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

agriculture
Department: Agriculture
REPUBLIC OF SOUTH AFRICA

# INTERNATIONAL *TradeProbe*

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***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.

**THIS ISSUE OF TRADEPROBE COVERS THE FOLLOWING TOPICS:**

- **Trade profile**
  - ✓ Swine meat (pork), fresh or chilled (HS-0203)
- **Contributed articles**
  - ✓ Review of SA-EU TDCA tariff preferences in relation to the re-introduction of export refunds on milk and milk products by the European Union
  - ✓ Soft drinks market overview and trade potential: the Netherlands' soft drink market forecast
  - ✓ COMESA, EAC and SADC moving towards a bigger Free Trade Area (FTA)
  - ✓ Agricultural trade: leading exports and imports

## SECTION 1 – TRADE PROFILE

### 1.1 SWINE MEAT (PORK), FRESH, CHILLED OR FROZEN (HS: 0203)

**Figure 1** presents the quarterly trends of pork exports and imports from the first quarter of 1996 to the fourth quarter of 2008. Total exports of pork from South Africa increased from R2.85 million in the first quarter of 1996 to R14.05 million in the fourth quarter of 2008. During the same period, total imports of pork into South Africa increased from R18.39 million in the first quarter of 1996 to R71.15 million in the fourth quarter of 2008. It clear that South Africa is a net importer of pork.

An analysis of swine meat (pork) imports at the HS 8 level reveals the following products dominate imports, namely: (note all are frozen imports)

- Rib (HS code: 02032910)
- Other swine products (HS code: 02032990) (i.e. excluding the other two mentioned, as well as short rib, and carcasses and half carcasses)
- Hams, shoulders and cuts thereof, with bone in (HS code: 02032200)

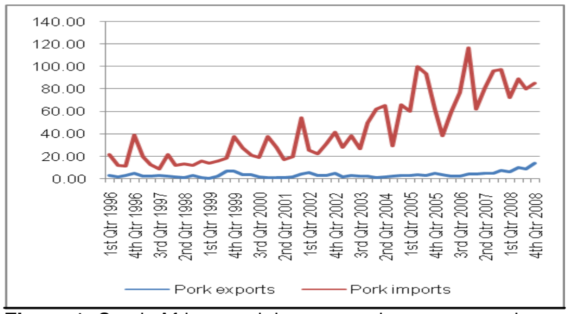


**Figure 1:** South African pork imports and exports over time

Source: World Trade Atlas, 2008

**Table 2** presents the top ten origins of pork imports by South Africa. The only countries in the Southern Hemisphere in this list were Chile and Brazil, which ranked number 9 and 10, respectively. They account for 1 % and 0.4 % of South Africa's imports. The value of imports from these two countries declined from the 2007 figures by -36 % and -47 %, respectively. The top import origins of pork by South Africa in 2008 were France, Canada and Spain, accounting for 35 %, 23 % and 15 % of the value of South Africa's imports. It is noteworthy that the value of imports of pork by South Africa from both France and Canada has decreased by -16 % and -23 %, respectively. Countries that have seen big increases include Germany, with more than a 15 000 % increase between 2007 and 2008.

**Table 2:** Top ten origins of South African imports

| | Import value 2008, R' 000 000 | Share of total imports | **% Change (07/08)** |
|---|---|---|---|
| RSA total pork imports | 287 057 | 100 | -9 |
| France | 100 608 | 35 | -16 |
| Canada | 64 676 | 23 | -23 |
| Spain | 43 319 | 15 | 42 |
| Germany | 27 664 | 10 | 15819 |
| Denmark | 17 949 | 6 | -35 |
| Belgium | 15 312 | 5 | -37 |
| Ireland | 10 293 | 4 | 48 |
| United States | 3888 | 1 | -42 |
| Chile | 1829 | 1 | -36 |
| Brazil | 1221 | 0.4 | -47 |

Source: World Trade Atlas, 2008

**Table 3** presents the top ten export destinations of pork from South Africa in 2008, expressed in value terms. With the exception of the United Arab Emirates, South Africa only exports pork to other African countries. The top three destinations (excluding exports classified under "Ships and Aircraft stores"), were Mauritius, the Democratic Republic of the Congo (DRC) and Nigeria, respectively, comprising 20 %, 11 % and 8 % of the value of total exports of pork from South Africa. Exports of pork to these destinations increased between 2007 and 2008, except in the case of Angola, which experienced a decrease of about -27 %.

**Table 3:** Top ten destinations of South African exports

| | Export value 2008, R' 000 000 | Share of total exports | **% Change (08/07)** |
|---|---|---|---|
| RSA total pork exports | 40 070 | 100 | 84 |
| Ships & Aircraft Stores | 14 517 | 36 | 33 |
| Mauritius | 7986 | 20 | 159 |
| DRC | 4386 | 11 | 855 |
| Nigeria | 3175 | 8 | 311 |
| Angola | 2922 | 7 | -27 |
| Mozambique | 2539 | 6 | 183 |
| United Arab Emirates | 1039 | 3 | 470 |
| Malawi | 954 | 2 | 178 |
| Zambia | 700 | 2 | 808 |

Source: World Trade Atlas, 2008

## SECTION 2 - CONTRIBUTED ARTICLES

### 2.1 Review of SA-EU TDCA tariff preferences in relation to the re-introduction of export re funds on milk and milk products by the European Union[12]

#### 2.1.1 Background

The European Union (EU) Common Agricultural Policy (CAP) is an integrated system of agricultural programmes and subsidies paid to EU farmers and producers. It entered into force in 1962. The main purpose was to maintain commodity prices within the EU target levels and by subsidizing production. The CAP's main objectives are set down in Article 33 of the Treaty of Rome. As a result of CAP, farmers intensified production in the supported sectors resulting in the EU experiencing surpluses of the major farm commodities, some of which were exported (with the help of export subsidies), others of which had to be stored or disposed of within the EU. The CAP mainly covers export subsidies and domestic support/production subsidies. Two forms of export subsidies paid by the EC are export refunds and internal transport subsidies. Forms of domestic support are price support, processing aid, and production aid.

The milk and milk products sector is one of the areas that are covered by CAP and is subject to export refunds. The aim of this note is to review the TDCA[3] preferences in relation to the recent re-introduction of export refunds on milk and milk products by the EC.

#### 2.1.2 Milk and milk products duty preferences granted to the EU under the TDCA

South Africa's trade relations with the EU are governed by the TDCA. Under the TDCA, SA granted the EU preferences for milk and milk products classified under different lists, i.e. Annex VI lists 0, 3 and 4, ranging from those facing zero duties at entry into force of the agreement, to products that would face zero duties in 2012, and the reserve list:

- Annex VI List 0: Ultra high temperature (UHT) or "long-life" milk in containers of 1 litres or less etc (HS code 04013010)
- Annex VI, List 3: Whey and modified whey, whether concentrated or not, or containing added sugar or other sweetening matter etc (HS code 0404)
- Annex VI, List 4: Milk and cream, concentrated or containing added sugar or other sweetening matter, in powder, granules or in other solid form (classified in HS code 0402) (No preferences were granted with regard to the latter category)

More specifically, Annex VI, List 4 indicates products of which liberalisation will be subject to review of the agreement. Currently, South Africa does not extend any preferences for imports of these products from the EU with the exception of cheese and curd (HS code 0406). South Africa offered a tariff rate quota (TRQ) with an in-quota preference of 100 % (MFN[4]) for gouda, cheddar and processed cheese and 50 % MFN for other cheeses, with an annual growth factor of 3 % (of 5000, i.e. 150 ton growth per annum). South Africa has not yet implemented the TRQ, pending conclusion of the text on outstanding agricultural issues which emerged from TDCA.

#### 2.1.3 Milk and milk products duty preferences granted to SA under the TDCA

Annex IV of the TDCA contains the EU's agricultural offer to South Africa. The EU is offering South Africa tariff liberalisation on most milk and milk products, including the tariff lines included in the cheese quota detailed below, starting in 2006 and reaching zero duty in 2010. These preferences for milk and milk products are classified under various lists, i.e. Annex VI List 0, 2, 4 (duty free in 2010), List 5 (fixed preferences), List 7 (reserve list, subject to review) and List 8 (excluded from the agreement):

[1] Contribution by L. Rantho, Assistant Director; and Mr Leeu Aphane, Economist. Directorate: International Trade, Department of Agriculture

[2] www.nda.agric.za; www.ec.europa.eu/taxation_customs; http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:019:0005:01:ES:HTML; www.ec.europa/agriculture/capreform/index_en.htm

[3] The Trade, Development and Cooperation Agreement (TDCA) between the European Community and its Member States on the one side, and South Africa on the other side, was implemented from January 2000. The TDCA includes a free trade agreement aimed at liberalising trade between the two sides. The FTA substantially covers all products, including agricultural products, although certain sectors were excluded, including milk and milk products on the South African side.

[4] Most Favoured Nation

- Annex IV, List 2: Milk and creams, not concentrated (HS code 0401)
- Annex IV Lists 0, 4 and 7: Milk and creams, concentrated (HS code 0402)
- Annex IV, Lists 0, 2, 4, 5 and 7: Buttermilk, curdled milk and cream, yoghurt, kephir (HS code 0403)
- Annex IV, Lists 4 and 7: Whey, whether concentrated or not (HS code 0404)
- Annex IV, Lists 5 and 7: Butter and other fats and oils derived from milk (HS code 0405
- Annex IV, Lists 4 and 8: Cheese and curd (HS code 0406)

Furthermore, there is a TRQ on cheese (0406), with an in-quota preference of 100 % of MFN, i.e. no duties are payable, with an annual growth factor of 5 % (of 5000 tons, i.e. 250 tons growth per year). For 2009, the quota volume is 7250 tons for South Africa's imports into the EU.

#### 2.1.4 Previous regulations on milk and other milk products prior to 29 April 2008[5]: Commission Regulation (EC) No 562/2007: 24 May 2007

For South Africa, export refunds on milk and other milk products were fixed at zero for tariff headings falling under 0401, 0402, 0403, 0404 and 0405.

- **Commission Regulation (EC) No 660/2007: 14 June 2007**

From 15 June 2007, refunds on exported milk and milk products were fixed at zero for exports to South Africa falling under the following tariff headings: 0401, 0402, 0403, 0404, 0405 and 0406. Following a resolution with regard to EU cheese exports to SA[6], within the context of the SA-EU TDCA, as from 29 April 2008 the EU implemented the agreement on their side. The resolution explicitly indicates that cheese (HS code 0406) traded under the TDCA will not benefit from any export refunds.

- **Commission Regulation (EC) No 57/2009: 22 January 2009**

On 22 January 2009, the EU re-introduced export refunds for milk and milk products destined for South Africa, except for cheese products (OJ EC No 57/2009). According to this EU Official Journal (OJ) edition, South Africa is classified under destination L20. The Official Journal publication indicates that export refunds are payable only for the following products:

- Ultra high temperature (UHT) or long life milk (HS code 04013010);
- Milk and cream, concentrated or containing added sugar or other sweetening matter, in powder, granules or in other solid form (HS code 0402);
- Buttermilk, curdled milk and cream, kephir and other (HS code 040390);
- Whey and modified whey (HS code 0404); and
- Butter and other fats and oils derived from milk; dairy spreads (HS code 0405).

However, no export refunds are paid on cheese exports (under tariff heading 0406) destined for South Africa. This treatment is for both cheese imported into South Africa under the TDCA, as well as at MFN[7] rates.

### 2.2 Soft drinks market overview and trade potential[8]: the Netherlands soft drink market forecast[9]

#### 2.2.1 Introduction

According to a recent report by the Euromonitor, soft drinks consist of functional, carbonates, bottled water, concentrates, RTD tea and coffee and fruit and vegetable juice. In 2007, the total soft drinks produced in the Netherlands amounted to 2 559 million litres compared with 2 456 million litres produced in 2006. Nearly 2 079 million litres were consumed domestically and 480 million litres were exported in 2007. From 2006 to 2007, both the sales value and volume of fruit and vegetable juice in the Netherlands grew by 7 %, respectively. The value of production and consumption of fruit and vegetable juice is expected to grow by an average of 4 % and 5 %, respectively, over the next 5 years (2007-2012).

The Netherlands produces a great deal of fruit and vegetable juice. However, the country exports less than 20 % of its production. This gives an indication of consumption in the domestic market. In 2007, the country exported fruit and vegetable juice to the value of US$1.1 billion, up from US$836 million in 2006. According to the Euromonitor report, the export value of fruit and vegetable juice is expected to grow annually at 4 % over the 5-year period (2007-2012).

#### 2.2.2 The Netherlands' fruit and vegetable juice imports

In 2007, the Netherlands imported fruit and vegetable juice to the value of US$813 million. This was 2.7 % higher than the US$791 million imported in 2006. The main supplier of fruit and vegetable juice to the Netherlands in 2007 was Germany, which had a share of 26.5 %. South Africa featured in 13th position in the supply of juice products to the Netherlands, and had a 1.4 % share in 2007. Over the 5-year period (2002-2007), the Netherlands juice imports grew by 6 % per year. The Netherlands was the recipient of 5.7 % of world juice exports in 2007, and ranked 6th behind the world's leading juice importers, namely the United States of America and Germany.

**Figure 2** depicts the top two juice imports by the Netherlands, namely orange juice (HS 200919) and juice of other single fruit or vegetable (HS 200980).

[5] Prior to 29 April 2008, SA was defined under L40.
[6] The preference given for in-quota trade to the EU was only 50 % of MFN and the annual growth factor was 3 % (of 5000 tons, i.e. 150 tons). For 2009, the quota volumes are 6350 tons for imports into South Africa. The target date for implementation of this agreement is before the end of 2009.

[7] WTO Most Favoured Nation
[8] Contribution by L. Magagane. Economist, Directorate International Trade: Department Agriculture
[9] ITC Trade Map: www.trademap.org and Euromonitor www.euromonitor.com

The graph shows a steady decline in orange juice imports, an increase in other single fruit or vegetable juice and an increase in total juice imports over the 5-year period. These two categories - orange juice (26 %) and other single fruit or vegetable juice (20 %) - constituted 46 % of the total imports of fruit and vegetable juices by the Netherlands in 2007.

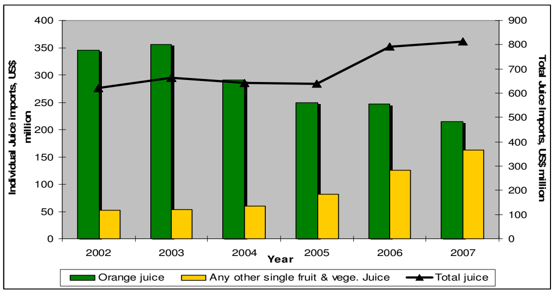


**Figure 2:** The Netherlands fruit and vegetable juice imports, 2002-2007
Source: ICT Trade Map

Imports of orange juice by the Netherlands decreased by an annual rate of 9 % over the period under review, whereas imports of other single fruit and vegetable juice increased by an annual rate of 26 %. Brazil, Germany and Cuba dominated the supply of orange juice, and had a combined contribution of 87 %, whilst Poland, Ecuador and Germany dominated the supply of other single fruit or vegetable juice to the Netherlands, with a combined contribution of 60 %. South Africa was among the top ten supplying markets for orange juice, and occupied 8th position; it occupied 30th position in supplying other single fruit or vegetable juice to the Netherlands.

### 2.2.3 South African fruit and vegetable juice exports to the Netherlands

During 2007, South Africa exported fruit and vegetable juice to the value of US$20.6 million to the Netherlands, down from US$41.3 million in 2006. This represented a decline of 50 % from 2006 to 2007, and stands in contrast to the 8 % growth per annum in total South African juice exports to the Netherlands over the 5-year period. Over the 5-year period, South African exports of fruit and vegetable juices to the world also grew by 8 % annually. The Netherlands was South Africa's second largest market for fruit and vegetable juices in 2007, behind Japan. More than 15 % of all South African juice exports flowed to the Netherlands during this year.

During 2007, grapefruit juice (HS 200929), pineapple juice (HS 2009.49) and orange juice, frozen (HS 200911) were the top three juice exports from South Africa to the Netherlands. The three categories of juices, grapefruit juice (52 %), pineapple juice (30 %), and orange juice (10 %), constituted 92 % of the total South African exports of fruit and vegetable juice to the Netherlands in 2007. Over the 5-year period (2002-2007), these three products, as a combined group, grew by 17 % per annum, higher than the growth of total South African juice exports to the Netherlands, which was only 8 %. As much as 32 % of South African exports of this combined group to the world ended up in the Netherlands. **Figure 3** indicates South African fruit juice exports to the Netherlands and the world between 2002 and 2007.

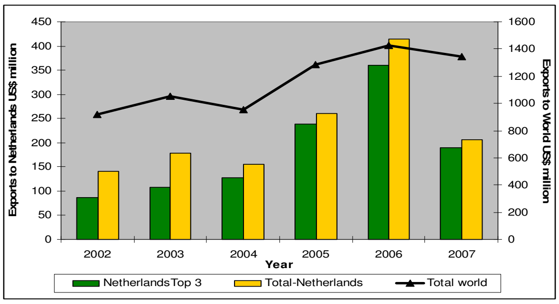


**Figure 3:** South African fruit juice exports to the world and the Netherlands, 2002-2007
Source: ITC Trade Map

### 2.2.4 Preferential market access

South Africa enjoys preferential market access to the Netherlands under the SA-EU TDCA. Fruit and vegetable juice trade count among the agricultural products that are covered by this agreement. According to the agreement, the duties raised on the various categories of juices will be liberalised over a set number of years. For example, certain juice products such as tropical fruit juices were liberalised by the EU over three years, and have been carrying a zero duty since 2003. Passion fruit and guava juice will be fully liberalised in 2010, whilst cherry juice was regarded as a sensitive product by the EU and was therefore excluded from liberalisation, subject to periodic reviews.

### 2.2.5 Trade potential of South African juices in the Netherlands

A symmetric export specialisation index (ESI)[10] was constructed between South Africa and the Netherlands, and it revealed South African juices with specialisation potential (between 0 and 1) and comparative disadvantages (between 0 and -1) in the Netherlands market (**Table 4**).

**Table 4:** Annual growth and symmetric export specialisation index of South African fruit and vegetable juices to the Netherlands, 2007

| Description | Annual growth 2002-2007 | Symmetric ESI score | Theoretical potential exports US$'000 |
|---|---|---|---|
| Grapefruit juice | 40 | 0.74 | 10 618 |
| Pineapple juice | 7 | 0.10 | 6344 |
| Frozen orange juice | -7 | 0.104 | 5853 |
| Citrus fruit juice | 33 | 0.24 | 530 |
| Other fruit and vegetable juice | -36 | -0.07 | 20 940 |
| Orange juice | -18 | -0.60 | 7947 |
| Mixtures of juices | -72 | 0.38 | 22 658 |

Source: ITC Trade Map and Directorate International Trade calculations

[10] The export specialisation index is a slightly modified RCA index, in which the denominator is usually measured by specific markets or partners. It provides product information on revealed specialisation in the export sector of a country, and is calculated as the ratio of the share of a product in a country's total exports to the share of this product in imports to specific markets or partners rather than its share in world exports.

Isolating total demand and total export capacity provides a rough estimate of how much countries could 'theoretically' trade between themselves. The Netherlands demand for grapefruit juice in 2007 was US$21.3 million. Of that demand, South Africa supplied US$10.7 million to the Netherlands whilst exporting US$21.7 million to the rest of the world. Given this, in 2007, the theoretical potential imports of grapefruit juice by the Netherlands from South Africa were US$10.6 million.

From the table above, grapefruit juice, single citrus fruit juice and pineapple were the juice categories that showed positive growth over the period under review. These three products had a positive ESI score that portrayed their respective comparative advantages in the Netherlands market. A trade analysis of these three categories follows.

### 2.2.5 Trade analysis

Grapefruit juice (HS 200929) was the main South African juice export in 2007 to the Netherlands, and achieved a 40 % growth per annum over the 5-year period (2002-2007). This was lower than the 41 % growth per annum experienced in exports by South Africa to the rest of the world for the same product. Grapefruit juice only became South Africa's leading juice export to the Netherlands in 2005, moving ahead of pineapple juice. In 2007, South Africa was the second largest supplier to the Netherlands, behind the United States of America, and exports amounted to US$3.4 million. In theory, South Africa could have exported US$10.6 million more to the Netherlands in 2007. The United States of America, South Africa and Cuba dominated exports of this category to the Netherlands, and had a market share of 42 %, 15 % and 13 %, respectively. South Africa (9.7 %) faced a lower tariff than its closest competitors, namely, the United State of America (36.2 %) and Cuba (32.3 %). According to the TDCA the tariff faced by South African exporters should be fully liberalised by 2010.

Single citrus fruit juice (HS 200939) from South Africa registered a high annual growth in exports to the Netherlands of 33 % from 2002 to 2007, lower than the 45 % growth per annum experienced in exports of this category to the world over the same period. Spain (54 %), Belgium (11 %) and Italy (8 %) dominated exports to the Netherlands in this category, whereas South Africa occupied the 14th position. The Netherlands was the recipient of only 0,4 % of South African single citrus fruit juice exports in 2007. In theory South Africa could have exported US$530 000 more to the Netherlands in 2007. Spain, Belgium and Italy, being EU member countries, faced a zero duty compared to the 5.5 % tariff faced by South African exporters in 2007. According to the TDCA, the tariff faced by South African exporters should be fully liberalised by 2010.

Another product that showed growth in the period under review, as well as a positive ESI score, was pineapple juice (HS 200949). It was South Africa's 2nd largest juice category exported to the Netherlands in 2007. In theory, South Africa could have exported US$6.3 million more to the Netherlands in 2007. The category registered a 7 % increase in value exported to the Netherlands per annum over the 5-year period. This was lower than the year-on-year growth of 16 % experienced in South African exports to the rest of the world for pineapple juice. South Africa occupied the 7th position in the Netherlands and had a 5.3 % market share behind Thailand (43 %), Indonesia (11 %) and Kenya (9 %). Thailand and Indonesia faced a 24.1 % duty, while Kenyan exporters enjoyed a 0 % duty; South Africa faced a tariff of 9.8 %. According to the TDCA, the tariff faced by South African exporters should be fully liberalised by 2010.

## 2.3 COMESA, EAC and SADC moving towards a bigger Free Trade Area (FTA)[11]

### 2.3.1 Background

One of the broader objectives of the African Union (AU) is accelerating economic integration in the continent. In a bid to contribute towards achieving this broader objective, a COMESA[12]-EAC[13]-SADC[14] Tripartite Summit of Heads of State and Government was held on 22 October 2008 in Kampala, Uganda. The Summit deliberated on strategies to deepen regional integration in Eastern and Southern Africa. The tripartite initiative emanates from the Lagos Plan of Action and the Abuja Treaty that established the African Economic Community (AEC). The initiative is a strategic response to the AEC's objective of strengthening, rationalising and consolidating the existing regional economic communities (RECs), with a view to achieving a common market covering the continent.

### 2.3.2 Brief profile of COMESA, EAC and SADC

**COMESA** was established in 1994 and launched a Free Trade Area (FTA) in October 2000. It has nineteen (19)[15] member States, fourteen (14)[16] of which are part of the FTA, while the remaining five (5) are working towards joining the FTA. COMESA plans to deepen its integration by establishing a Common Market in 2014.

**EAC** was revived in 2000 and has five (5)[17] members. The Community commenced implementation of a Customs Union in January 2005. It is implementing a gradual reduction of internal tariffs which will be completed in 2010, to coincide with the establishment of the Common Market.

**SADC** was established as a development coordinating conference in 1980 and was later transformed into a Development Community in 1992.

[11] Contributed by S.H. Madzive and M.S Legare, Directorate International Trade: Department of Agriculture
[12] Common Market of East and Southern Africa
[13] East African Community
[14] Southern African Development Community
[15] The 19 members of COMESA are Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.
[16] The 14 members of COMESA participating in the FTA are Burundi, Comoros, Djibouti, Egypt, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Zambia and Zimbabwe.
[17] The 5 members of the EAC are Burundi, Kenya, Rwanda, Uganda and Tanzania.

SADC has fifteen (15)[18] member states and attained its FTA in January 2008. Angola, the DRC and Seychelles are not yet part of the SADC FTA. SADC aims to attain a Customs Union in 2010 and a Common Market in 2015.

### 2.3.3 Challenges ahead for the envisaged FTA

One of the constraints to the expansion of trade amongst the three RECs and the effective implementation of their integration programmes, is due to multiple and overlapping memberships. Of the twenty-six countries that constitute the combined membership of COMESA, EAC and SADC, seventeen (or almost two-thirds) are either in a customs union and participating in negotiations for an alternative customs union to the one they currently belong to, or are in the process of negotiating two separate customs unions. This has led to the three RECs recognising the need to initiate a process of co-ordination and harmonisation within their regional integration programmes - as a way of mitigating the challenge of multiple memberships as well as paving the way for accelerated inter-regional economic integration.

Clearly, some of the RECs have not yet achieved full free trade status. EAC is still in a process of completing its internal tariff dismantling. As of 1 January 2008, only 85 % of intra-SADC trade is duty-free. The need to expand intra- and inter-REC trade is still high on the agenda. There are still substantial barriers to intra-regional trade within free trade areas. In particular, non-tariff barriers that are problematic include costly transit arrangements, cumbersome customs procedures, restrictive rules of origin, lack of common product standards and systems of certification, and inadequate mechanisms to ensure compliance.

### 2.3.4 Strategy for inter regional economic community integration

The Tripartite Summit has approved the expeditious establishment of a FTA encompassing the member/partner States of COMESA, EAC and SADC. The envisaged FTA is seen as a necessary mechanism to reduce barriers to intra- and inter-REC trade and the creation of a wider regional market. A larger market is likely to bring about economic and welfare gains through lower prices, wider choice, improved quality and more competitive production through improved economies of scale. Increased efficiency in production may result in increased trade flows across the region. Common rules of origin, which allow cumulation, can further enhance value-addition and increased competitiveness and investment in the region.

### 2.3.5 Benefits of the envisaged FTA

To minimise and eventually eliminate the contradictions brought about by overlapping membership, the three RECs should rationalise and harmonise their trade arrangements through the establishment of a FTA. The FTA will take into account the levels of integration of the three RECs.

The following benefits could be derived from the envisaged FTA:

- Welfare gains through lower prices, wider choice, and improved quality;
- Larger market;
- Increased efficiency in production;
- Increased trade and investment across the region;
- Common rules of origin will allow cumulation and enhance value-additions;
- Promotion of the cross-border movement of financial and capital assets; and
- Increased competitiveness of the region and employment creation.

## 2.4 South Africa's provisional agricultural trade performance[19][20]

The purpose of this section is to report on *preliminary* South African agricultural trade data for 2007 to 2008 derived from the World Trade Atlas and as reported by the South African Revenue Service.

**Figure 4** shows that the value of South Africa's total agricultural exports in 2008 amounted to R45.3 billion, an increase of 51 % from 2007. The value of the country's total agricultural imports in 2008 amounted to R39.0 billion, an increase of nearly 31 % from 2007. The resulting agricultural trade surplus was R6.3 billion (2008).

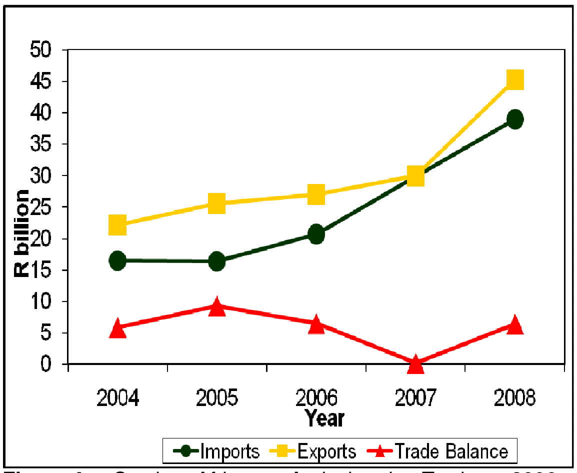


**Figure 4:** South African Agricultural Trade, 2006-2008 (2008 provisional)

Source: World Trade Atlas, 18 February 2009

Cognisance must be taken that agricultural imports and exports consist of primary and processed products.

[18] The 15 members of SADC are Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

[19] Contributed by J. Verster and E. Steenkamp, Directorate International Trade: Department of Agriculture. A. Jooste and R. Verwey of NAMC also contributed to some sub-sections.

[20] The selection of products is based on the definition of agricultural products as covered by the WTO Agreement on Agriculture. This includes primary as well as processed agricultural products. Also see Appendix A for 20 products traded.

- **Primary agricultural trade**

The value of primary agricultural exports grew by nearly R9 billion (2008 provisional), a 69 % increase from 2007[21]. Provisional data on primary agricultural imports indicate a growth of R1.3 billion (2008), an 18 % increase from 2007. The resulting **primary agricultural trade surplus** was R13.5 billion (2008 provisional), an increase of 105 %. (see **Figure 5**)

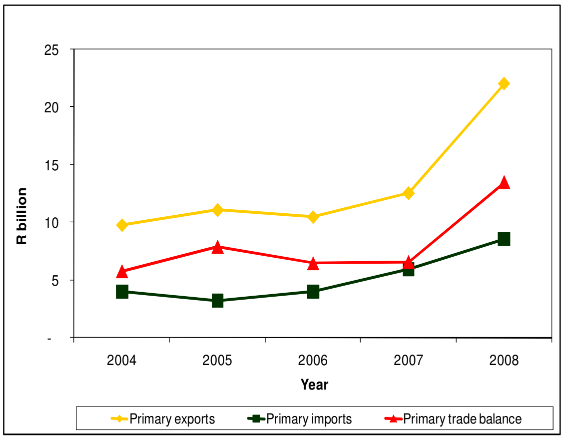


**Figure 5:** South African primary agricultural trade, 2008 (provisional)
Source: World Trade Atlas, 18 February 2009

**Figure 6 and 7** show the top 20 exports of primary agricultural products in terms of value and volume, respectively, from 2006 to 2008 (the complete list of primary agricultural products consist of 215 different products at the HS 4 code level). In 2006 the value of the top 20 products depicted accounted for 86.2 % of the value of primary agricultural exports; this percentage increased slightly to 89.9 % in 2008. The value of corn (maize), oranges, grapes and apple exports dominated the value of exports of primary agricultural products; corn (maize) and oranges dominated the volume of exports.

The value of corn (maize) exports increased by 346.6 % between 2006 and 2008 and 3 420.18 % between 2007 and 2008, while the value of oranges increased by 64.5 % and 33.03 % between 2006 and 2008 and 2007 and 2008, respectively. The value of grape exports increased by 49.2 % between 2006 and 2008. The value of apples, wool and wheat increased by 84.97 %, 78.16 % and 4 006.21 % between 2006 and 2008, respectively.

If the value of corn (maize), oranges, grapes exports is excluded from total primary agricultural exports, then the value of primary agricultural exports decline by 43.92 %, 38.97 % and 46.23 % in 2006, 2007 and 2008, respectively. This is indicative of the prominent role these products play in generating foreign exchange for South Africa.

[21] A provisional calculation was done to differentiate between the primary and secondary agricultural products traded; this does not yet reflect official figures, which will only be available later.

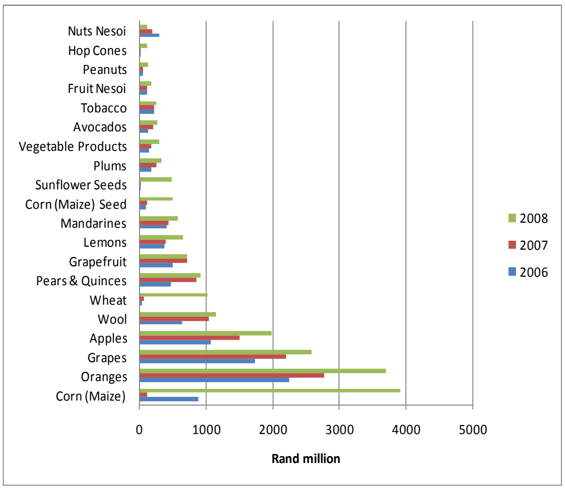


**Figure 6:** Primary agricultural exports (value), 2008 (provisional)
Source: World Trade Atlas, 18 February 2009

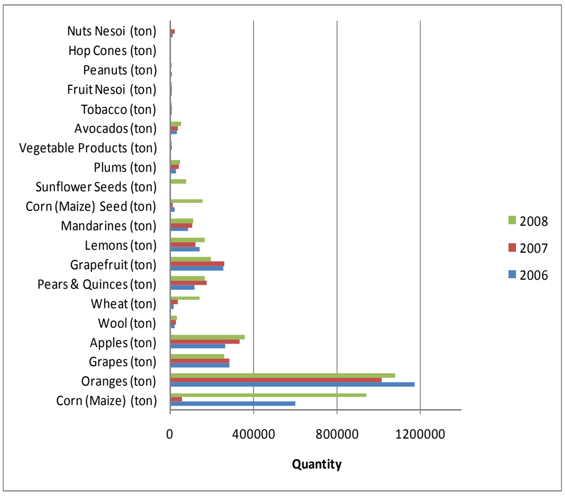


**Figure 7:** Primary agricultural exports (quantity), 2008 (provisional)
Note: the figure for maize might be higher if seasonal years are used.
Source: World Trade Atlas, 18 February 2009

**Figure 8 and 9** show the top 20 imports of primary agricultural products in terms of value and volume, respectively, from 2006 to 2008 (the complete list of processed agricultural products consist of 213 products at the HS 4 code level). In 2006 the value of the top 20 products depicted accounted for 75.69 % of the value of primary agricultural imports; this percentage increased to 83.97 % in 2008. The value of wheat, stemmed tobacco and coffee imports dominated the value of imports of primary agricultural products in 2008; this is also applicable to the volume of imports. Note that cotton is not far behind.

The value of wheat imports increased by 262.8 % between 2006 and 2008 and 99.05 % between 2007 and 2008, while the value of stemmed tobacco increased by 47.4 % and 51.45 % between 2006 and 2008 and 2007 and 2008, respectively. The value of coffee and cotton imports increased by 121.2 % and 20.6 %, respectively, between 2006 and 2008.

If the value of wheat, stemmed tobacco and coffee imports is excluded from total primary agricultural imports, then the value of primary agricultural imports decline by 34.81 %, 35.20 % and 56.87 % in 2006, 2007 and 2008, respectively. The reason for highlighting these products is that South Africa is not able to comply with local demand. There is however potential to increase wheat production if it is profitable for farmers to produce it.

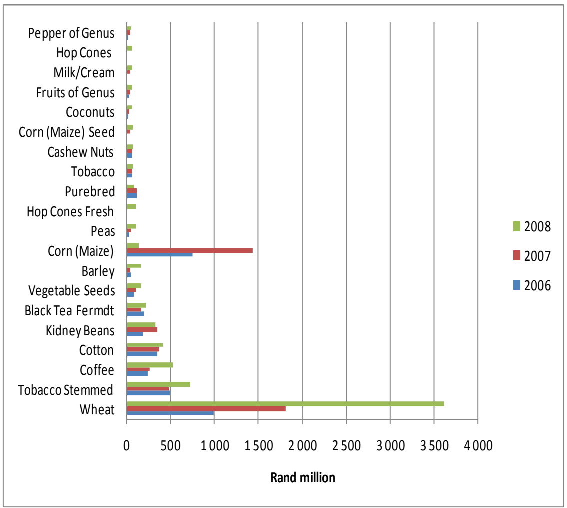


**Figure 8:** Primary agricultural imports (value), 2008 (provisional)

Source: World Trade Atlas, 18 February 2009

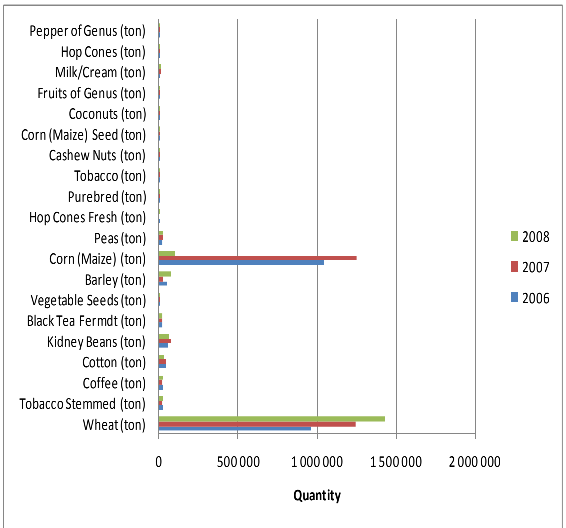


**Figure 9:** Primary agricultural imports (quantity), 2008 (provisional)

Source: World Trade Atlas, 18 February 2009

- **Processed agricultural trade**

Provisional data for 2008 indicate that exports of processed agricultural increased by R6.4 billion, or 38 %, from 2007 to 2008. Preliminary data shows a R7.8 billion (or 35 %) increase in the value of South African processed agricultural imports from 2007 to 2008. The resulting processed agricultural trade deficit was R7.1 billion (2008), an increase of 3 %. (see **Figure 10**)

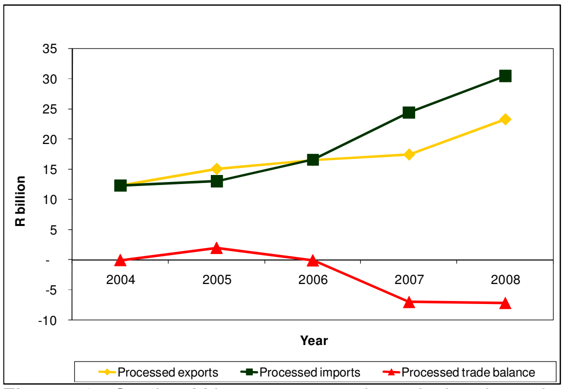


**Figure 10:** South African processed agricultural trade, 2008 (provisional)

Source: World Trade Atlas, 18 February 2009

**Figure 11 and 12** show the top 20 exports of processed agricultural products in terms of value and volume, respectively, from 2006 to 2008 (the complete list of processed agricultural products consist of 476 different HS 4 codes). In 2006 the value of the top 20 products depicted accounted for 65.5 % of the value of processed agricultural exports; this percentage decreased slightly to 64.7 % in 2008. The value of wine, sugar cane, ethyl alcohol, pure sucrose refined and food preparations exports dominated the value of exports of processed agricultural products; sugar cane, ethyl alcohol, pure sucrose refined dominated the volume of exports.

The value of wine (>2l) exports increased by 63.02 % between 2006 and 2008 and 24.49 % between 2007 and 2008, while the value of wine increased by 114.79 % and 56.26 % between 2006 and 2008 and 2007 and 2008, respectively. The value of cane sugar exports decreased by 40.75 % between 2006 and 2008. The value of ethyl alcohol, pure sucrose refined and food preparations increased by 31.05 %, 55.96 % and 91.23 % between 2006 and 2008, respectively.

If the value of wine (>2l), wine and cane sugar exports is excluded from total processed agricultural exports, then the value of processed agricultural exports decline by 34.93 %, 32.03 % and 31.4 % in 2006, 2007 and 2008, respectively. This is indicative of the prominent role these products play in generating foreign exchange for South Africa.

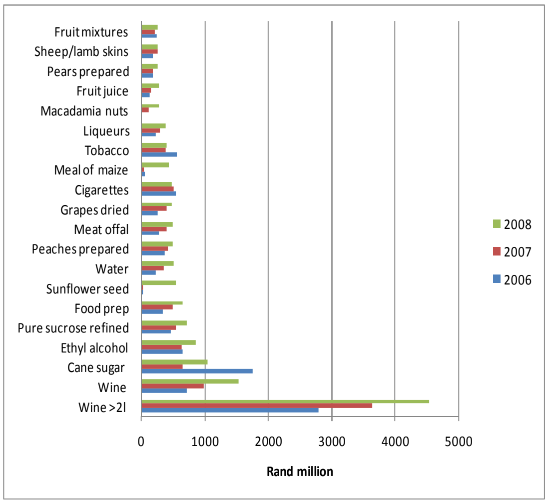


**Figure 11:** Processed food exports (value), 2008 (provisional)

Source: World Trade Atlas, 18 February 2009

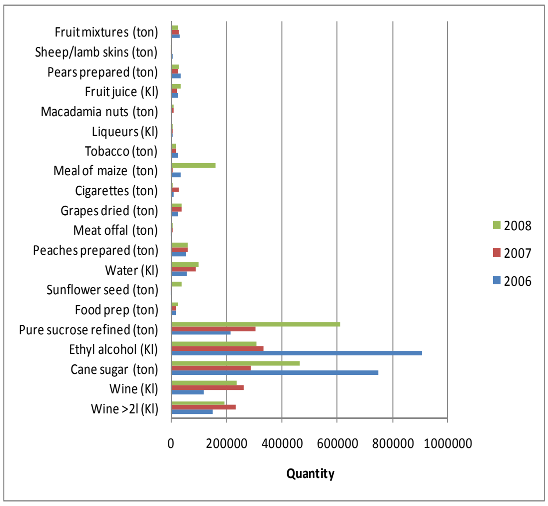


**Figure 12:** Processed food exports (quantity), 2008 (provisional)

Source: World Trade Atlas, 18 February 2009

**Figure 13 and 14** show the top 20 imports of processed agricultural products in terms of value and volume, respectively, from 2006 to 2008 (the complete list of processed agricultural products consist of 467 different at the HS 4 code level). In 2006 the value of the top 20 products depicted accounted for 61 % of the value of processed agricultural imports; this percentage increased to 66.5 % in 2008. The value of rice, soya oilcake and palm oil imports dominated the value of imports of processed agricultural products; this is also applicable to the volume of imports. Note that chicken cuts are not far behind.

The value of rice imports increased by 132.7 % between 2006 and 2008 and 80.75 % between 2007 and 2008, while the value of soya oilcake increased by 143 % and 75.78 % between 2006 and 2008 and 2007 and 2008, respectively. The value of palm oil and whiskey imports increased by 207 % and 37.7 %, respectively, between 2006 and 2008. The value of soybean oil (refined) and beer from malt showed the highest percentage increase between 2006 and 2008, i.e. 538 % and 1 294 %, respectively.

If the value of rice, palm oil and whisky imports is excluded from total processed agricultural imports, then the value of processed agricultural imports decline by 22.89 %, 21.77 % and 25.85 % in 2006, 2007 and 2008, respectively. **The reason for highlighting these products is that South Africa have limited capacity to produce, or do not produce, these products.**

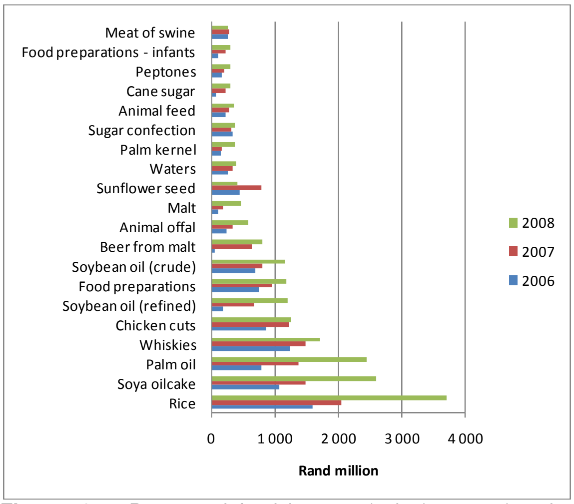


**Figure 13:** Processed food imports (value), 2008 (provisional)

Source: World Trade Atlas, 18 February 2009

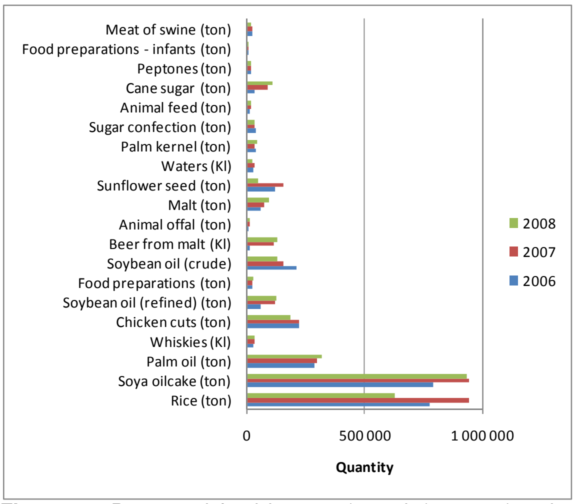


**Figure 14:** Processed food imports (quantity), 2008 (provisional)

Source: World Trade Atlas, 18 February 2009

### 2.4.1 Major export markets and trends (based on provisional data for 2008)

- South African agricultural exports to the **EU 27** grew to R17.1 billion (2008), an increase of 26 % from 2007, mainly as a result of higher exports of wine and oranges. During 2008, 38 % of South

Africa's agricultural exports flowed to the EU 27, compared with 45 % in 2007.

- South African agricultural exports to the **SADC** grew to R10.7 billion (2008), an increase of 157 % from 2007. This was mainly due to noteworthy increases in exports of maize and wheat. Nearly one quarter (24 %) of South African agricultural exports during 2008 flowed to SADC member countries, up from 14 % in 2007.
- The **Netherlands** was South Africa's largest individual market for agricultural products with more than R4.8 billion (2008) worth of products exported there. Exports to the Netherlands increased by 40 % from 2007 to 2008. Much of the increase resulted from higher exports of grapes and oranges.
- The value of exports to the **United Kingdom**, South Africa's second largest market for agricultural products, increased by 11 % from 2007, reaching R4.7 billion in 2008. The increase was due mainly to increased exports of wine and apples.
- Agricultural exports by South Africa in 2008 were characterised by a significant rise in exports to **Zimbabwe**. Driven mainly by considerable increases in exports of maize and sunflower seed oil, the total value of agricultural exports to Zimbabwe rose to R3.7 billion (2008), an increase of 782 % from 2007.
- **Mozambique** was the fourth largest market for South African agricultural products, with a 5 % share of total agricultural exports. The total value of exports to Mozambique was R2.2 billion (2008), an increase of 58 % from 2007. The bulk of the increase was due to significantly higher exports of maize and grouts/meal of maize.
- The fifth largest market for South African agricultural exports in 2008 was **Germany**. South Africa exported some 18 % more, or R1.9 billion worth of agricultural products to Germany in 2008. Exports of wine in bulk were the main driving force behind the healthy increase recorded.

### 2.4.2 Major export product trends (based on provisional data for 2008)

- Much of the value increase for **fruits and nuts** resulted from sizeable increases in the average prices for 2008 over 2007, and in certain instances also from increased quantities being shipped. Overall the quantities exported over 2007 and 2008 remained more or less constant at 2.5 billion tons per annum. The average price per kilogram for oranges increased by 25 %, grapes 28 % and apples 23 %, whilst the quantities for these three leading fruit exports changed by 6 %, -8 % and 7 % respectively. The overall prices in this category increased by about 27 % from 2007 to 2008, partly as a result of the exchange rate movement, resulting in the total export value increasing by a similar percentage to about R13 billion (2008).
- South African exports of **beverages** increased by 35 % from 2007, reaching R8.6 billion in 2008 due to higher prices. This increase materialised despite lower quantities of beverages being exported in 2008, as reported by SARS. The wine industry reported an increase in the volume of exports from 312 million litres (2007) to 412 million litres (2008).
- According to Grain SA, **maize** exports increased substantially from 469 000 tons in 2007 to over 1 577 million tons in 2008 (using seasonal years, not calendar years). This translated into a threefold increase in maize exports. Industry figures include exports to the BLNS, while SARS figures exclude exports to the BLNS and are thus much lower.
- Exports of **vegetable and fruit preparations** grew in value by 36 % from 2007 to 2008. Much of the increase can be attributed to higher unit values for preserved peaches, single-fruit juices and preserved pears, as well as higher export volumes of single-fruit juices. In total, for preserved foods, the volumes exported increased by 14 % over 2007 to 352 million tons in 2008, reaching a value of about R3.2 billion (2008).
- Despite a 10 % growth in the volume of **sugar** exports between 2007 and 2008, the value of such exports dropped by 2 % over the same period. This was mainly due to a 10.5 % drop in the export price for sugar as a broad category.

Overall, much of the increase in the value of agricultural exports in 2008 could be ascribed to the declining value of the rand against other major currencies, along with an increase in the volume of exports in 2008.

### 2.4.3 Major import sources and trends (based on provisional data for 2008)

- South African agricultural imports from the **EU 27** grew to R8.9 billion (2008), an increase of 29 % from 2007, mainly as a result of higher imports of whisky and beer. During 2008, more than 23 % of South Africa's agricultural imports flowed from the EU 27, compared with nearly 25 % in 2007.
- South African agricultural imports from the **SADC** grew to R1.6 billion (2008), an increase of nearly 3 % from 2007. This was mainly due to noteworthy increases in imports of cotton and tobacco. Around 4 % of South African agricultural imports during 2008 flowed from SADC member countries, down from 5 % in 2007.
- **Argentina** was South Africa's largest individual supplier of agricultural products with nearly R7 billion (2008) worth of products imported from there. Imports from Argentina increased by 15 % from 2007 to 2008. Much of the increase resulted from higher imports of soybean oilcake and wheat.
- The value of imports from **Brazil**, South Africa's second largest supplier of agricultural products, increased by 31 % from 2007, reaching R3.7 billion in 2008. The increase was due mainly to increased imports of soybean oil and cane sugar.
- Agricultural imports by South Africa in 2008 were characterised by a significant rise in imports from **Thailand**. Driven mainly by a major increase in imports of rice, the total value of agricultural im-

ports from Thailand increased to R3.5 billion in 2008 – up 112 % from 2007.

- The **United States of America** was the fourth largest supplier of agricultural products to South Africa with an almost 7 % share of total agricultural imports. The total value of imports from the United States of America was R2.6 billion (2008), an increase of 17 % over 2007. The bulk of the increase was due to a rise in imports of food preparations.
- The fifth largest supplier of South African agricultural imports in 2008 was **Malaysia**. South Africa imported some 53 % more, or R2.1 billion worth of agricultural products from Malaysia in 2008. Imports of palm oil were the main driving force behind the significant increase recorded.

### 2.4.4 Major import product trends (based on provisional data for 2008)

- Much of the value increase for **cereals** resulted from sizeable increases in the average prices for 2008 over 2007, rather than from increased quantities. The average price per kilogram for milled rice increased by 172 % and for wheat by 72 %, whilst the quantities of these leading cereal imports changed by -33 % and 15 % respectively.
- South African imports of **fats and oils** increased by 42 % from 2007 to 2008, due to higher average prices for palm oil and soybean oil. This increase materialised despite lower quantities of soybean oil being imported in 2008.
- Due to considerable increases in the average price of particularly soybean oilcake imported in 2008, **animal feed** imports recorded a 62 % increase over 2007.
- Imports of **beverages** grew by 21 % from 2007 to 2008. Much of the increase can be attributed to higher unit values for whisky and beer, as well as higher import volumes of beer.
- Despite a nearly 4 % growth in imports of chicken cuts, **meat** imports declined by 3 % from 2007 to 2008. This was mainly due to a decline in imports of pork, whole chickens and beef.

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## APPENDIX A

## COMPLETE HS CODE DEFINITIONS FOR PRODUCTS DISCUSSED IN SECTION 2.4

### Top 20 traded unprocessed agricultural products

| HS code | Product description |
|---|---|
| 100190 | Wheat (Other Than Durum Wheat), And Meslin |
| 240120 | Tobacco, Partly Or Wholly Stemmed/Stripped |
| 090111 | Coffee, Not Roasted, Not Decaffeinated |
| 520100 | Cotton, Not Carded Or Combed |
| 071333 | Kidney Beans & White Pea Beans, Dri Shel, Inc Seed |
| 090240 | Black Tea Fermdt & Other Partly Fermentd Tea Nesoi |
| 120991 | Vegetable Seeds For Sowing |
| 100300 | Barley |
| 100590 | Corn (Maize), Other Than Seed Corn |
| 071310 | Peas, Dried Shelled, Including Seed |
| 121010 | Hop Cones Frsh/Dried, Not Ground Powdrd Or Pellets |
| 010110 | Purebred Breeding Animal |
| 240110 | Tobacco, Not Stemmed/Stripped |
| 080132 | Cashew Nuts, Fresh Or Dried, Shelled |
| 100510 | Corn (Maize) Seed, Certified, Excluding Sweet Corn |
| 080111 | Coconuts, Dessicated |
| 090420 | Fruits Of Genus Capsicum Or Pimenta, Drd/Crsh/Grnd |
| 040120 | Milk/Cream Nt Cnctrd/Swt, Fat Content Ov 1% Nov-6% |
| 121020 | Hop Cones, Ground, Powdered Or In Pellets; Lupulin |
| 090411 | Pepper Of Genus Piper, Neither Crushed Nor Ground |

### Top 20 traded processed agricultural products

| HS code | Product description |
|---|---|
| 220421 | Wine, Fr Grape Nesoi & Gr Must W Alc, Nov 2 Liters |
| 220429 | Wine, Fr Grape Nesoi & Gr Must With Alc, Nesoi |
| 170111 | Cane Sugar, Raw, Solid Form, W/O Added Flav/Color |
| 220710 | Ethyl Alcohol, Undenat, Alchol Not Un 80% By Volum |
| 170199 | Cane/Beet Sug Chem Pure Sucrose Refind Nesoi |
| 210690 | Food Preparations Nesoi |
| 151211 | Sunflower-Seed Or Safflower Oil, Crude, Fract, Etc |
| 220210 | Waters, Incl Mineral & Aerated, Sweetnd Or Flavord |
| 200870 | Peaches, Prepared Or Preserved, Nesoi |
| 020890 | Meat & Edible Meat Offal Nesoi, Fresh, Chld, Froz |
| 080620 | Grapes, Dried (Including Raisins) |
| 240220 | Cigarettes Containing Tobacco |
| 110313 | Groats And Meal Of Corn (Maize) |
| 240310 | Smoking Tobacco, Whether Not Contain Substitutes |
| 220870 | Liqueurs And Cordials |
| 080260 | Macadamia Nuts, Edible, Fresh Or Dried, Whether Or |
| 200980 | Juice Of Any Single Fruit/Vegtble Unfermentd Nesoi |
| 200840 | Pears, Prepared Or Preserved, Nesoi |
| 410221 | Sheep/Lamb Skins Without Wool On Pickled W/N Split |
| 200892 | Fruit Mixtures, Prepared Or Preserved Nesoi |
| 200990 | Mixtures Of Fruit And/Or Vegetable Juices |