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

agriculture
Department: Agriculture
REPUBLIC OF SOUTH AFRICA

INTERNATIONAL *TradeProbe*

No. 5, April 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.

What is covered in this issue?

- Trade profiles
  - Grapefruit, fresh or dried
  - Oranges, fresh or dried
- Contributed articles
  - Overview of WTO domestic support
  - SADC's progress on the FTA
- Invited article
  - Agricultural trade by China

SECTION 1 – TRADE PROFILES

1.1 Grapefruit, fresh or dried (HS: 080540)

South Africa's share of grapefruit production globally has increased considerably from about 2.5% in 1990 to 5.8% in 2005. In addition, South Africa's exports in 2004 were more than three times what they had been in 1990. The counter-seasonal situation between South Africa's production and export of grapefruit and that of the United States (US) for the European market reduces competition between the major exporters, except in May. Noteworthy is the fact that almost none of South Africa's grapefruit and juice exports are destined for the US even though the products are given duty-free access under the African Growth and Opportunity Act (AGOA).

Table 1 presents a list of the top ten exporters (globally) of grapefruit in value terms in 2006. The top three were the US (32%), the Netherlands (11%) and Israel (10%). South Africa ranked number four with an approximate share of 10 percent. Noteworthy is the fact that there was no other African country besides South Africa in the list of top ten exporters.

Table 1: Top ten exporters of grapefruit, fresh or dried (HS: 080540) in 2006

Exporter	Value exported, in US$ thousand	Share in world exports, %
World estimation	707,828	100
United States	223,068	32
Netherlands	77,178	11
Israel	73,282	10
South Africa	70,463	10
Turkey	64,350	9
Belgium	51,892	7
Spain	23,374	3
Argentina	22,971	3
China	18,910	3
Cyprus	11,696	2

Source: ITC calculations based on COMTRADE statistics

Table 2 illustrates the top ten importers (globally) of grapefruit in 2006. The world's leading importers in 2006 were European countries. The top three importers were Japan, the Netherlands and France representing a 24%, 15% and 10% share of world imports of this product respectively.

Table 2: Top ten importers of grapefruit, fresh or dried (HS: 080540) in 2006

Importer	Value imported, in US$ thousand	Share in world imports, %
World estimation	759,329	100
Japan	181,565	24
Netherlands	113,723	15
France	78,209	10
Belgium	64,627	9
United Kingdom	49,539	7
Germany	47,264	6
Russian Federation	33,226	4
Canada	30,813	4
Italy	24,004	3
Poland	23,708	3

Source: ITC calculations based on COMTRADE statistics

Presented in **table 3** are the countries of origin for grapefruit imported by Japan, their product value in US$ thousand, and their share of Japan's imports. South Africa's share of Japan's imports in 2006 was 22%. The leading exporter of grapefruit to Japan was the US (US$128,373) followed by South Africa (US$40,838). Amongst the top ten exporters of grapefruit to Japan in 2006, South Africa was the only African country.

Table 3: Leading exporters of grapefruit, fresh or dried (HS: 080540) imported by Japan in 2006

Exporter	Imported value, in US$ thousand	Share in Japan's imports, %
Japanese imports	181,565	100
United States	128,373	71
South Africa	40,838	22
Israel	9,147	5
Swaziland	2,028	1
Chile	674	0
Cuba	481	0
Argentina	20	0

Source: ITC calculations based on COMTRADE statistics

Of the total grapefruit exports from South Africa, 40% went to Japan, 16% to the Netherlands and 10% to the United Kingdom (UK) (see **table 4**). It is interesting to note that in the list of top ten importers of grapefruit from South Africa, there is one African country (Mozambique, importing about 5% of South Africa's grapefruit exports).

Table 4: South Africa's export markets for grapefruit, fresh or dried (HS: 080540) in 2006

Importer	Exported value, in US$ thousand	Share in South Africa's exports, %
SA exports	70,463	100
Japan	28,193	40
Netherlands	11,146	16
United Kingdom	7,016	10
Italy	4,180	6
Belgium	3,567	5
Mozambique	3,339	5
Russian Federation	2,605	4
Canada	2,039	3
France	1,449	2
Spain	1,156	2

Source: ITC calculations based on COMTRADE statistics

1.2 Oranges, fresh or dried (HS: 080510)

World production of fresh or dried oranges has been increasing since the 1980s. The FAO estimates that orange production in the developed countries will marginally increase, with most of that increase coming from the US. European orange production is estimated to increase very minimally, with small increases in Spain to be offset by decreases in Italy and Greece. South Africa is expected to continue its growth due to its geographical position, which gives it a seasonal advantage over major exporters. The world consumption of oranges has been on the increase. Consumption of fresh oranges grew by 2.9% in the period covering the 1980s to the late 1990s. The European market over the same period showed a strong increase in the consumption of processed oranges.

In 2006 the total world exports of fresh or dried oranges expressed in value terms amounted to US$2,799,966. **Table 5** presents the top ten exporters of this product in 2006. An important observation is that amongst the top ten exporters in 2006, there were three African countries (South Africa, Egypt and Morocco). The top three exporters of fresh or dried oranges were Spain at a value of US$900,679, representing about 32% of world exports, followed by the US representing 13% of world exports and South Africa representing 11%.

Table 5: World's leading exporters of oranges, fresh or dried (HS: 080510) in 2006

Exporter	Value exported, in US$ thousand	Share in world exports, %
World estimation	2,799,966	100
Spain	900,697	32
United States	373,907	13
South Africa	317,241	11
Egypt	160,831	6
Netherlands	124,365	4
Morocco	117,821	4
Greece	107,144	4
Australia	100,390	4
Turkey	92,898	3
Argentina	85,001	3

Source: ITC calculations based on COMTRADE statistics

Table 6 presents the world's leading importers of fresh or dried oranges expressed in value terms for 2006. The world imports of this product in 2006 amounted to US$3,128,184. The top three importers were France at a value of US$317,419, representing 10% of world imports, followed closely by Germany at a value of US$299,203, also with a 10% share of world imports and the Russian Federation at a value of US$281,359, representing about 9% of world imports.

Table 6: World's leading importers of oranges, fresh or dried (HS: 080510) in 2006

Importer	Value imported, in US$ thousand	Share in world imports, %
World estimation	3,128,184	100
France	317,419	10
Germany	299,203	10
Russian Federation	281,359	9
Netherlands	274,769	9
United Kingdom	215,309	7
Hong Kong	144,299	5
Canada	137,946	4
Belgium	128,469	4
Republic of Korea	123,064	4
Japan	117,400	4

Source: ITC calculations based on COMTRADE statistics

Presented in **table 7** is a list of the leading export markets for fresh or dried oranges exported by South Africa in 2006. South Africa's exports of this product represented 11% of world exports. The Netherlands was the leading export market for South Africa, representing about 13% of South Africa's exports, followed closely by the Russian Federation with about 10% of South Africa's exports. It is important to note that there was no African country amongst the top ten importers of South Africa's orange exports.

Table 7: South Africa's export markets for oranges, fresh or dried (HS: 080510) in 2006

Importer	Exported value, in US$ thousand	Share in South Africa's exports, %
SA exports	317,241	100
Netherlands	39,935	13
Russian Federation	32,018	10
United Arab Emirates	27,444	9
Saudi Arabia	26,757	8
United Kingdom	24,531	8
Hong Kong (SARC)	24,127	8
United States	22,313	7
Spain	13,533	4
Canada	12,731	4
Iran	10,936	3

Source: ITC calculations based on COMTRADE statistics

The Netherlands was the leading export destination of oranges exported by South Africa in 2006 and is hence discussed in more detail. Presented in **table 8** are the countries of origin, their product value and share of the oranges imported by the Netherlands in 2006. South Africa's share of the Netherlands' imports was 23%. The leading exporter of oranges to the Netherlands was Spain, constituting about 27% of the Netherlands' imports. South Africa was second, followed by Morocco. Noteworthy is that among the top ten countries exporting oranges to the Netherlands in 2006, there were five African countries (South Africa, Morocco, Egypt, Swaziland and Zimbabwe).

Table 8: Top ten countries exporting oranges, fresh or dried (HS: 080510) to the Netherlands in 2006

Exporter	Imported value, in US$ thousand	Share in the Netherlands' imports, %
Netherland imports	274,769	100
Spain	74,551	27
South Africa	62,747	23
Morocco	37,458	14
Argentina	17,722	6
Egypt	16,598	6
Uruguay	15,902	6
Brazil	12,195	4
Belgium	6,120	2
Swaziland	5,785	2
Zimbabwe	5,765	2

Source: ITC calculations based on COMTRADE statistics

SECTION 2 - CONTRIBUTED ARTICLES

2.1 WTO Doha Development Round Negotiations on Agricultural Domestic Support – An Overview[1]

The Doha Development Round of the WTO was launched in November 2001. The objectives of the Round, with the focus on development, are further trade liberalisation and a fairer, rules-based international trading system. Although the major breakthrough to conclude the Round has not yet been achieved, the negotiations are continuing and considerable progress has already been made. The Doha Round is a single undertaking, thus everything must be agreed upon before it can be finalised. Agriculture is one of the key areas under negotiation because of the central role of agriculture in development and large-scale government intervention in the agricultural sector of many WTO members. Other areas under negotiation include Non-Agricultural Market Access (NAMA), as well as services, rules (e.g. anti-dumping), and trade and environment. The balance in the outcome between the various areas of the negotiations and between developed and developing countries is critical for the Round. The WTO Agreement on Agriculture (AoA) is structured on three so-called pillars. These pillars are domestic support, market access, and export competition. The negotiations are conducted according to the three pillars.

Domestic support addresses financial transfers and other instruments of government support to agricultural producers. Within the WTO, these support measures, or subsidies, are classified in boxes of different colours.

Table 9: Types or categories of domestic support

Amber box	**Total Aggregate Measure of Support (AMS):** Trade- and production-distorting support, such as minimum prices. In the current AoA amber box, support was subject to reductions to a maximum upper limit. Reductions commenced in 1995 and were concluded in the year 2000 for developed countries and in 2005 for developing countries. For developing countries, certain support such as investment subsidies, agricultural input subsidies for low-income or resource-poor producers and support to producers to encourage diversification from the growth of illicit narcotic crops are excluded from reduction commitments.
Blue box	Support linked to production-limiting programmes: Direct payments under blue-box programmes are not subject to a maximum level or reduction commitments if: • Such payments are based on fixed areas and yields; or • Such payments are made on 85% or less of the base level of production; or • Livestock payments are made on a fixed number of head.

[1] Mr Günter Müller (Directorate International Trade, Department of Agriculture)

Green box	No or minimal trade- and production-distorting support: WTO members are allowed unlimited use of the green box. Green-box measures are not subject to reduction commitments. These measures are subject to general and policy-specific criteria laid down in Annexe 2 of the AoA and include government services such as research, extension, pest and disease control, domestic food aid and infrastructure services. It further includes certain direct payments to producers such as decoupled income support, income insurance and safety-net programmes, relief from natural disaster, and environmental programmes.
***De minimis* Support**	Members are allowed a *"de minimis"* level of support (trade-distorting support based on a percentage of domestic agricultural production) up to: • 10% of the value of production of a basic product during the relevant year (product specific); plus • 10% of the value of total agricultural production (non-product specific). • For developed countries these percentages are 5%. This support is only included in the amber box if the mentioned percentages are exceeded.

The departure point for the negotiations is the level of commitments (bound level) at the end of the implementation of the Uruguay Round. **Figure 1** gives the bound amber-box levels of some WTO members at the end of the Uruguay Round. From **figure** 1 it can be seen that the EU, US and Japan have by far the highest bound levels in the amber box. South Africa is at the lower end of the figure with an annual commitment of R2.015 billion (±US$287 million). The numbers in the figures reflect the maximum amounts that are allowed to be spent under the amber box. Most countries, however, spend less than the amounts allowed.

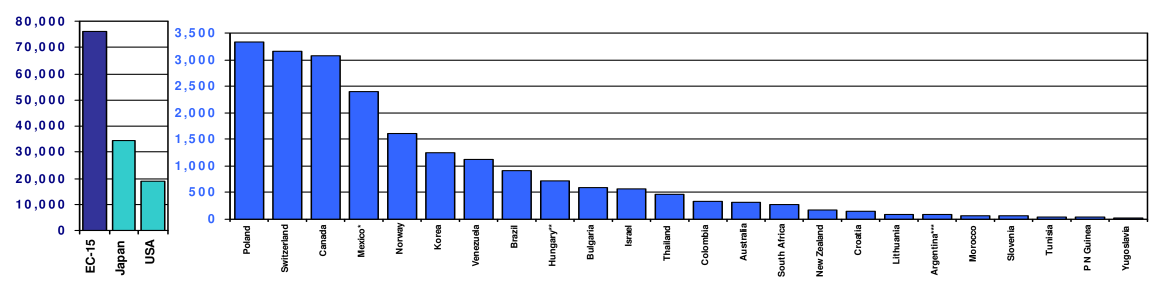
Alongside the amber box, a critical value for the negotiations is the overall trade-distorting domestic support (OTDS). OTDS is the total of the amber-box, blue-box and *de minimis* support.

South Africa participates in these negotiations with various alliances; these are the G-20, the Africa Group and the Cairns Group. South Africa cooperates with these alliance partners in developing proposals. With regard to domestic support the focus is on developed countries, as such countries usually do not have the financial resources to support their agricultural producers to the extent that it will impact on world markets. It has been agreed in the negotiations that there will be substantial, effective reductions in domestic support.

The reductions will be according to a tiered formula with three bands, with those WTO members in the higher bands reducing support by more than those in the lower bands. At this stage the EU is in the highest band, with the USA and Japan in the middle band and all other members in the third band. It has been agreed that there will be special and differentiated (S&D) treatment for developing countries, basically allowing developing countries to reduce support by a smaller percentage over a longer period. It has further been agreed that there will be some measures to prevent box shifting and concentration of support on a few products only.

With regard to the blue box, a cap at 2.5% of the total value of production (TVP) of agriculture has been agreed upon. A so-called new blue box has also been agreed upon, without production-limiting programmes. The new blue box has been agreed upon mainly to accommodate certain programmes of the USA. In addition, product-specific disciplines will also be agreed upon for the blue box.

***De minimis* support** will be reduced by between 50% and 60% for developed countries. For developing countries, some exceptions will apply for those without AMS commitments and for those that spent almost all *de minimis* support for subsistence and resource-poor farmers. **Table 10** gives an indication of the Chair's actual proposals for OTDS and AMS support in relation to the US and the EU. The key to the reduction proposal is not only in the size of the reduction, but also in the improved rules and disciplines.



Source: WTO.
Note: The values were converted using the most recent exchange rate (2003 or 2004).
* In 1991 value.
** 2002 deflated data
*** In 1992 value.

Source: Brazil: Institute for International Trade Negotiations

Figure 1: Bound AMS levels

Table 10: Domestic support[1]

Member	Chair Reduction Options	Initial OTDS Level	End Result	Average Actual 1995 - 2000	Maximum Actual 1995 - 2000
		Euro/US$ bil	Euro/US$ bil	Euro/US$ bil	Euro/US$ bil
			OTDS		
EU	75%	110.3	27.6	69.7	73.3 (1996)
	85%	110.3	16.5		
USA	66%	47.7	16.2	15.4	24.3 (1999)
	73%	47.7	12.9		
			AMS		
EU	70%	67.2	20.1	48.2	51.0 (1996)
USA	66%	19.1	7.6	10.4	16.9 (1999)

Source: WTO notification, own calculations

South Africa entered these negotiations with two major objectives in relation to domestic support. These are to achieve a substantial, real reduction in trade and production-distorting domestic support by especially developed members, and to maintain policy space for the support of South Africa's developmental initiatives in the agricultural sector. As can be seen from **figure 5** below, South Africa has only made use of green-box support over the past few years. Most of this expenditure was related to agricultural research, extension, pest and disease control measures, as well as development initiatives.

Due to the fact that South Africa will make commitments as a developing country and certain envisaged changes to the green box will take place to accommodate land reform and farmer settlement expenditure, South African negotiators are confident that the necessary policy space will be maintained for the South African agricultural sector.

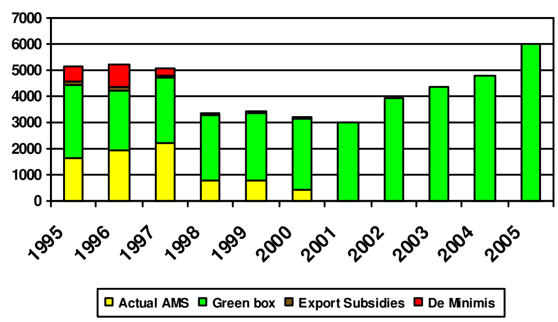


Figure 1: Domestic Support: South Africa
Source: WTO notifications

The key to the successful outcome of the negotiations will be to strike a balance between the three pillars of the negotiations and between developed and developing country commitments. Until now, such a balance has proven to be elusive. Once agreement has broadly been reached within the agricultural negotiations, horizontal negotiations will commence to achieve a balance between the various areas under negotiation.

The objective for the conclusion of the Doha Round remains the end of 2008.

More information on the WTO agricultural negotiations can be found at www.wto.org.

2.3 SADC on course for the Free Trade Area (FTA) launch[2]

As reported in one of the previous issues of this publication, the SADC is gearing up towards the launch of a free trade area (FTA) in August this year. This is despite the challenges the community faces in implementing the liberalisation targets necessary to achieve this milestone. Despite these challenges substantial progress has been made, such that the Summit of SADC Heads of States declared at its meeting held in Lusaka, Zambia, in August 2007 that there is a solid basis to declare the SADC FTA in 2008. In this respect, the SADC FTA will be officially launched by the Summit at its meeting in South Africa in August 2008.

- Plan of Action for the SADC FTA

The plan of action for the SADC FTA is being worked on to prepare all citizens of the region for the implementation of the FTA and to encourage and assist the various target segments to prepare and set in motion the necessary procedures for the establishment of the FTA. Awareness campaigns and programmes are being contemplated across the fourteen member states to sensitise and prepare the region for the FTA. A post-launch campaign to crystallise and strengthen the pre-launch activities will also follow to ensure the smooth running of the FTA.

[2] Messrs L Tswai and S Legare (Sub-Directorate Africa Trade Relations, Directorate International Trade, Department of Agriculture)

➢ Progress on required trade liberalisation targets

- *Tariff phase-down*

By August 2008 all member states implementing the trade protocol are expected to have zero tariffs on 85% of their products. The remaining 15% have to be eliminated by 2012. **Table 10** indicates the progress made thus far.

Table 11: SADC progress on the phasing down of tariffs for purposes of FTA

Member state	% of tariff lines free of customs duties	Date at which the % was achieved
SACU	99,9	January 2008
Zambia	95	January 2008
Mozambique	94	January 2008
Tanzania	91	January 2008
Mauritius	86	January 2008
Zimbabwe	86	January 2008
Madagascar	84	January 2008
Malawi	32	July 2007

SACU (Botswana, Lesotho, Namibia, South Africa and Swaziland) has completed its tariff phase-down commitments. The customs union was expected to *front-load* (2006) its phase-down commitments due to South Africa's economic size. Other member states were provided with a longer grace period to *back-load* (2008) their phase-down commitments. **Table 11** indicates that the other SADC countries, with the exception of Malawi, are left with having to make small tariff reductions to achieve the required target by August 2008. Malawi has been experiencing a balance of payment challenges since the beginning of the implementation of the tariff phase-down commitments, hence the delays. Arrangements have, however, been made to assist all member states experiencing tariff phase-down challenges to ensure that they meet the August deadline. Angola and the Democratic Republic of Congo are not yet implementing the Protocol and they will not be part of the FTA when it is launched.

- *Non-Tariff Barriers*

Substantial progress has been made in the areas of rules of origin and simplification of customs procedures, as well as the harmonisation of standards, particularly the sanitary and phytosanitary ones. However, there is still some outstanding work to be done to complete these important trade facilitation instruments, which has the potential to nullify the progress being made through tariff phase-downs. Member states have committed to complete the outstanding work before the Summit in August 2008.

SECTION 3 – INVITED ARTICLE

South Africa and China – The Agricultural Trading Relationship[3]

China has become an increasingly important trading partner for South Africa. For the third quarter of 2007 (September quarter), China was the second largest supplier of imports (after Germany) and the sixth largest destination of exports (after the US, Japan, 'Unallocated', Germany and the UK). General and electrical machinery dominate exports by China at $2,356 million, while ores and slag and mineral fuels dominate imports by China.

The Big Chinese Trade Picture

During the **first six months of 2007** agricultural imports made up 3.8% of **total Chinese imports**, which is down from the 6.6% during the last six months of 1996. By product the main agricultural imports of China were soybeans (US and Brazil), cotton (US and India) and palm oil (Malaysia and Indonesia). Four of the top five products (cotton, palm oil, wool, and soybean oil) are products that are under the tariff rate quota (TRQ) regimes into China.

For the **year ending September 2007** the USA was the number-one supplier to China of agricultural and fisheries products combined, followed by Brazil and then Argentina. South Africa was in 23rd position, just ahead of Norway (with the EU represented as one source of imports). With the exception of Chile, all of the competitor countries analysed below are among the top 15 sources of Chinese imports.

While **agricultural exports** are increasing, they are not really contributing to the dramatic overall Chinese export explosion of recent times. Maize, apple juice and garlic are the major exports, with Korea, the USA and Indonesia being the main destinations for these products. Of interest to South Africa are the high positions of apple juice and apples as exports from China, as these are of export interest to South Africa (both potentially to China but more importantly to third markets).

South African Exports/Chinese Imports

During 2006 South Africa exported some US$69.36 million in agricultural products to China. Almost half (US$31.37 million) of these exports were wool, followed by sugar. The average duty that would have been assessed on South African imports at the Chinese border was 13.96%. Conversely, South Africa imported agricultural products from China to the value of US$127.21 million, with sausage casings and kidney beans being the main imports. The assessed average duty at the South African border would have been 6.79%. These agricultural exports to China represented 3.41% of total South African exports to China in 2006 (up from the 2.56% in 2004, but down marginally from 3.61% in 2005), while the **imports** represented 1.87% of the total from China (very similar to the 1.83% in 2004, but up from the 1.4% in 2005). Exports of ag-

[3] Ron Sandrey is a senior research fellow at Tralac, while Taku Fundira is a researcher at Tralac[3]

ricultural products represented 1.56% of total **Chinese exports** to South Africa (down marginally from 1.75% in both 2004 and 2005), while the agricultural **imports** were 1.52% of the imports from South Africa during 2006 (up from 0.44% in 2004 and 1.01% in 2005).

Chinese Agricultural Imports: The Details

This section provides a brief analysis of Chinese agricultural imports.

- For the most recent September year, agricultural imports were some 3.6% of Chinese total imports, while fish products were a lesser 0.5%.
- Both agricultural and fisheries imports have grown at a slower rate than total imports over the period, and have therefore lost the market share in China.
- Agricultural imports are considerably higher than fisheries imports, although relative to agriculture, fisheries imports are growing slightly faster.
- Soybeans, cotton and palm oil dominate the imports, followed by wool, hides and skins, and chicken cuts.
- The top 15 lines made up 77% of agricultural imports during the October 2006 to September 2007 year.
- Soybean oil, palm oil, rape seed oil, sugar, wool and cotton are entering as TRQ imports; however, only sugar (15%), cotton (1%) and wool (1%) are likely to have lower duties than the MFN rates.
- Fish meal is the main import, followed by frozen fish.
- South Africa has a very low market share in its two main fisheries import products.

Individual Countries/Regions

- The top four sources of the US, ASEAN, Brazil and Argentina all have growth rates in agricultural imports above the 'All' average of 10.5%.
- South Africa's growth rate of 20.0% is among the highest.
- In agricultural products as a percentage of total imports, Argentina's 69.9% share is dramatically the leader, followed by New Zealand and then Brazil. South Africa ranks just behind the EU in this aspect of its trade with China, but marginally ahead of both Chile and the insignificant Peru.
- Most sources (except the leader USA and importantly Argentina) are displaying a reduction in the importance of agricultural trade expressed as a percentage of their imports into China. This is consistent with China's overall position, and applies to the major players of ASEAN, Brazil, Australia and the EU.
- New Zealand ranks highly in that its share of agriculture in overall imports is approaching half (and indeed has been above 50% in most years).
- Conversely, South Africa ranks very low despite being rated as the 26th overall import supplier into China for the December 2007 year, as its agricultural contribution is minimal relative to overall imports into China.