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National Agricultural Marketing Council
Promoting market access for South African agriculture

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 and reporting on trade statistics, to invite perspectives from people working in related sectors, to report on trade-related research, and to stimulate debate.

This issue of *TradeProbe* covers the following topics:

- Agricultural trade between South Africa and China
- Regional integration in Africa: challenges and possible approach
- Bilateral agricultural trade between South Africa and Indonesia
- Market profile of apple juice (HS 200971)
- Revised tariff structure for the industry producing canned tomatoes and tomato paste, puree, and concentrates in powder form

1. AGRICULTURAL TRADE BETWEEN SOUTH AFRICA AND CHINA[1]

This section discusses the trade of primary and secondary agricultural goods between South Africa and China. Primary agricultural products are those that are still similar to the natural state in which the product was produced, e.g. an apple. Secondary products, on the other hand, are no longer similar to the natural state, e.g. apple juice.

Table 1 indicates that in value terms, shorn wool, oranges and cotton were the leading primary agricultural exports from South Africa to China during 2011. Overall, the value of South Africa's primary agricultural exports to China grew by 59.9 %, from R792.8 million in 2010 to R1.2 billion in 2011.

- Shorn wool exports grew by 33 % from R655 million in 2010 to R872 million in 2011; and
- Orange and cotton exports to China grew by 456 % and 153 % respectively between 2010 and 2011, although export values in 2010 were relatively low.

The leading secondary agricultural products exported by South Africa to China were bovine hides, wine and flour meal (see **Table 2** for further details). It is important to outline that South Africa's secondary agricultural exports to China declined by 18 %, from R1.4 billion in 2010 to R1.1 billion in 2011. This decline can be attributed to the decline in the export of bovine hides and flour meal. Bovine hide exports declined by 15 % from R642 million in 2010 to R542 million in 2011, whereas flour meal exports declined by 53 % over the same period. Despite the decline, wine exports to China grew by **135 %** between 2010 and 2011.

Table 1: South Africa's exports of primary agricultural goods to China, 2010-2011

HS Code	Description	Rand million	
		2010	2011
	Primary Agricultural Products	**792.8**	**1267.9**
510111	Shorn Wool	655.9	872.7
080510	Oranges	45.8	255.1
520100	Cotton	26.6	67.5
060290	Live Plants	1.8	16.0
080540	Grapefruit	2.0	13.8
080610	Grapes, fresh	0.8	12.4
120991	Vegetable Seeds	7.9	7.8
080550	Lemons and Limes	0.0	7.6
090240	Black Tea	7.1	5.2
410390	Raw Hides And Skins	4.0	4.9

Source: Global Trade Atlas, 2012

Table 2: South Africa's exports of secondary agricultural goods to China, 2010-2011

HS Code	Description	Rand million	
		2010	2011
	Secondary Agricultural Products	**1402.0**	**1149.4**
410150	Bovine Hides	642.6	542.3
220421	Wine	64.0	150.5
230120	Flour Meal	308.5	143.0
410120	Sheep and Lamb Skins	131.6	131.6
200870	Preserved Peaches	51.3	62.0
510121	Shorn Wool	3.1	22.0
080260	Macadamia Nuts	21.4	21.9
410221	Sheep/Lamb Skins, without wool on	6.1	21.7
150420	Fish Fats and Oils	21.8	8.0
220429	Wine, not elsewhere specified	9.4	7.7

Source: Global Trade Atlas, 2012

Table 3 shows that kidney beans, tobacco and honey were the leading primary agricultural products imported by South Africa from China during 2011. South Africa's primary agricultural imports from China increased by 9 %, from R559 million in 2010 to R610 million in 2011. Kidney bean imports grew by a modest 1 %, from R402 million in 2010 to R406 million in 2011, while tobacco and honey imports grew by 6 % and 8 % respectively between 2010 and 2011.

[1] This article was compiled by Mr Nico Scheltema of the NAMC.

Table 3: South Africa's imports of primary agricultural goods from China, 2010-2011

HS Code	Description	Rand million	
		2010	2011
	Primary Agricultural Products	**559.3**	**610.1**
071333	Kidney Beans	402.6	406.5
240120	Tobacco	36.4	38.6
040900	Honey	21.4	23.3
120991	Vegetable Seeds	8.6	20.4
090420	Fruits Of Genus Capsicum or Pimenta	7.3	15.3
100820	Millet	9.7	13.3
070320	Garlic	17.8	11.0
091010	Ginger	8.5	10.4
120220	Peanuts (Groundnuts)	11.5	10.3
090220	Green Tea	4.7	7.4

Source: Global Trade Atlas, 2012

Animal guts, apple juice and peptones were South Africa's leading secondary agricultural imports from China during 2011 (**Table 4**). South Africa's secondary agricultural imports from China grew by 3 %, from R1.62 billion in 2010 to R1.68 billion in 2011. Imports of animal gut increased by 14 %, from R315 million in 2010 to R360 million in 2011. Apple juice imports from China grew by 27 % between 2010 and 2011, whereas peptone exports declined by 17 % over the same period.

Table 4: South Africa's imports of secondary agricultural goods from China, 2010-2011

HS Code	Description	Rand million	
		2010	2011
	Secondary Agricultural Product	**1626.6**	**1680.6**
050400	Animal (Not Fish) Guts	315.6	360.3
200979	Apple Juice	220.2	281.2
350400	Peptones	174.4	144.6
230990	Animal Feed Preparations	32.1	75.3
200290	Tomato Paste	57.6	62.3
071290	Dried Vegetables	59.0	60.6
190230	Pasta	44.2	53.2
170230	Glucose (Dextrose)	57.3	51.8
210690	Food Preparations	34.8	42.0
160413	Sardines	66.1	41.3

Source: Global Trade Atlas, 2012

Figure 1 illustrates that South Africa's agricultural trade relationship with China has strengthened significantly since 2005, with all four areas of trade exhibiting strong growth. Primary agricultural imports from China increased by 86 % between 2007 and 2011, while primary agricultural exports increased by 75 % over the same period. Secondary agricultural imports from China grew by 65 % between 2007 and 2011, while secondary agricultural exports grew by 138 % over the same period.

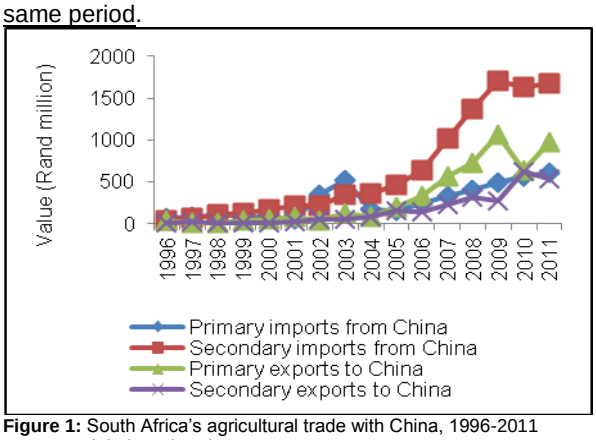

Figure 1: South Africa's agricultural trade with China, 1996-2011
Source: Global Trade Atlas, 2012

Table 5 indicates China's leading agricultural imports during 2011 and provides an indication of agricultural products that South African exporters may explore in the Chinese market.

Table 5: China's leading agricultural imports, 2011

Rank	Commodity HS code	Description	South African Rand billion
	Agricultural Products		**641.2**
1	120100	Soybeans	217.2
2	520100	Cotton	70.3
3	151190	Palm Oil	47.8
4	510111	Wool	18.9
5	410150	Whole Hides and Skins, bovine/equine	13.8
6	170111	Cane sugar, raw	12.6
7	230120	Flour Meal	12.6
8	071410	Cassava	10.0
9	150710	Soybean Oil	9.6
10	220421	Wine	9.3
11	020649	Offal of Swine	9.2
12	040221	Milk/Cream, concentrated	8.4
13	240120	Tobacco	7.5
14	190110	Food Preparations for Infants	6.3
15	120510	Rape/Colza Seeds	6.0

Source: Global Trade Atlas, 2012

2. REGIONAL INTEGRATION IN AFRICA: CHALLENGES AND POSSIBLE APPROACH[2]

There is a strong theoretical base to argue that unilateral, bilateral and multilateral trade liberalisation rests on strong economic support from scholars with less but intense opposition. Despite this argument, it should be noted that the benefits of liberalising trade, through either regional integration or multilateral level, do not necessarily translate into a situation where all parties benefit, i.e. a win-win situation. Some countries, or even some sectors within an economy, stand to lose while others win.

This status quo justifies the need to evaluate the practicalities and appropriateness of the envisaged benefits of a Free Trade Area (FTA), in this case the proposed Tripartite FTA (SADC, COMESA and EAC). The concept of regional or continental FTAs is not new to Africa and can be traced back to the independence of Ghana in the early 1960s (Harvey, 2000[3]). Jakobeit *et al.* (2005) argue that a major reason for the continued failure of regional integration in Africa is the overlapping membership. This section looks at Africa and the regional integration agenda with the aim of identifying the challenges and ways of overcoming them.

Trade creation and trade diversion

Forming an FTA could have two possible outcomes in relation to the movement of goods and services, namely trade creation and/or trade diversion. The history of regional trade analysis in its simplistic form has always revolved around these two concepts and

[2] This article was compiled by Mr Bonani Nyhodo and Mr Nico Scheltema of the NAMC.
[3] Harvey, C. (2000). Macroeconomic policy and trade integration in Southern Africa, paper presented at a Regional Research workshop, 30-13 August 1999

dates back to the early 1950s, when Viner (1950)[4] introduced the concept of trade creation/diversion, arguing along the lines of classical trade theory. Before proceeding along these lines, it is important so define trade creation and trade diversion.

*Suranovic (2007) defined **trade creation** as the forming of a free trade area to create trade that would not have existed otherwise, or the redirecting of trade from a less efficient producer of a given product outside the area to a more efficient producer within the area. Suranovic (2007) argued further that trade creation in all cases raises a country's national welfare.*

*Clausing (2001)[5] defined **trade diversion** as the diverting of trade away from a more efficient producer outside the area to a less efficient producer within the area. As such, in some instances, trade diversion will reduce a country's national welfare, but in other cases national welfare could improve despite the trade diversion.*

Trade creation and trade diversion differ in that trade creation provides real net improvement, while trade diversion comes at the moment when trade from cheaper suppliers is diverted to the state inside the union, which became cheaper only due to the decrease in tariffs but which is actually more expensive in comparison with the rest of the world.

Efficiency of international economic integration is defined on the basis of an outcome between the trade creation and trade diversion effects, i.e. when the former prevail an FTA is regarded as efficient, and vice versa. Nevertheless, the question of whether or not regional integration (FTA) is beneficial to participating countries has been an area of contention in economic literature.

Clausing (2001) argued that scholars often assume, based on the neo-classical economic approach, that customs unions are welfare improving. As such, the formation of regional trade agreements resulting in tariff reduction is beneficial. This is based on the notion that since tariffs are known to be welfare reducing, welfare would increase as tariffs drop.

However, Viner (1950) argue that customs unions do not necessarily improve the welfare of the economies involved, since tariff reductions occur in a world of second best. Viner (1950) further state that welfare improvements as a result of the formation of customs unions depend solely on the source of increased trade. It could then be argued that the welfare impact of customs unions could be judged on the basis of trade creation against trade diversion.

It has been argued theoretically and empirically that the unilateral elimination of tariffs leads to increased imports of the product concerned, thereby increasing domestic consumption and reducing domestic production. It is further argued that in such situations, consumer benefits outweigh producer losses and government losses (tariff revenue), thereby leading to welfare gains.

Challenges facing Africa's regional integration

Regional integration has posed a peculiar challenge in Africa due to intertwined membership and contrasting country policy agendas. Bösl *et al.* (2010) argued that due to the above, the Southern African Customs Union (SACU) has not been recognised as one of the eight building blocks of the African Economic Community (AEC), even though developments in this regional economic community have important implications for the broader Pan-African integration agenda.

The Interim Economic Partnership Agreement (IEPA) with the European Union (EU) was signed in June 2009 by Botswana, Lesotho, Mozambique and Swaziland, all of which are members of the Southern African Development Community (SADC) and, with the exception of Mozambique, the SACU. Neither South Africa nor Namibia signed the agreement.

South Africa in particular raised concerns about its future membership of SACU, should the three member states implement the IEPA. Arguably the strong glue keeping SACU together is the revenue-sharing arrangement, with South Africa making monetary transfers to the smaller SACU states.

The second challenge is the fact that Sub-Saharan Africa (SSA) has the world's highest concentration of least-developed countries. According to the Organisation for Economic Co-operation and Development (OECD, 2010[6]) SSA countries have small domestic economies that are largely rural and subsistence based. This, coupled with other characteristics, inhibits successful integration of SSA into the global economy. Other scholars such as Collier (2007[7]) have argued that given the fact that Africa as a region has more poor citizens than any other region of the world, success in regional integration depends on how the region deals with the four "traps":

- The conflict trap;
- The natural resources trap;
- The trap of being landlocked with bad neighbours; and
- The bad governance trap.

History of overlapping membership and future of the tripartite FTA

The overlapping membership in Eastern and Southern Africa dates back to the colonial era, when different regional integration initiatives were formed. Jabobeit *et al.* (2005) argue that fundamental to the formation of these regional integration initiatives was the influence of the European Economic Community (EEC).

[4] Viner, J. 1950. *The Customs Union Issue*. Washington, DC: Carnegie Endowment for International Peace, pp. 41-55

[5] Clausing, KA. 2001. Trade creation and trade diversion in the Canada-United States Free Trade Agreement. *Canadian Journal of Economics*, 34(3): 677-696.

[6] OECD (Organisation for Economic Co-operation and Development). 2010. Rethinking the (European) foundations of Sub-Saharan African regional economic integration: A political economy essay. *Working Paper No. 293*. Paris: OECD.

[7] Collier, P. 2007. *The bottom billion: Why the poorest countries are failing and what can be done about It.* Oxford: Oxford University Press.

The political rationale behind the decision to form part of regional integration initiatives has evolved over time as these institutions have themselves evolved in terms of structure and agenda.

The situation of multiple and overlapping membership can be argued as a political game of international relations in Southern and Eastern Africa rather than a means of better allocating resources in order to improve people's lives. A number of regional settings have adopted a motion of moving towards the formation of FTAs, which is often viewed as a necessary step towards the achievement of the African economic/political union. However, it has also become clear in the process that other areas besides trade are critical for deeper integration and economic development in the region.

Jabobeit *et al.* (2005) argue that most regional integration initiatives have turned into regional economic communities (RECs), while non-trade matters have also remained prominently on the agendas of some. As early as 2000, declarations and later political commitments were made to turn COMESA, EAC and SADC into customs unions. The fact that some countries are members of more than one of these regional communities makes this a challenge. It becomes even more complicated when one considers that currently a number of countries are members of SACU, an existing customs union, while there are talks of a tripartite FTA between COMESA, EAC and SADC. This presents Africa with a major challenge in terms of resolving the issue of overlapping membership without negatively affecting the countries involved.

In this regard, Jabobeit *et al.* (2005) suggested three possible ways of addressing the overlapping membership in the quest for a vibrant SADC customs union. If the economic rationale were to be based on welfare gains/losses, the following suggestions would make logical sense:

Option 1 – Status quo of customs unions plus larger integration between COMESA and SADC:

This option suggests that both COMESA and SADC should remain FTAs and undertake to adapt common trade policies for Southern and Eastern Africa. At the same time, the two customs unions (SACU and EAC) should serve as fast-tracking mechanisms for the two regions. In practice, this would mean participating as two groups in EPA negotiations. SACU should ideally put more focus on the revision of the Trade and Development Co-operation Agreement (TDCA) of the BLNS, but as attractive as this option sounds, it is certainly not consistent with either the SADC's envisaged integration process spelled out by the Regional Indicative Strategic Development Programme (RISDP), nor COMESA's more ambitious objective to establish a customs union.

Option 2 – "Variable Geometry Option" or "SACU+ and EAC+ Option":

This option seeks to suggest that it would be preferable to enlarge SACU and EAC in order to become fully fledged customs unions, while at the same time non-participating countries remain members of the SADC and/or COMESA FTAs for the time being, but with a view to forming two separate customs unions as the SADC and COMESA in the medium term. The fundamental challenge lies in considering the EPA negotiations, where decisions on how to reciprocate market access vis-à-vis the EU will be rather complex.

Option 3 – "Leap Forward Option":

This option suggests that the SADC and COMESA would both become fully fledged customs unions and will merge with the current SACU and EAC respectively. All countries would make a decision regarding their membership of either the SADC or COMESA customs union.

3. BILATERAL AGRICULTURAL TRADE BETWEEN SOUTH AFRICA AND INDONESIA[8]

Indonesia is an archipelago comprising 17 508 islands. With over 238 million people living in 33 provinces, it is the world's fourth most populous country. According to the Central Intelligence Agency (CIA, 2012) the country has a GDP per capita of US$ 4 700 and a GDP growth rate of 6.4 %. About 47 % of the country's population resides in urban areas, with an estimated urbanisation rate of 1.7 % per annum (CIA, 2012). Indonesia has a mixed economy in which both the private sector and government play a significant role. The country is the largest economy in Southeast Asia and is a member of the G-20 major economies. The industrial sector is the largest in the economy, accounting for 47.6 % of GDP in 2011, followed by services (37.1 %) and agriculture (14.7 %) (CIA, 2012; Embassy of Indonesia, 2012)[9][10].

The value of trade between South Africa and Indonesia has grown significantly in the last decade, driven by, amongst other things, trade agreements signed by the two countries. Some of the agreements driving trade include the 1997 Trade Agreement, the 2003 Arrangement on Legal Co-operation, the 2005 Memorandum of Understanding on Agricultural Development Co-operation, and the 2008 Joint Declaration on a Strategic Partnership for a Peaceful and Prosperous Future. Under the auspices of these agreements, the value of trade increased from R3 billion in 2002 to R12.3 billion in 2011. With strengthening bilateral relations between South Africa and Indonesia, trade is expected to expand further in the future.

Figure 2 shows the total trade between South Africa and Indonesia in value terms. The total trade between these two countries grew at an average of R6.1 billion per annum between 2002 and 2011. The

[8] This article was compiled by Mr Sifiso Ntombela of the NAMC.
[9] CIA (Central Intelligence Agency). 2012. *World Factbook: Indonesia economic data*. Available online: www.cia.gov (accessed on 23 July 2012).
[10] Embassy of Indonesia in Pretoria. 2012. *Bilateral trade between South Africa and Indonesia*. Available online: www.indonesia-pretoria.org.za (accessed on 23 July 2012).

largest trade growth was observed between 2006 and 2009, when imports from Indonesia to South Africa grew by 95 %, from R3 billion to R5.8 billion. South African exports to Indonesia during the same period increased from R1.4 billion to R3.2 billion. It is clear from **Figure 2** that South Africa is a net importer of Indonesian products, with a negative trade balance of R1.6 billion in 2011.

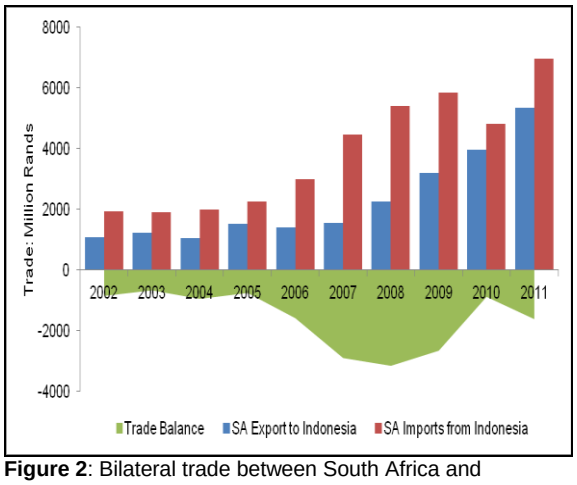

Figure 2: Bilateral trade between South Africa and Indonesia, 2002-2011
Source: World Trade Atlas, 2012

The main commodities exported by South Africa to Indonesia include wood pulp, iron and steel, ores, aluminium and edible fruits. These products collectively account for 89 % of South African exports. The main South African imports include fats and oils, rubber, vehicles (not railway), electrical machinery, paper and mineral fuels, together accounting for 62 % of total imports.

Figure 3 shows the bilateral agricultural trade between South Africa and Indonesia from 2002 to 2011. South Africa is also a net importer of agricultural products from Indonesia. The South African negative trade balance expanded from R10 million in 2005 to R576 million in 2007 and to R1.6 billion in 2011. The main agricultural products imported from Indonesia included palm oil, coffee, cocoa powder, and vegetable fats and oils. South Africa mainly exports sugar, table grapes, apples, pears and cotton to Indonesia.

South African agricultural exports increased from R71 million in 2006 to R838 million in 2009 before dropping sharply to R181 million in 2011. Over the past 10 years, South African agricultural exports to Indonesia have increased by an average of 10.2 % per annum, while agricultural imports from Indonesia have increased by an average of 22.4 % per annum.

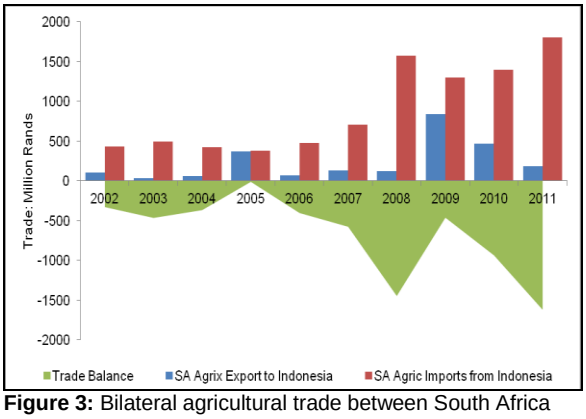

Figure 3: Bilateral agricultural trade between South Africa and Indonesia, 2002-2011
Source: World Trade Atlas, 2012

South Africa's agricultural trade opportunities in Indonesia: Export gap analysis

Indonesia is a large importer of food products from the world. According to ITC (2012), Indonesia's food imports increased from US$3.7 billion in 2003 to US$17.1 billion in 2011 registering an average growth of 21 % year-on-year. The principal products imported by Indonesia include cereals, food waste and residue, sugar, oil seeds, dairy and egg products, and fruits. These top six agricultural products account for 72 % of Indonesia's total agricultural imports (see **Table 6**).

The majority of agricultural products imported by Indonesia originate from the USA, Australia, Thailand, China and Argentina, with these top five suppliers accounting for 58.5 % of Indonesia's total agricultural imports from the world. Three of these top suppliers are located close to Indonesia which gives them a geographical advantage over South Africa. South Africa is located in the southern hemisphere, leaving Argentina and Australia as the only direct competitors.

Table 6: Indonesia's agricultural import profile

HS group	Product label	Indonesia's Agricultural Imports			
		Value of imports during 2008, USD '000	Value of imports during 2011, USD '000	% Share in agri-cultural imports	10-Year ave. annual growth
	Agri-culture	**9586562**	**17147927**	**100 %**	**21 %**
10	Cereals	2199782	4753078	28 %	24 %
23	Food Waste & Residue	1744993	2219244	13 %	19 %
17	Sugar	457971	1900287	11 %	38 %
12	Oil Seeds	845776	1550138	9 %	20 %
04	Dairy & Egg Products	874488	1162995	7 %	22 %
08	Fruit & Nuts	451973	829003	5 %	18 %
21	Edible Prep-arations	497460	643067	4 %	31 %

Source: ITC, 2012

Table 7 shows South Africa's export growth on products imported by Indonesia from the world. Within the ambit of existing trade agreements and MoUs between South Africa and Indonesia, South

Africa must try to expand its agricultural trade to Indonesia. This can be achieved by better understanding Indonesia's market structures and requirements. South Africa can also conduct market campaigns to enhance the country's awareness and stimulate demand for South African products in Indonesia.

Table 7: South Africa's agricultural exports to the world

HS group	Product label	Indonesia's Agricultural Imports			
		Value of exports during 2008, USD thousand	Value of exports during 2011, USD thousand	% Share in agri-cultural exports	10-year average annual growth
	Agriculture	**5815402**	**7131070**	**100 %**	**12 %**
10	Cereals	678365	843064	12 %	142 %
23	Food Waste and Residue	49726	109845	2 %	32 %
17	Sugar	249478	239504	3 %	3 %
12	Oil Seeds	178921	147191	2 %	17 %
04	Dairy and Egg Products	55211	90873	1 %	9 %
08	Fruit and Nuts	1588013	2240208	31 %	17 %
21	Misc. Edible Preparations	167070	300407	4 %	21 %

Source: ITC, 2012

4. MARKET PROFILE OF APPLE JUICE (HS CODE: 200971)[11]

China is the global leader in the production of apple juice, producing 600 000 million metric tons per annum (USDA-FAS, 2012). South Africa's production of concentrated apple juice has generally increased over the past 10 years (Hortigro, 2012). The area planted to apples remained stable at 21 554 hectares between 2003 and 2010. According to Hortgro (2012) exports represent 42 % of the apple crop in South Africa, with 29 % being processed.

Table 8 shows the consumption and production of apple juice amongst the global leading nations. Europe leads in consumption at 790 001 million metric tons per annum. South Africa consumes about 37 400 million metric tons.

Table 8: World consumption and production of apple juice

Leading producers		Leading consumers	
Country	**Million metric tons**	**Country**	**Million metric tons**
China	600,000	**EU-27**	790,010
EU-27	473,960	**United States**	462,967
United States	60,367	**China**	160,000
Chile	50,350	**Russia**	113,000
Argentina	50,000	**South Africa**	37,400

Source: USDA-FAS, 2012

Figure 4 reflects the production and consumption of apple juice around the world, with the apple juice trend showing a general increase over the past five years.

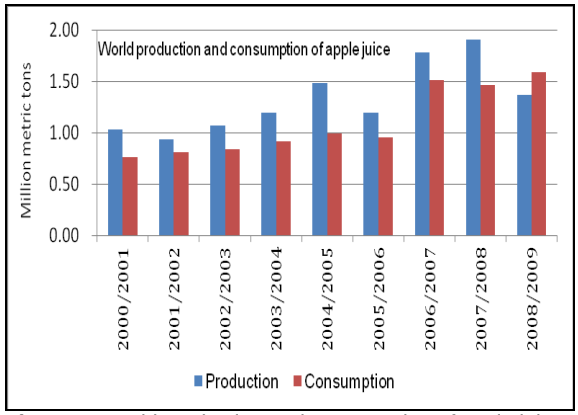

Figure 4: World production and consumption of apple juice
Source: USDA_FAS, 2012

World imports of apple juice (200971) totalled 337 649 000 US dollars in 2010 (see **Figure 5**). Between 2006 and 2010, import quantity grew by 5 % and import value by 6 %, while export value grew by 24 % and export quantity by 4 %.

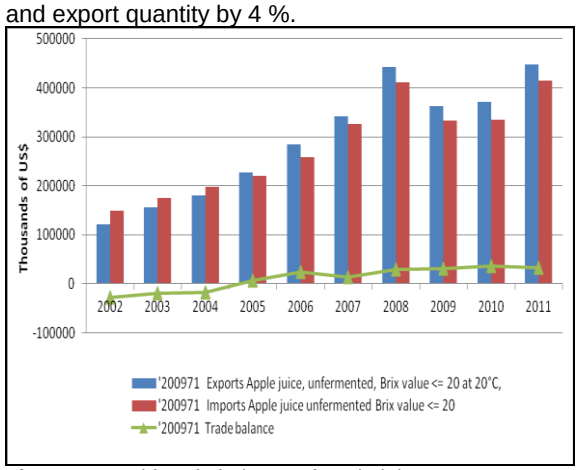

Figure 5: World trade balance of apple juice
Source: ITC, 2012

Table 9 shows the world's leading importers of apple juice, together accounting for 32.4 % of total imports.. The top exporters of apple juice account for 46.8 % of total apple juice exports.

Table 9: World's leading importers and exporters of apple juice

Im-porters	Share in world imports %	Value of imports in US$ million	Ex-porters	Share in world imports %	Value of exports in US$ million
France	13	44	**Germany**	34.5	128.4
United Kingdom	11.2	38	**Austria**	6.5	24.2
United States of America	8.2	27.8	**Belgium**	5.8	21.4

Source: Trade Map, 2012

In 2010, South Africa's ranked number 12 in the world as an exporter of apple juice, holding a 2 % global market share. The value of South Africa's exports to the world amounted to around US$7 million between 2006 and 2010, with an annual growth of 12 %. South Africa is gaining a share in the world market in terms of apple juice exports, registering a 27 % growth measured in value terms,

[11] This article was compiled by Ms Heidi Phahlane and Ms Londiwe Thabethe of the NAMC.

compared to the overall 3 % growth rate of global exporters. In quantity terms, South African exports grew by 29 % compared to the global average of 4 %. In value terms, the three biggest importers of South African apple juice in 2010 were the USA, Canada and Australia, importing products to the value of US$16 million, US$4.6 million and US$1.6 million respectively.

Amongst those markets to which South African apple juice is not currently being exported (see **Table 10**), the countries with the highest potential for such exports are Switzerland, Norway and Austria. Switzerland presents an attractive opportunity due to the import growth rate of 63 %; however, South Africa does not have a tariff advantage over the leading importers. Switzerland's apple juice imports from the world grew in value by 26 % per annum between 2007 and 2011, while quantity grew by 48 % per annum.

If South Africa should consider Switzerland as a new target market for apple juice exports, its main competitors in terms of value would be Hungary and Germany. In 2010, Hungary and Germany exported apple juice to the value of US$ 976 thousand and US$ 525 thousand respectively to Switzerland. In terms of quantity, Hungary exported 961 tons and Germany 448 tons in the same period. Both these countries have a distance advantage over South Africa.

Table 10: Market screening for potential apple juice markets

Countries importing apple juice from South Africa	Total imports in USD thousands, 2010	Import growth rate, 2010	Tariff advantage over competitors	First competitor (market share : applied tariff), 2010	Second competitor (market share : applied tariff), 2010	Third competitor (market share : applied tariff), 2010	Risk rating
Traditional markets							
United Kingdom	37,958	25 %	-14.4 %	Spain (45.6 %: 0 %)	Germany (16.5 %; 0 %)	Austria (10.4 %; 0)	Average
France	43,944	20 %	14.5 %	Germany (62.2 %; 0 %)	Austria (10.3 %; 0 %)	Belgium (9.5 %; 0)	Low
Republic of Korea	1,642	20 %	-0.3 %	USA (24.8 %; 45 %)	Chile (1.7 %; 28.6 %)	China (1.2 %; 45 %)	Low
New attractive markets to which South Africa is not yet exporting							
Switzerland	1,535	63 %	0 %	Hungary (1.1 %; 62.3 %)	Germany (34.5 %; 62.3 %)	France (3.7 % 62.3 %)	Very low
Norway	1,472	-11 %	73.4 %	Italy (4.6 %; 452.1 %)	Austria (6.5 %; 452.1 %)	Germany (34.5 %; 452.1 %)	Very low
Austria	12,704	20 %	-14.50 %	Germany (64.5 %; 5 %)	Italy (32.6 %; 0 %)	Serbia (1.5 %; 0 %)	Low

Source: ITC, 2012

5. REVISED TARIFF STRUCTURE FOR THE INDUSTRY PRODUCING CANNED TOMATOES AND TOMATO PASTE, PUREE, AND CONCENTRATES IN POWDER FORM[12]

The International Trade Administration Commission (ITAC) of South Africa completed its investigation into a revised tariff structure for the industry producing canned tomatoes and tomato paste, puree, and concentrates in powder form.

The applicant applied for an increase in the rate of customs duty on canned whole tomatoes classifiable under tariff subheading 2002.10.80, as well as tomato puree, pastes, and concentrates in powder form classifiable under tariff subheading 2002.90, from 30 % and 15 % of duty to 37 % *ad valorem,* respectively.

The applicant's reasons for the application were that it had experienced a decline in demand and orders due to a shift by customers to low-priced imports from China. In October 2010, the canning production line for canned tomatoes and tomato paste at the applicant's factory was forced to close, resulting in 110 workers having to be retrenched.

The application was published for comment in the Government Gazette of 22 July 2011, and a number of downstream food canners and importers forwarded their comments to the Commission for consideration. Below is a synopsis of the Commission's investigation and recommendations, as approved by the Minister of Trade and Industry.

Firstly, the Commission found adequate justification for an increase in duty on tomato paste, puree, and concentrates in powder form classifiable under tariff subheading 2002.90. Additional tariff support to the WTO-bound rate of 37 % *ad valorem* would enhance the price competitive position of the industry in the face of fierce low-priced competition from abroad. This support will enable domestic producers to utilise existing production capacity and achieve economies of scale.

The duty structure for tomato paste and other products classifiable under tariff subheading 2002.90 will be monitored over a period of three years, after which the duty structure will be reviewed by the Commission, taking into consideration all aspects relating to the growth, development and competitiveness of the domestic tomato canning industry.

Secondly, the Commission found that supply shortages of tomato paste for further processing are experienced from time to time, adversely affecting the downstream producers of certain food preparations. It recommended that a rebate facility be created for bulk tomato paste used in the manufacturing of food preparations classifiable in chapters 16 to 21.

[12] This article was compiled by Mr. Thembinkosi Gamlashe from ITAC.

The rebate will be administered by ITAC via a rebate permit system, allowing downstream manufacturers of tomato-based products to import tomato paste in bulk and duty free, should the domestic tomato processors be unable to meet the requirements.

Lastly, based on the information at its disposal, the Commission could find no justification for an increase in the general rate of duty on canned tomatoes currently classifiable under tariff subheading 2001.10.80 at 30 % *ad valore*m, especially as the vast majority of imported canned tomatoes are imported duty free from the European Union (EU) in terms of the SA-EU Agreement. The Commission found that the existing general rate of customs duty offers adequate support to the industry producing canned tomatoes, whole or in pieces.

The Commission's report with recommendations was approved by the Minister of Trade and Industry and implemented by the South African Revenue Service on 18 May 2012. The Commission's full findings and recommendations are contained in Report No. 387, available at *www.itac.org.za*.

In terms of the guidelines governing the recommended creation of the rebate facility, processors of tomato paste wishing to utilise this rebate provision would be required, amongst other things, to first consult with domestic producers of tomato paste, for confirmation of the ability to supply tomato paste. If such confirmation is not forthcoming, a permit will be issued for the quantity needed by the downstream canning industry.

The document detailing the guidelines and conditions for the rebate provision is also available and provides a reference and procedural guide for permit applications in terms of **rebate provision 304.07/2002.90/01.06**, for the importation of bulk tomato paste classifiable under tariff subheading 2002.90, for further processing into tomato products.

The rebate provision reads as follows:
"Bulk tomato paste (200 li. or more) used in the manufacture of food preparations classifiable in Chapters 16 to 21 in such quantities, at such times and subject to such conditions as the International Trade Administration Commission of South Africa may allow by specific permit."