SACU-Mercosur Preferential Trade Agreement

Background

The SACU-Mercosur Preferential Trade Agreement (PTA) was signed on 16 December 2004 by the Southern African Customs Union (SACU) and Mercado Común del Sul (Mercosur) or the Southern Common Market when translated into English. SACU consists of South Africa, Botswana, Lesotho, Namibia and Swaziland, the so-called 'BLNS' countries. Mercosur comprises Argentina, Brazil, Paraguay and Uruguay.

This was the first agreement that SACU concluded with another developing regional economic entity after the 2002 SACU agreement. Later the SACU-Mercosur PTA was negotiated to broaden and deepen its coverage for the benefit of smaller countries in the two trading blocs. The negotiations were concluded in March 2009. The final agreement is currently in the process of ratification by the parliaments of the signatory countries. The agreement is expected to be in force by mid-2010.

Mercosur is a customs union with two large economies—Brazil and Argentina, and two smaller economies Paraguay and Uruguay. Similarly, South Africa is the largest economy in the SACU region. The large economies account for 92 % and 98 % of the GDP of SACU and Mercosur, respectively.

Benefits and opportunities

An analysis of trade between South Africa and Mercosur reveals that the trade balance is in favour of Mercosur, and that trade has been growing over the years. Agricul-tural trade shows a large trade deficit on the part of South Africa during 2003 to 2008.

South African imports from Mercosur increased steadily from R2,7 billion in 2003 to R10,7 billion by 2008. The majority of agricultural products were imported from Argentina and Brazil, with small volumes but essential imports from Uruguay and Paraguay. South African agricultural exports to Mercosur have also increased from R69,7 million in 2003 to R126,2 million in 2008 (significantly less than imports from Mercosur). Most South African agricultural exports are destined for Brazil, followed by Argentina, Uruguay and Paraguay.

The SACU-Mercosur PTA covers a narrow range of products in industrial, agricultural and fishery goods. The agreement also seeks to promote trade-related issues such as customs cooperation, sanitary and phytosanitary (SPS) measures and further product coverage for preferential treatment.

At the time of signing the PTA, SACU granted Mercosur preferences on a total of 951 products, while Mercosur granted SACU preferences on 967 product lines. With respect to agriculture, Mercosur offered SACU 176 lines, against SACU's offer of 159 lines.

Top SA agricultural exports to Mercosur 2007–2008

HS code	Description	Value 2007 (million R)	Value 2008 (million R)	Margin of preferences (%)
220870	Liqueurs	33,5	48,2	
220421	Grape wine	11,6	12,6	
130219	Vegetable juice	4,4	7,4	100
510111	Greasy wool	1,4	7,1	50
200949	Pineapple juice	5,0	5,9	
071333	Beans	0,7	5,9	100
100510	Maize seed	4,6	4,6	100
050590	Bird feather	2,2	3,4	
100700	Sorghum	4,0	3,2	
080620	Dried grapes	1,6	2,9	10

Source: *World Trade Atlas*

Notes

1. The margin of preference (MP) is the percentage discount of import duty applied by Mercosur countries. The values of the discount are not known, as Mercosur countries each have a different set of import duties.
2. The current exports of agricultural products to Mercosur are insignificant in both quantity and diversity compared to imports from Mercosur.
3. The product lists and the preferences under the Mercosur agreement are open to further negotiations, after signing, for the extension of preferences to more products.

The reduction in tariffs or margin of preferences for all products by both SACU and Mercosur ranges from 10 % to 100 %. The effort to deepen and broaden the agreement is for the purpose of moving gradually towards a FTA.

Mercosur is a large and highly competitive market that is at the same developmental level as South Africa. Primary products, especially agricultural products, are produced competitively by Mercosur, hence the difficulty of penetrating that market. However, trade with Mercosur diversifies the export destination for South African producers.

It is important that the South African agricultural sector should start using the opportunity of exporting to Mercosur markets the products for which tariffs have been reduced. The effort has to be essentially towards innovation and competitiveness.

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