Product plan twice a year. This plan is available to the wholesalers and covers what Vinmonopolet is planning to purchase in the basic and

[8] This article was compiled by Ms. JM Letswalo, Directorate International Trade, DAFF
[9] Botswana, Lesotho, Namibia, Swaziland and South Africa

[10] www.internetwineguide.com/structure/
[11] http://www.vinmonopolet.no/is-bin

one lot range for a 12 month period. It outlines detailed specifications for the first six month period and presents planned purchases for the following period in a summary listing how many types of products, from which countries of origin and range.

- Vinmonopolet presents the inquiries for the basic- and one lot range every second month. These are based on the specifications presented in the Market and Product plan. All tenders in accordance with the specifications are blind tested by a tasting panel consisting of people educated by Vinmonopolet for this purpose. Quality, price and delivery conditions are part of the evaluation criteria for purchase.

- Vinmonopolet launches new products every second month. Approximately 270 products are purchased per year. More than 10 000 products are listed in different ranges.

- The required quantity for products listed in the one lot range lies between 120 and 2 400 bottles. Vinmonopolet has not defined a minimum quantity regarding products listed in the basic range, but wholesalers are required to send a notification of storage one month ahead of launching date.

- The Market and Product plan gives a summary of required sales (in litres) within the different groups of products divided into price segments. Delisting of a product is based on sales within a 12 month period.

- Importers who hold the required licence can sell beer, wine and spirit to hotels and restaurants.

- Norwergian regulations regarding labelling generally follow EU directives in terms of quality, health safety and traceability.

- **Iceland**[12]

Áfengis og tóbaksverslun ríkisins or ÁTVR (State Alcohol and Tobacco Store) is a state owned company that has a monopoly on the sale of alcoholic beverages in Iceland. It runs the Vínbúð chain of 48 liquor shops in Iceland, often called Ríkið (the State). Vínbúð is Iceland's sole legal vendor of alcohol for off-premises consumption, though in practice most bars and restaurants will not prevent you from leaving with purchased drinks.

- ÁTVR requirements are outlined in the document 481/2008 titled "*Regulations on the selection and sale of alcoholic beverages and trade terms with suppliers".* These regulations have been set in accordance with the directives in Regulations no. 883/2005 on the State Alcohol and Tobacco Monopoly and the directives of Act no. 63/1969 on the Icelandic State trade in alcoholic beverages and tobacco.

- The regulations explain the product selection of the State Alcohol and Tobacco Monopoly and the objectives of the Icelandic National Health Plan.
- The regulations distinguish between the demands made for the products, the packaging, labelling and other details. The trade terms with suppliers give clear details on how to apply for sales and how to conform to agreements on product purchases and orders. The terms for delivery, responsibilities of suppliers and prices and payments are also outlined in document 481/2008.

3.2 Conclusion

Trade in wine in EFTA countries is regulated through monopolies. Concerted efforts to promote the quality of South Africa's wine should consider consumer habits and target Switzerland and Norway, which boast larger populations than Iceland. The requirements for importation of wine differ from country to country. Close communication with potential importers in EFTA countries should be maintained, especially information regarding the distribution of wine. In the case of Norway, the Market and Product plan gives a summary of projections to allow the exporters to plan accordingly.

The SACU-EFTA FTA offers a legal framework that governs trade relations between SACU and EFTA countries. There is a platform that can be used to address matters arising from trade in wine, namely, the joint committee to manage the SACU-EFTA FTA that was inaugurated in February 2009.

[12] www.vinbudin.is