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

agriculture
Department: Agriculture
REPUBLIC OF SOUTH AFRICA

INTERNATIONAL *TradeProbe*

No. 9, August 2008

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

Covered in this issue are:

- Trade profiles
  - ✓ Pineapple
  - ✓ Fruit juice
- Contributed articles
  - ✓ The specific sector results of South Africa's trading relationships with India: The agricultural and natural resource sectors
  - ✓ SADC-EC EPA negotiations: latest developments
  - ✓ Doha Development Round: WTO Ministerial, Geneva, Switzerland, 18 – 27 July 2008

SECTION 1 – TRADE PROFILES

1.1 Pineapple (HS–080430)

Table 1 presents a list of the top ten exporters of pineapples in 2006, expressed in value terms. Of the top ten, the top three exporters accounted for more than 60 % of the value of world exports of pineapples in 2006. These countries were Costa Rica (33 %), followed by Belgium (17 %) and Netherlands (11 %). Côte d'Ivoire was the only African country in the list of top exporters, ranking at number five and accounting for 5 % of the value of world exports. South Africa ranked number 22 and accounted for less for 0 % of the value of world exports.

Table 2 shows the list of the top ten world importers of pineapples in 2006, expressed in value terms. The top three importers accounted for 47 % of the value of the world pineapple imports. These countries were the USA (27 %), Belgium (11 %) and the Netherlands (9 %). It is noteworthy that Belgium and the Netherlands were also among the top three exporters of pineapples indicating a high level of intra-industrial trade. There was no African country in the list of top ten importers of pineapples. The list was dominated by countries in Europe.

Table 1: Leading exporters of pineapple in 2006 (HS–080430)

Exporters	Value exported in 2006 in US$ thousand	Share in world exports %
World total exports	1 350 288	100
Costa Rica	440 264	33
Belgium	234 426	17
Netherlands	154 815	11
USA	88 690	7
Côte d'Ivoire	70 733	5
Philippines	54 794	4
France	38 652	3
Panama	36 922	3
Ecuador	30 369	2
Germany	29 838	2
South Africa (22)	3 656	0

Source: ITC calculations based on COMTRADE statistics

Table 2: Leading importers of pineapples in 2006 (HS-08040)

Importers	Value imported in 2006 in US$ thousand	Share in world imports %
World total imports	1 835 682	100
USA	502 304	27
Belgium	204 220	11
Netherlands	164 754	9
Germany	144 349	8
Italy	121 983	7
United Kingdom	104 977	6
France	96 617	5
Canada	90 048	5
Japan	85 933	5
Spain	65 685	4

Source: ITC calculations based on COMTRADE statistics

Table 3 shows that the Netherlands was the biggest export destination of pineapples exported by South Africa, and accounted for 17 % of the value of pineapple exports from South Africa. The other two leading destinations were the United Kingdom and the USA, accounting for 16 % and 15 % of the value of South Africa's pineapple exports, respectively, in 2006. The biggest African destination was Swaziland (ranking number eight on the list), which accounted for 2 % of the value of South Africa's pineapple exports.

Table 3: Leading export destinations of pineapples exported by South Africa in 2006 (HS-08040)

Exporters	Exported value 2006 in US$ thousand	Share in South Africa's exports %
South Africa's total exports	3 656	100
Netherlands	627	17
United Kingdom	598	16
United Arab Emirates	555	15
Germany	489	13
France	397	11
USA	380	10
Italy	207	6
Switzerland	68	2
Saudi Arabia	59	2

Source: ITC calculations based on COMTRADE statistics

Table 4 illustrates the countries that export pineapples to the Netherlands, expressed in value terms. The top three countries from where the Netherlands imported pineapples accounted for more than 90 % of the value of imports to the Netherlands; they were Costa Rica (68 %), Germany (10 %) and Panama (7 %). There were only two African countries (Ghana and South Africa) in the list of leading exporters to the Netherlands.

Table 4: Leading exporters of pineapples to the Netherlands in 2006 (HS-08040)

Importers	Imported value 2006 in US$ thousand	Share in Netherlands's imports %
Total imports by the Netherlands	164 754	100
Costa Rica	111 285	68
Germany	16 590	10
Panama	11 632	7
Belgium	6 843	4
France	4 291	3
United Kingdom	3 077	2
Ecuador	2 357	1
Honduras	2 342	1
Ghana	1 284	1
South Africa	1 256	1

Source: ITC calculations based on COMTRADE statistics

In 2006 South Africa represented only 1 % of the Netherlands imports despite being South Africa's top export destination for pineapples.

1.2 Fruit juice (HS–2009)

Table 5 presents the top ten world exporters of fruit juice in 2006, expressed in value terms. They are Brazil (14 %), Belgium (10 %) and the USA (8 %). It is noteworthy that there was no African country in the top ten list of exporters, and that South Africa ranked number 17, representing about 1 % of world exports.

Table 5: Leading exporters of fruit juice in 2006 (HS–2009)

Exporters	Value exported in 2006 in US$ thousand	Share in world exports %
World total exports	10 594 612	100
Brazil	1 569 567	14
Belgium	1 123 020	10
USA	894 901	8
Netherlands	836 669	7
Germany	752 736	7
China	670 909	6
Poland	493 179	4
Italy	452 426	4
Spain	433 814	4
Austria	287 076	2
South Africa (17)	144 466	1

Source: ITC calculations based on COMTRADE statistics

Table 6 shows the top ten importers of the fruit juice internationally in 2006. Germany, followed by USA and the United Kingdom, were the three top importers, representing 12 %, 11 % and 8 % of the value of world imports of fruit juice, respectively. The European countries dominated the list of world importers of fruit juice in 2006. Another important observation is that the top ten importers of fruit juice represent more than 70 % of world imports of fruit juice.

Table 6: Leading importers of fruit juice in 2006 (HS–2009)

Importers	Value imported in 2006 in US$ thousand	Share in world imports %
World total imports	10 460 502	100
Germany	1 289 608	12
USA	1 228 397	11
United Kingdom	885 616	8
France	827 972	7
Netherlands	791 852	7
Belgium	652 028	6
Japan	631 474	6
Canada	570 330	5
Russian Federation	299 610	2
Austria	280 939	2

Source: ITC calculations based on COMTRADE statistics

Table 7 presents the top five destinations of fruit juice exported by South Africa in 2006, expressed in value terms. South Africa's total exports of fruit juice amounted to US$ 144 million in 2006. The top three export destinations for fruit juice from South Africa in 2006 were the Netherlands (29 %), Japan (16 %) and the USA (6 %). The biggest African export market for fruit juice exported by South Africa in 2006 was Mozambique (4 %). Other smaller export destinations represent 39 % of the total fruit juice exports by South Africa.

Table 7: Leading importers of fruit juice exported by South Africa in 2006 (HS–2009)

Importers	Exported value 2006 in US$ thousand	Share in South Africa's exports %
South Africa's total exports	144 466	100
Netherlands	41 922	29
Japan	22 758	16
USA	9 079	6
Canada	7 285	5
Mozambique	6 322	4

As South Africa's leading export destination, it is important to look at the Netherlands in more details to get a better idea of competing countries for this market. The Netherlands represented about 7 % of the value of world imports of fruit juice in 2006.

Table 8 presents the top ten origins of fruit juice imported by the Netherlands. Brazil represented about 30 % of value of the Netherlands imports. Germany and China were the second and third largest origins of fruit juice imported by the Netherlands, representing about 26 % and 5 % of the value of fruit juice imports by the Netherlands's, respectively. South Africa ranked number ten.

Table 8: Leading exporters of fruit juice imported by Netherlands (HS–2009)

Exporters	Imported value 2006 in US$ thousand	Share in Netherlands's imports %
Total imports by the Netherlands's	791 852	100
Brazil	240 549	30
Germany	207 778	26
China	42 378	5
USA	39 319	5
Poland	37 288	5
Thailand	27 098	3
Italy	19 870	3
Ecuador	19 091	2
Belgium	18 499	2
Spain	18 267	2
Costa Rica	16 798	2
South Africa	6 838	1

Source: ITC calculations based on COMTRADE statistics

SECTION 2 – CONTRIBUTED ARTICLES

2.1 Specific sector results of South Africa trading relationships with India: The agricultural and natural resource sectors[1]

Tralac have been researching how South Africa's trading relationships with both China and India may be advanced by the adoption of free trade agreements. In this ***TradeProbe*** selected results for India is reported. To assist with this analysis an internationally accepted benchmark, the Global Trade Analysis Project (GTAP) global computer model was used as the analytical tool. The researchers used the standard GTAP FTA analysis, but concentrated upon the scenario that abolishes all tariffs on both sides except those on gold imports into India. Fully liberalising gold imports into India from South Africa gives results which were considered to be unrealistic. The researchers therefore opted for an alternative simulation that held the Indian non-ferrous metal (gold) tariffs at their initial value. This 'no-gold' simulation still produced an outstanding welfare gain of US$ 1 200 million for South Africa and a lesser, but still good US$ 715 million gain for India.

- **Results for agriculture**

Overall, South Africa's enhanced agricultural exports to India are significant, with an increase in global exports of $ 399 million for primary and US$ 1 202 million for secondary products. However, for primary agriculture, a large portion of these gains is merely trade diversion away from other markets, as the final global increase is only US$ 83 million. For secondary agriculture the picture is different, as the trade diversion is much less of an overall gain, with US$ 1 044 million in increased exports. For exports to India the big gains are in wool, vegetable oils and especially sugar. This is not surprising, as these sectors face very high tariffs into India. Conversely, the increases in agricultural imports from India are modest.

There are large increases in most South African agricultural output and prices, although there are small output losses in vegetables, fruit and dairy as other sectors become relatively more profitable. Sugar is the sector with the greatest change. Outputs increased by 52 % via South African exports to the large but currently protected Indian market. An FTA with India is important for South African agriculture, as there is a very large increase of 3.84 % in land prices resulting from some excellent gains from increased exports to India.

Overall, the opening up of the Indian market with a SACU-India FTA results in an appreciation of the real exchange rate in South Africa due to an increased in demand for South African goods by India. Market prices in South Africa are on the increase, especially for the agricultural sector. This results in increased terms of trade. The higher market prices in South Africa increase the total value of income (sum of primary factor income and indirect tax receipts) by 0.73 % while the general market price increases by only 0.38 % (price index for disposition of income), giving rise to the increase in welfare in fixed prices. The appreciation of the real exchange rate draws South African exports away from other countries/regions of the world, redirecting them to India.

[1] Ron Sandrey and Hans Jensen, *tralac*. This note is based on the forthcoming publication by Sandrey et al, 2008

2.2 SADC-EC EPA negotiations: latest developments[2]

The Interim SADC-EC Economic Partnership Agreement (IEPA) was initialled by Botswana, Lesotho, Swaziland, Namibia and Mozambique towards the end of 2007. Namibia initialled the agreement with some concerns highlighted, i.e. Namibia wished to ensure that it does not lose access to the European Union (EU) markets, especially for agricultural products. South Africa and Angola have not yet initialled the agreement due to concerns with the Interim agreement text.

The IEPA is not yet implemented by SADC. It was envisaged that the agreement will be implemented on 1 July 2008, but this did not happen as market access negotiations have not been concluded. The other reason was due to the concerns raised by Namibia, South Africa and Angola with regard to the IEPA. The SADC EPA Group and the European Commission (EC) resolved to discuss these concerns and progress towards a full EPA rather than an IEPA.

Botswana, Lesotho, Swaziland, Namibia and Mozambique access European Union markets on a duty-free-quota-free basis for all products except sugar and rice as from 1 January 2008. The Trade, Development and Cooperation Agreement remain the legal framework for South Africa's trade with the EU, while Angola uses the "Everything but Arms" (EBAs) initiative. Initiatives are underway to define the implementation options of the IEPA by BLNS countries.

It is expected that negotiations towards a full EC and SADC EPA agreement will be concluded in December 2008. South Africa, Namibia and Angola continue to participate in the SADC-EC EPA negotiations with the intention of being parties to a full EPA. Negotiations continue in all pillars of market access negotiations, i.e. non-agricultural market access, fisheries and marine products, and agriculture. SACU and the EU exchanged offers on agriculture at the end of June 2008. Further discussion regarding the offers will take place in the next round of negotiations scheduled for October 2008. Angola has not yet tabled its market access offer to the EC, as Least Developed Countries (LDCs) are also expected to reciprocate substantially on all trade during these negotiations.

What lies ahead?

- Consider options for implementation of the market access provisions of the IEPA by the BLNS countries.
- Address the concerns with regard to IEPA.
- Conclude the market access negotiations.

SADC EPA meetings are scheduled for the rest of the year to finalise the SADC-EC EPA. Full EPA negotiations are scheduled in September, October, November and December.

2.3 Doha Development Round: WTO Ministerial, Geneva, Switzerland, 18 – 27 July 2008[3]

Following nine days of intense negotiations driven by the Director General of the WTO, Mr Pascal Lamy, the negotiations to establish modalities collapsed without an agreement. It should be noted, however, that it is too early to speak about a failed Round, as only the attempt to conclude modalities for agriculture and non-agricultural market access (NAMA) by the end of July 2008 has failed. No decision has yet been made on the future of the Round, however the Doha Round is likely to continue.

The major part of the negotiations during the WTO Ministerial took place in the so-called G-7 (USA, EU, India, China, Japan, Brazil and Australia). The idea was that compromises will be more easily achieved in a small manageable group, from which it will be cascaded to the "Green Room" (± 36 members, including South Africa) and the Trade Negotiation Committee (all members).

The agricultural negotiations were based on the draft modalities text dated 10 July 2008 written by the Chair: Agricultural Negotiations, Ambassador Crawford Falconer of New Zealand. The draft modalities have been developed in an inclusive, bottom-up approach since the start of the Doha Development Round. Large parts of the modalities text was broadly agreed by the WTO membership. A few critical unresolved issues from this text were on the agenda of the G-7.

The breakdown came on a seemingly technical issue concerning the Special Safeguard Mechanism (SSM) for Developing Countries. However, according to Chairman Falconer's report on the agricultural negotiations, "…*like all fundamental political differences, there are consequent technical differences, but the impasse was not technical. It was political.*"

The aim of this article is to review some of the detail that was broadly agreed in the modalities text and the G-7 package before negotiations ended. As the negotiations have not been completed no commitments will change, and the commitments as agreed during the Uruguay Round will remain in force. Only the major issues from a South African perspective will be addressed in this review.

<u>Market Access</u>

- Tariffs will be cut by a tiered formula in accordance with Table 9:

[2] Lilian Rantho is an Assistant Director: Europe, Directorate: International Trade within the Department of Agriculture

[3] Günter Müller; Deputy Director: Multi-lateral Trade Relations, Directorate International Trade, Department of Agriculture

Table 9: Tiered Formula

Tariff Band	Tariff cut	Tariff Band	Tariff cut
Developed		Developing	
%	%	%	%
0 ≤ 20	50	0 ≤ 30	33.3
20 ≤ 50	57	30 ≤ 80	38.0
50 ≤ 75	64	80 ≤ 130	42.7
> 75	70	> 130	46.7

- Developed countries may designate 4 % of tariff lines as sensitive products and these will be shielded from the formula cut with a smaller tariff reduction. "Payment" for the smaller cut will be in the form of tariff quota (TRQ) expansion, namely 4 % of domestic consumption of the product concerned. Provision is made for an additional 2 % of lines to be designated as sensitive, with an additional 0.5 % in TRQ expansion. Domestic consumption is to be converted to a 6- and 8-digit tariff line level by a complex methodology based on trade statistics. TRQ expansion will be on a MFN basis.
- Developing country commitments in this regard will be two thirds of that of developed countries, resulting in 6 % of lines that may be designated as sensitive with a TRQ expansion of 2.6 %.
- Developing countries may designate 12 % of tariff lines as Special Products (SP). 5 % of lines may be excluded from a tariff cut, while the overall average cut in tariffs for SPs must not be lower than 11 %. For the South African (and SACU) tariff schedule, 12 % of lines equates to 105 of a total of 872 tariff lines.
- The Special Safeguard (SSG) will be eliminated at the start of the implementation period, except for the SSG on 1 % of tariff lines. The remaining SSG will be eliminated over 7 years. The additional duty in relation to the SSG may not move beyond the Uruguay Round bound rates.
- With regard to the Special Safeguard Mechanism for Developing Countries (SSM) it was proposed that the quantity trigger for above bound tariffs will be 140 % of base imports. The additional tariff will be capped at 15 % above the bound duty (or 15 points) of the Uruguay Round. Both the 140 % trigger and the 15 % cap above Uruguay Round levels have not been agreed upon, which has resulted in the breakdown in negotiation at the G-7.

The issues that have not been discussed at great length and remain unresolved include tariff quota creation, tariff simplification, tariff escalation, liberalisation of tropical products and the treatment of long-standing preferences.

It is at this stage not possible to make an accurate assessment of the impact of the tariff reductions on South African exports as it is not clear what tariff lines will be designated as sensitive. It can be expected, however, that a large portion of those lines that are excluded from liberalisation under current trade arrangements such as the TDCA with the EU, AGOA with the USA and various GSP schemes will be designated as sensitive. TRQ expansion, although contributing to improved market access, is not without complications due to the abilities of Governments to "manage" access through quota administration. Market access gains for South Africa will thus not be substantial.

From a defensive perspective, the tiered formula will result in an average tariff cut of approximately 30 % for South Africa, excluding provisions for sensitive and SP products.

Domestic Support

The following are the major issues agreed in relation to domestic support:

- In relation to Overall Trade Distorting Domestic Support (OTDS) a reduction of 80 % for the EU and 70 % for the USA was agreed. The OTDS is the total of trade distorting support, and includes the amber box, the blue box and de minimis support calculated over a certain reference period. Specific cuts in amber box, blue box and de minimis will not be discussed here. The OTDS support forms a ceiling on all trade distorting support and is thus crucial for the outcome of this round. For the EU, the reduction in OTDS will result in a reduction in expenditure from a possible EURO 110 billion to EURO 22 billion. For the USA, this will reduce OTDS from current possible expenditure of US$ 48 billion to US$ 14.5 billion. Current actual expenditure for the USA is between US$ 7 – 8 billion.
- The reduction for Japan was not specifically mentioned but Japan falls into the same band as the USA. It therefore should also be subjected to a 70 % reduction.
- The reduction for other developed and developing members was still in brackets and was not further discussed. The percentages in brackets envisaged a reduction of between 50 % and 60 %.
- Implementation of the OTDS reduction will be over 5 years for developed members and 8 years for developing members.
- Product specific limits on amber and blue box based on a reference period were agreed. Some technical aspects in this regard have not yet been resolved. These limits will prevent the concentration of support on a few products in reaction to market circumstances.
- Developing countries that allocate almost all de minimis support for subsistence and resource-

poor producers will not be subjected to reduction commitments in this regard.

- The provisions of Article 6.2, providing for investment and input subsidies to subsistence and resource poor producers in developing countries, will remain unchanged.
- A provision to include land reform related expenditure of developing countries in the green box.

Issues that have not been discussed that might have a major impact on the outcome include the specific reductions in cotton support and certain aspects of the green box to ensure that green box programmes have no, or at most minimal, trade-distorting effects or effects on production.

A specific concern for South Africa was the OTDS reduction for the USA. In view of current high prices, the cut envisaged for the USA does not reflect an "effective" cut as agreed during the Hong Kong Ministerial in 2005. Also, due to the major shifts towards green box programmes in many developed countries, South Africa is of the view that some disciplines in the green box need to be improved to prevent trade distortions.

It is further envisaged that sufficient policy space will be available for South Africa in the domestic support pillar in relation to its development programmes.

<u>Export Competition</u>

This pillar was not discussed in detail during the July WTO Ministerial; however, the Chair's draft modalities text reflects agreement on the following major issues:

- Elimination of all forms of export subsidies by 2013. This includes the subsidy element of export credits.
- Improved rules and disciplines for food aid with the objective of preventing commercial displacement. Some difficulties might still be prevalent in the wording related to monetisation of food aid.

The elimination of all forms of export subsidies was a major achievement of the Hong Kong Ministerial of the WTO.

<u>The Way Forward</u>

The Doha Development Round is a single undertaking, thus nothing will change until agreement is reached on all aspects of the round. As mentioned above, the commitments from the Uruguay Round will remain in force. The concern for South Africa is that large scale distortion of international markets will remain legal, without effective upper limits, for the foreseeable future. Members might also increase the use of export subsidies. This might not be a direct threat with the current high prices of agricultural commodities. However, under the new Farm Bill of the USA, for example, trade distorting domestic support will increase substantially if agricultural prices decrease from current levels.

The outcome of the Doha Round will not only affect the agriculture sector but the whole economy of South Africa. An assessment of progress should therefore also incorporate other areas. For South Africa especially, the balance in outcome between NAMA and agriculture is very important and will again be a crucial factor in the possible resumption of the negotiations.

All major participants in the WTO Ministerial expressed a desire to continue efforts to conclude the round and to ensure all work done since 2001 is not lost. The Minister of Trade and Industry, in a statement to the Trade Negotiations Committee in Geneva on 30 July 2008, expressed the South African position as follows: "*I think all Members will agree that despite our failure to conclude the negotiations at this time, we will have to come back as soon as possible to make further efforts to conclude what we began in Doha. In preparing for that, however, we will need to take important lessons from the experience of the last ten days and begin to build a firmer foundation for re-starting the negotiating process.*

For South Africa, the developmental agenda, as we agreed in Doha, must remain at the centre of these considerations. Our core objective must be to continue to work to strengthen the global rules-based trading system in a manner that supports the development aspirations of developing countries. An equitable and balanced trading system that fully takes into account developmental prospects would enhance the legitimacy and stability of the system. We must, therefore, reaffirm the Doha mandate to "…place the needs and interests of developing countries at the heart of [the] work programme".