Trade between South Africa and Europe: Future Prospects and Policy Choices

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This paper reviews the bilateral trade policy options for South Africa and the EU in the context of current and prospective future flows. It argues that past isolation has left South Africa discriminated against in the EU market. It analyses the implications for South Africa, the EU and third-party competitors of two principal options for removing this discrimination: partial membership of the Lomé Convention and a Free Trade Agreement. It concludes that the options have similar characteristics, with the actual effects on the concerned parties being determined by the product-specific details of any accord.

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Preface

This Working Paper arises from a research and training project in the area of trade policy reform, undertaken by the IDS at the request of the Government of South Africa and funded by the EU. Both the research and the training elements were undertaken because the new government in South Africa has to find its way in a trade policy world from which its predecessor was substantially excluded. Much has happened over the past two to three decades in which South Africa has not participated in the way that would have been expected given its economic and social characteristics because it was isolated internationally.

The research findings reported in the paper also have a wider interest for those concerned with the policy framework for international trade. They provide a clear example of the current state of international trade diplomacy in the post-Uruguay Round period. A future EU-South Africa trade agreement may be one of the first tests of the new World Trade Organisation (WTO) provisions for granting derogations from contracting parties' most-favoured-nation (MFN) obligations.

Among the training elements of the project was the secondment to the research team at IDS of an official from the South African Department of Trade and Industry (DTI), Schalk Fischer. He has been primarily responsible for the analysis of South African trade statistics and tariff data. Jane Kennan undertook the analysis of EU trade and tariff data. Glen Robbins and Robert Rudy analysed the characteristics of, respectively, the South African and EU industries involved in the trade flows identified. The research was undertaken under the overall direction of Christopher Stevens who, with Jane Kennan, was responsible for the final drafting of this Working Paper.

Chapter 1

Introduction

Background

Because of its past isolation, South Africa is now addressing in a public and transparent fashion issues that have been dealt with for other countries in a piecemeal and often incoherent way. It is doing so, moreover, in an international climate of opinion that is much less favourably disposed towards special and differential treatment than was the case when most of the existing agreements linking developed and developing countries were framed. Its actions provide a clear example of the current state of international trade diplomacy. They also shed light on the complex web of cross-cutting trade regimes that apply to the sensitive (mostly agricultural) goods that are of current policy interest to South Africa in its negotiations with the EU.

This Working Paper is concerned specifically with the issues related to the creation of an appropriate policy regime for trade between the EU and South Africa. It identifies the nature of trade between the EU and South Africa, the current policy regime, and the implications for both sides of alternative policy frameworks. To the extent possible, this analysis has been placed within a dynamic context given that there may be significant changes in the composition of South Africa's exports and imports in future following shifts in domestic economic policy. In the event this has not resulted in any substantial change in the analysis. There is considerable uncertainty about the trajectory of the South African economy over the next five years (the principal time horizon for this Working Paper) and no evidence could be obtained that was sufficiently specific or widely accepted to support plausible alternatives to the current commodity composition of exports over this period.

The principal results of the research undertaken are presented in Chapters 2 to 5. Chapters 2 and 3 provide an analysis of EU-South African trade. Chapters 4 and 5 analyse the policy framework for trade and the implications for third parties of the principal options. Chapter 6 presents a summary of the conclusions.

The Methodology for the Trade Analysis

Sources of data

Six principal sources have been used for the various trade analyses described in this report:

- the Eurostat COMEXT database, to provide figures on European imports and exports during the period 1988 to 1993;
- the *Integrated tariff of the European Communities (Taric)* of 6 July 1992, to provide information on the terms of access of South Africa and its competitors during the review period;
- the EU *Official Journal L348* of 31 December 1994, with details of the EU's new Generalised System of Preferences (GSP) in respect of certain industrial products originating in developing countries (together with *Official Journal L82* of 12 April

1995 and *Official Journal L117* of 24 May 1995, which both contain corrigenda to *Official Journal L348*).

- the EU's GATT offer on tariff reductions to fulfil its commitments under the Uruguay Round;
- a database on South African 1993 imports compiled by the Commissioner for Customs and Excise and supplied to the project team by the DTI;
- a database on South Africa's GATT offer on tariff reductions to fulfil its commitments under the Uruguay Round compiled by the Commissioner for Customs and Excise and supplied to the project team by the DTI.

In addition, various European sources were consulted to obtain a picture of the policy and commercial framework within which European industries with interests in trade with South Africa are operating. These include various EU publications, such as *The Agricultural Situation in the Community*, together with *Panorama of EU Industries, Weekly Mail and Guardian, Industrial Strategy Project Reports*, GATT *South African Trade Policy Review*, IBRD *South African Trade Profile*, EIU South Africa *Quarterly Reports,* and various submissions from agricultural associations.

The selection of products

The analysis focused on a select group of products with a potential importance for trade policy with respect to the EU because they combine two characteristics:

- they are important items in trade between the two partners;
- and one or both of the partners maintains significant barriers to imports.

The result was that a large proportion of South Africa's exports (by value) was not subject to detailed scrutiny. The greater part of current exports to the EU is of items (mostly mineral-related) that face modest import restrictions, a feature that undoubtedly owes much both to the country's resource endowment and to the legacy of apartheid and the need to evade formal and informal sanctions. The removal of the latter constraint may be expected to result in a change in the commodity composition of exports, perhaps towards items that are subject to greater restriction in the EU market. Unfortunately, as explained above, and detailed in Chapter 2, no basis could be found for identifying the nature of such new exports and, hence, the implications for trade diplomacy.

One view is that an indication of such potential exports to the EU may be obtained from the composition of South Africa's trade with countries that did not apply sanctions rigorously during the apartheid period. The argument is that these are the items that the country is able to export competitively but which were suppressed in past trade with the EU because of South Africa's isolation.

Such a comparison was made but, as explained in Chapter 2, it did not reveal any evidence of substantial exports to non-EU destinations of items that are not sold to Europe and are overlooked, therefore, by the methodology employed in the Working Paper. One plausible explanation of the discrepancy between the expectation that there would be a difference between the two markets and the reality may be that this analysis has concentrated on 1993 trade data. The end of isolation may have had two effects on the 1993 data set compared with earlier years: there may have been a decline not only in actual trade diversion but also in deliberate obscuring of the pattern of trade by such devices as a large `unallocated' section. It appears that the South African data set used is more detailed than has been the case in previous years.

Despite the improvement in the coverage of South African statistics in 1993, it was decided to use the EU data on imports and exports as the primary source for the identification of the most important items traded between the two countries. This decision was taken partly because of the complication when using the South African trade data of distinguishing intra-SACU commerce.

At various points in the analysis it was necessary, however, to work from South African trade statistics. The two most important exercises using South African data were the comparison of South Africa's imports from the EU with those from other OECD states and the analysis of South Africa's tariffs on EU imports, since the Harmonised System (HS) of trade nomenclature is common only for the first 6 digits of disaggregation, while many trade policy instruments are specified at 8 or more digits.

The detailed figures

The Working Paper includes tables that summarise the results of these analyses. Full details are provided in Statistical Appendices that are available on request. Appropriate reference is made in each of the text tables to enable the reader to identify the full data set in the Statistical Appendices that supports the conclusions drawn.

Chapter 2

South African Exports to the EU

The Key Products

The selection criteria

A list of key South African exports was compiled by identifying the most important current exports to the EU (by value) and then eliminating all those items which are of little interest in the current policy review by virtue of the fact that the EU's existing or post-GATT MFN duty is less than 5% (and there are no other restrictions on imports, such as anti-surge safeguards). For these products, South African exports to the EU either enter at very low or zero tariffs, or will do so within five years. The initial list of most valuable exports totalled 156 products, compiled by taking account of the value of exports and the existence of preferential tariffs.[1]

The sifting process to remove items that are lightly protected in the EU reduced the list to 45 products (at the 8-digit level). These are the items that are of potential importance for current trade policy reform discussions because:

- they are important South African exports to the EU;
- and they face import restrictions in the European market.

This short list of `policy-relevant' products, presented in Table 1, formed the basis for most of the succeeding analysis of the South African export-oriented and EU import-competing industries with an interest in the current trade policy reform. As explained in Chapter 1, it represents only a small share of total South African exports to the EU.

The sectoral balance

There is a strong agricultural bias in these `policy-relevant' products. Table 1, which is presented in descending order of value of South African exports, shows that seven of the top ten exports are agricultural, and two are fisheries products. Only one (silicon) is an industrial product. Indeed, agricultural products account for 81% of the total value of Ecu 517.2 million of the products listed in the table.

Deciduous fruits and vine products are the most prominent agricultural items, with citrus fruit also included - but at generally lower values. Of the non-agricultural items, various industrial

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[1] The list of 156 products is presented in full at Statistical Appendix 1, which also provides information on the EU's MFN tariff, the changes that will be implemented as a result of the GATT Round and the preferences available.

Table 1
Policy-relevant South African exports to the EU

CN code	*Exports to EU, 1993 (Ecu '000)*	*EU GATT offer:*			*Lomé/ bilateral pref.?*	*S.African GSP status* [(a)]	*Description (abbreviated in some cases)*
		Base rate of duty	*Bound rate of duty*	*Notes*			
08061015	75,439	18	11.5	i	_		Fresh table grapes, 1 November-14 July (excl. Emperor variety, 1 December-31 January)
08051035	50,798	4	3.2	c,e	_		Fresh navels, from 16 May to 15 October, etc.
08082033	36,775	5	4	l	_		Fresh pears, from 1 April to 15 July
08081083	31,021	6	3.8	c,j	_		Granny Smiths , fresh, from 1 April to 31 July
28046900	29,339	6	5.5		_		Silicon containing <99.99% by weight of silicon
08081081	25,459	6	3.8	c,j	_		Golden Delicious, fresh, from 1 April to 31 July
03037810	20,428	15	15	b	_		Frozen hake `merluccius spp.'
08044090	17,094	8	5.1		_		Fresh or dried avocados, from 1 June to 30 November
03042057	13,416	15	7.5		_		Frozen fillets of hake `merluccius'
20089271	12,925	17	13.6	c	_		Mixtures of fruits, prepared or preserved, no added spirit but added sugar, wt of no single fruit >50% of total wt, etc.
28092000	12,332	11	5.5		_	0%	Phosphoric acid and polyphosphoric acids
08082031	11,582	10	8	k	_		Fresh pears, from 1 January to 31 March
08081089	11,270	6	3.8	c,j	_		Apples , fresh, from 1 April to 31 July (excl. Granny Smith and Golden Delicious)
08094019	10,693	8	6.4	m	_		Fresh plums, from 1 October to 30 June
22042125	10,438	16.4	13.1	c,n	_		White wine of fresh grapes, in containers =<2l, actual alcoholic strength =<13% vol., etc.
20087071	9,602	24	19.2		_		Peaches, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.
03074931	9,445	6	6		_		Frozen squid `loligo vulgaris', with or without shell
22042129	8,638	16.4	13.1	c,n	_		Wine of fresh grapes, incl. fortified wines, etc., in containers =<2l, actual alcoholic strength =<13% vol., etc.
32012000	7,228	9	6.5	d	_		Mimosa extract
20084071	6,854	24	19.2		_		Pears, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.
07108090	6,473	18	14.4	c	_		Other vegetables, uncooked or cooked by steaming or boiling, frozen
28253000	6,370	5.5	5.5		_	0%	Vanadium oxides and hydroxides
76011000	5,671	6	6		_		Aluminium, not alloyed, unwrought
03074938	5,481	6	6	c	_		Squid `loligo spp.', frozen (excl. loligo vulgaris, pealei and patagonica)
76101000	5,325	7	6		_	70%	Doors, windows and their frames and thresholds for doors, of aluminium
62031100	5,231	14	12		_	85%	Men's/boys' suits of wool or fine animal hair, woven, etc.
08081033	4,641	14	9	c,h	_		Granny Smiths, fresh, from 1 August to 31 December
62034231	4,394	14	12		_	85%	Men's/boys' trousers/breeches of cotton denim, woven, etc.
62034319	4,382	14	12		_	85%	Men's/boys' trousers/breeches of synthetic fibres, woven, etc.
85281098	4,314	14	14	c	_	70%	Television receivers, colour, without screen, etc.
28201000	4,177	5.3	5.3		_	70%	Manganese dioxide
39232100	4,138	8.4	6.5		_	70%	Sacks and bags, incl. cones, of polymers of ethylene
20085071	3,915	26	20.8		_		Apricots, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.

Table 1 *(continued)*
Policy-relevant South African exports to the EU

CN code	*Exports to EU, 1993 (Ecu '000)*	*EU GATT offer:* Base rate of duty	Bound rate of duty	Notes	*Lomé/ bilateral pref.?*	*S.African GSP status* [(a)]	*Description (abbreviated in some cases)*
08071090	3,880	11	8.8	c	_		Fresh melons (excl. watermelons)
39221000	3,801	8.4	6.5		_	0%	Baths, showers and washbasins, of plastics
09042090	3,738	5	5		_		Crushed or ground fruits of genus Capsicum or Pimenta
85281091	3,671	14	14		_	70%	Video tuners
09042010	3,577	12	9.6		_		Dried sweet peppers (excl. crushed or ground)
08051039	3,520	4	3.2	c,e	_		Fresh sweet oranges, from 16 May to 15 October, etc.
06031069	3,508	17	8.5	c	_		Fresh flowers, other, 1 November to 31 May, etc.
08052010	3,474	20	16	c,f	_		Fresh or dried clementines
03037981	3,258	15	15	b	_		Frozen monkfish
20085061	3,208	24	19.2		_		Apricots, prepared or preserved, no added spirit but added sugar, sugar cont. >13%, etc.
08052090	3,172	20	16	c,g	_		Fresh or dried tangelos, ortaniques, malaquinas and similar citrus hybrids, etc.
20094030	3,097	19	5.2		_		Pineapple juice, density =<1.33g/ccm at 20.C, value >30 Ecu/100kg, with added sugar, etc.

Notes:

Unless otherwise specified, reductions shall be implemented in equal annual instalments beginning 1995 and ending 2000. The reductions for industrial products begin and end on 1 January of the respective years, those for agricultural products on 1 July.

(a) The figure indicates the proportion of the MFN rate that South Africa will pay, e.g. 0% = duty-free access, 85% = 85% of the MFN rate is payable.
(b) Autonomous reductions might be offered, dependent upon granting of fishing rights to the Community in the framework of fisheries agreements to be agreed upon between contracting parties.
(c) This CN code is not shown in the EU's offer. The rates given are for the product in the EU's offer which most closely matches the description for this code.
(d) In *Taric* and the EU GATT offer the description of this product is `Wattle extract'.
(e) Special safeguard (SSG) and specific tariff of max. 89 Ecu/T reducing to 71 Ecu/T from 16 to 31 May if unit value less than 372 Ecu/T.
(f) SSG and specific tariff of max. 132 Ecu/T reducing to 106 Ecu/T from 1 Nov. to end-Feb. if unit value less than 675 Ecu/T.
(g) SSG and specific tariff of max. 132 Ecu/T reducing to 106 Ecu/T if unit value less than 312 Ecu/T.
(h) SSG and specific tariff of 14% + max. 297 Ecu/T reducing to 11.2% + max. 238 Ecu/T if unit value less than 516 Ecu/T.
(i) SSG and specific tariff of 18% + max. 120 Ecu/T reducing to 14.4% + max. 96 Ecu/T from 1-20 November if unit value less than 500 Ecu/T.
(j) SSG and specific tariff of 6% + max. 297 Ecu/T reducing to 4.8% + 238 Ecu/T if unit value less than 627 Ecu/T from 1 April to 30 June and 516 Ecu/T from 1-31 July.
(k) SSG and specific tariff of max. 297 Ecu/T reducing to 238 Ecu/T if unit value less than 569 Ecu/T.
(l) Specific tariff from 1 May to 30 June of min. 2 Ecu/100kg net reducing to 1.6 Ecu/100 kg net; and SSG and specific tariff of max. 297 Ecu/T reducing to 238 Ecu/T from 1-15 July if unit value less than 524 Ecu/T.
(m) SSG and specific tariff of max. 129 Ecu/T reducing to 103 Ecu/T from 11-30 June if unit value less than 722 Ecu/T.
(n) Ecu/hl.

Sources: Eurostat, COMEXT database; EC, *Integrated tariff of the European Communities (Taric)*, July 1992; various documents and databases on the EU's GATT offer; EU, *Official Journal L348* (31 December 1994), *L82* (12 April 1995) and *L117* (24 May 1995); Statistical Appendix 1.

products (such as phosphoric acid and metals) and manufactures (such as clothing, televisions and plastic products) are the most prominent.

Trends in exports

Past flows

Direct extrapolation from the past to identify apparent trends is rarely a helpful exercise, and in the case of South Africa the past may be a particularly fallible guide to the future - both because of the sharp change in the country's international status and because of the substantial deregulation of the economy that has either been agreed already or is anticipated. None-theless, some feeling is required for the trend of South Africa's policy-relevant exports, even though the data must be interpreted with care. Because of the EU's change from the Nimexe nomenclature to the Harmonised System in 1988, it is not possible to provide long time series at the level of disaggregation required for trade policy analysis. For this reason, it has been possible only to look at the evolution of South African exports of policy-relevant items since 1988.

The current value of South Africa's exports to the EU of the 45 policy-relevant items has been stagnant since 1988, whereas total exports have declined by an annual average 7% (see Table 2). This finding needs to be treated with caution, however, as there are sharp annual variations. A low point for the 45 items was reached in 1990, and a high in 1992. (The apparent decline in total exports is similarly influenced heavily by the choice of comparison years - the chosen base year of 1988 was unusually high.)

More important are differences between products. Two-thirds of the 45 products have experienced positive current value change. The products covered in Table 2 are presented in ascending order of average annual change. In other words, the products that have experienced the greatest average annual decline are at the top and those with the greatest average annual increase are at the foot. These nominal value changes may be assumed for the purposes of this Working Paper to equate broadly with real changes. One obvious deflator is the IMF index of industrial countries' import unit values. This stood in 1993 at almost the same level as in 1988 (both in US dollar terms and after taking account of changes in the Ecu:$ exchange rate).

The greatest declines have been experienced by metals, fish and deciduous fruit. Overall, 16 of the 45 products experienced decline, but this figure slightly overstates the extent of the problem because three of the items are 1993 sub-divisions of a single pre-1993 product group.

Excluding items not exported throughout the period, or for which high growth rates reflect very low base values, the principal areas of consistent growth seem to be fresh grapes, deciduous fruit (pears and plums), exotic citrus fruit, wine, preserved apricots, trousers, plastic sacks and silicon.

Prospects

How likely is it that there will be a substantial change in these trends over the medium and long terms? This question is of clear relevance to the discussion on trade policy regime, not least because EU reticence in offering Lomé treatment is believed to be due, in part at least,

Table 2
Policy-relevant South African exports to the EU: time series, 1988-93

CN code	*1993 exports Ecu '000*	*% of total trade 1993*	*1992 exports Ecu '000*	*1991 exports Ecu '000*	*1990 exports Ecu '000*	*1989 exports Ecu '000*	*1988 exports Ecu '000*	*Av.annual change* [(a)]	*Description (abbreviated in some cases)*
Total trade	8,613,433		9,096,433	8,376,425	5,930,774	8,184,609	12,535,308	-7.23%	
76011000	5,671	0.1%	3,435	2,575	6,618	14,991	15,812	-18.54%	Aluminium, not alloyed, unwrought
03037981	3,258	0.0%	3,455	5,564	5,898	5,557	6,127	-11.87%	Frozen monkfish
28092000	12,332	0.1%	15,575	11,516	8,167	18,682	22,462	-11.30%	Phosphoric acid and polyphosphoric acids
28253000	6,370	0.1%	4,640	4,671	11,431	30,732	10,587	-9.66%	Vanadium oxides and hydroxides
32012000	7,228	0.1%	7,444	8,433	9,048	13,555	11,538	-8.93%	Mimosa extract
08081089	11,270	0.1%)							Apples, fresh, from 1 April to 31 July (excl. Granny Smith and Golden Delicious)
08081081	25,459	0.3%)	150,356	128,117	50,086	99,775	105,864	-8.54% [(b)]	Golden Delicious, fresh, from 1 April to 31 July
08081083	31,021	0.4%)							Granny Smiths , fresh, from 1 April to 31 July
03037810	20,428	0.2%	28,366	38,316	22,351	18,489	30,016	-7.41%	Frozen hake `merluccius spp.'
03074931	9,445	0.1%	10,953	9,407	6,480	16,761	13,259	-6.56%	Frozen squid `loligo vulgaris', with or without shell
20084071	6,854	0.1%	6,611	9,350	6,309	9,838	9,113	-5.54%	Pears, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.
08044090	17,094	0.2%	20,963	21,241	19,861	29,139	21,609	-4.58%	Fresh or dried avocados, from 1 June to 30 November
08051035	50,798	0.6%	61,737	63,233	40,560	66,836	56,335	-2.05%	Fresh navels, from 16 May to 15 October, etc.
06031069	3,508	0.0%	3,911	4,839	3,802	3,461	3,820	-1.69%	Fresh flowers, other, 1 November to 31 May, etc.
08081033	4,641	0.1%	4,609	7,223	16,327	11,455	4,993	-1.45%	Granny Smiths, fresh, from 1 August to 31 December
07108090	6,473	0.1%	7,361	7,067	4,848	5,539	6,657	-0.56%	Other vegetables, uncooked or cooked by steaming or boiling, frozen
08051039	3,520	0.0%	3,465	4,843	1,483	2,346	3,395	0.73%	Fresh sweet oranges, from 16 May to 15 October, etc.
08082031	11,582	0.1%	17,809	13,560	6,408	9,479	10,541	1.90%	Fresh pears, from 1 January to 31 March
62031100	5,231	0.1%	4,505	2,949	103	3,373	4,659	2.34%	Men's/boys' suits of wool or fine animal hair, woven, etc.
08071090	3,880	0.0%	3,131	3,042	1,428	4,992	3,437	2.45%	Fresh melons (excl. watermelons)
20089271	12,925	0.2%	12,218	13,973	10,199	12,457	11,170	2.96%	Mixtures of fruits, prepared or preserved, no added spirit but added sugar, wt of no single fruit >50% of total wt, etc.
08082033	36,775	0.4%	49,170	41,325	32,052	32,806	30,643	3.72%	Fresh pears, from 1 April to 15 July
20094030	3,097	0.0%	3,391	6,615	3,657	3,384	2,450	4.80%	Pineapple juice, density =<1.33g/ccm at 20.C, value >30 Ecu/100kg, with added sugar, etc.
08094019	10,693	0.1%	13,472	12,594	4,952	9,293	7,691	6.81%	Fresh plums, from 1 October to 30 June
08061015	75,439	0.9%	80,037	65,522	44,348	53,227	53,843	6.98%	Fresh table grapes, 1 November-14 July (excl. Emperor variety, 1 December-31 January)
03074938	5,481	0.1%	1,415	7,151	4,344	0	0	8.06%	Squid `loligo spp.', frozen (excl. loligo vulgaris, pealei and patagonica)
20087071	9,602	0.1%	10,726	12,504	7,196	8,233	6,351	8.62%	Peaches, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.
03042057	13,416	0.2%	12,396	12,361	10,795	7,543	8,181	10.40%	Frozen fillets of hake `merluccius'

Table 2 *(continued)*
Policy-relevant South African exports to the EU: time series, 1988-93

CN code	*1993 exports Ecu '000*	*% of total trade 1993*	*1992 exports Ecu '000*	*1991 exports Ecu '000*	*1990 exports Ecu '000*	*1989 exports Ecu '000*	*1988 exports Ecu '000*	*Av.annual change*[(a)]	*Description (abbreviated in some cases)*
39232100	4,138	0.0%	3,108	1,594	291	4,220	2,351	11.97%	Sacks and bags, incl. cones, of polymers of ethylene
28046900	29,339	0.3%	29,352	22,568	7,838	20,802	15,958	12.95%	Silicon containing <99.99% by weight of silicon
20085071	3,915	0.0%	5,083	5,663	5,552	3,371	2,103	13.23%	Apricots, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.
20085061	3,208	0.0%	4,576	3,260	2,866	1,947	1,626	14.56%	Apricots, prepared or preserved, no added spirit but added sugar, sugar cont. >13%, etc.
08052090	3,172	0.0%	1,482	3,577	1,431	1,368	1,589	14.83%	Fresh or dried tangelos, ortaniques, malaquinas and similar citrus hybrids, etc.
62034231	4,394	0.1%	2,670	2,828	2,649	1,787	1,579	22.71%	Men's/boys' trousers/breeches of cotton denim, woven, etc.
22042129	8,638	0.1%	6,542	4,060	1,761	2,768	2,345	29.79%	Wine of fresh grapes, incl. fortified wines, etc., in containers =<2l, actual alcoholic strength =<13% vol., etc.
22042125	10,438	0.1%	7,558	3,687	1,074	1,842	1,926	40.21%	White wine of fresh grapes, in containers =<2l, actual alcoholic strength =<13% vol., etc.
62034319	4,382	0.1%	4,517	3,998	23	434	750	42.34%	Men's/boys' trousers/breeches of synthetic fibres, woven, etc.
28201000	4,177	0.0%	4,935	3,448	1,939	1,559	532	51.00%	Manganese dioxide
08052010	3,474	0.0%	1,818	1,006	3	181	285	64.89%	Fresh or dried clementines
39221000	3,801	0.0%	2,273	747	242	81	117	100.61%	Baths, showers and washbasins, of plastics
76101000	5,325	0.1%	1,753	732	0	657	128	110.78%	Doors, windows and their frames and thresholds for doors, of aluminium
09042010	3,577	0.0%	1,333	328	126	14	28	163.80%	Dried sweet peppers (excl. crushed or ground)
09042090	3,738	0.0%	2,625	4,384	1,565	446	2	351.15%	Crushed or ground fruits of genus Capsicum or Pimenta
85281098	4,314	0.1%	1,837	7	0	0	0	2382.51%	Television receivers, colour, without screen, etc.
85281091	3,671	0.0%	19	0	0	0	0	19221.05%	Video tuners
Totals	517,192		622,632	579,878	366,111	533,420	491,872	1.01%	

Notes:

(a) Earliest year to 1993.

(b) These three 1993 codes are equivalent to one pre-1993 code. The change shown is between the total value for the three codes in 1993 and that for the one code in 1988.

Source: Eurostat, COMEXT database.

to concern that South Africa could emerge as a highly competitive exporter of a wide range of sensitive products. Unfortunately, it is an exceedingly difficult question to answer in anything but the most speculative fashion.

One view is that there may be substantial short-term changes in the composition of exports simply from the removal of constraints arising from international isolation, and that analysis of current exports to states that were lax in administering sanctions during the apartheid era provides a flavour of these. As explained in Chapter 1, South African exports to non-EU destinations were analysed to identify any products that may have been excluded in the past from the EU and which might surge, therefore, as a result of tariff cuts. This revealed that, on the contrary, there is considerable similarity between the commodity composition of exports to the EU and of those to other principal markets. There is, hence, no reason from this analysis to believe that there exists hidden capacity in the South African economy that would result in a surge of new exports to the EU.

In the medium term there could be changes to exports as the South African economy evolves. It is clear that the South African economy has been distorted and subjected to unusual political pressures (these two phenomena are linked), that change began before the political settlement (for example, with the GATT offer on trade liberalisation), and that it is likely to accelerate under the new government. The effect could be to alter dramatically the structure of production, of imports (which would be of potential interest to European exporters) and of exports (which, equally, would be of concern to domestically oriented European industries). However, the problems that have constrained exports in the past appear to be deep seated. It seems improbable, therefore, that there will be widespread, substantial changes in the pattern of exports in the medium term (say up until the end of the century), although profound changes may well become apparent thereafter.

One of the reasons why agricultural items dominate the list of current, policy-relevant exports in Tables 1 and 2 is that manufactured exports are lower than might have been expected. This is partly because of the legacy of sanctions, but it is also a reflection on the poor manufacturing performance of the economy over the past two decades. This has been associated with a fall in capital stock and low growth rates for the labour-intensive sectors of the economy [Kaplinsky, 1995: 189]. Over the period 1972-90, the level of net investment was virtually stagnant in textiles, wood, furniture, other manufactures, leather and footwear (with annual average increases in the size of the capital stock ranging from 0.1% to 0.4%) and actually fell in clothing (with the capital stock declining by an annual average 0.2%) [Kaplinsky, 1995: Table 6]. The identified reasons for this poor performance include a range of political factors with their origin in the apartheid system. The change in the political system and the current economic reforms should remove many of these causes, but there is considerable `lost ground' to be made up.

Thumbnail sketches of some of the principal export-oriented and import-competing industries are presented in Annex 1. The footwear industry is expected to see increased import penetration in the medium term, as is the textile industry. There may be some opportunities for clothing exports, but probably in niche markets with imports of clothing also likely to rise. Exports of chemicals are likely to benefit from the current economic changes, but this is not expected to feed through to the domestic plastic products industry, which is likely to face continued pressure from imports rather than emerging as a competitive source of exports. Of the industries considered, aluminium seems to have the best prospects for substantially increased exports, but this is not heavily protected in the EU market: although the new GSP is less favourable to aluminium than the old, the MFN rate is being reduced under the Marrakech Agreement and will be 7.5% or less for the majority of lines by the end of the transition period. In all the other industrial sectors examined (machinery, drugs, electrical industrial machinery, household electrical goods, radio and TV equipment, and motor vehicles) the outlook is for increased imports rather than exports.

In the short to medium term, therefore, it would seem more reasonable than not to assume that the principal type of sensitive exports to the EU will be the same as now, i.e. fresh and processed agricultural products such as fruit, wine and flowers. These sub-sectors have scope for expansion and, in many cases, are labour intensive. Given that unemployment is a major source of economic and political concern in South Africa, their growth during the medium term (before the positive effects of economic and political reform on manufacturing are apparent) is likely to be politically very important for the government.

The Policy Framework

South Africa's relative access to the EU

Table 1 provides information on the EU's MFN tariff levels, the availability of preferences for some suppliers, and the current state of South Africa's access. Even after the GATT offer is fully implemented, many of the items in the list will continue to face substantial MFN tariffs in the EU market. Given the selection criteria employed, all products either have bound tariffs of 5% or more or face other restrictions, but often the post-GATT rates are higher than this. Eighteen of the 45 products have bound MFN rates in excess of 10%. Yet better-than-MFN tariffs are available on every single item to at least one of the EU's trading partners (although it cannot be inferred from this statement that any of the favoured states is able to supply the product competitively). In other words, those countries that enjoy only MFN access to the EU market may face actual, or potential, competition from other suppliers with better market access, and will continue to do so even after full implementation of the Uruguay Round agreement.

As can be seen from the column labelled `S. African GSP status' in the table, South Africa has better-than-MFN access for less than one-quarter of the items on the list. The new EU GSP for industrial products was introduced in January 1995, and summary details are provided in Box 1. In most cases the `preference' available to South Africa is modest: a reduction in the tariff payable to 85% or 70% of MFN levels. For only three of the 11 items listed in this column does the GSP provide duty-free access, and in none is it fixed at the second-most-preferential, 30% of MFN, level.

Given that the GSP is the lowest common denominator of the EU's hierarchy of preferences, there is a *prima facie* case for anticipating that at least some of South Africa's actual or potential competitors will enjoy better access to the EU market even for the 11 products on which it has already been accorded GSP status. This possibility was investigated further, and is reported below.

One of the reasons for the sparse coverage of the 45 items by the GSP is that a decision on

South Africa's eligibility for treatment under the GSP for agricultural products was deferred

Box 1
The New Generalised System of Preferences (GSP)

The EU is in the process of amending substantially the details of its GSP. This has been in the offing for some years, but was delayed until the completion of the Uruguay Round (with the old GSP being extended annually during the 1990s). Details of a new regime for industrial products were agreed at the end of 1994. No agreement could be reached on agricultural products, so the old regime has been extended for a further year, with the EU committed to introducing a replacement in January 1996. Details of the new GSP for industrial products were announced in *Official Journal L348* of 31 December 1994 (with subsequent corrections in *OJ*s L82 and L117), which also formally extended for one further year the old GSP for agricultural products.

The old system of tariff quotas and ceilings that limited preferences on sensitive items from competitive states has been replaced by one in which products are granted four different levels of preference, according to their degree of sensitivity (Article 2):

- for the most sensitive products, the GSP tariff will be 85% of the MFN level;
- for less sensitive products, the GSP will be 70% or 35% of the MFN level;
- non-sensitive products will pay 0% duty.

The products paying the different rates of duty are listed in Parts 1, 2, 3 and 4 of Annex I of the Regulation.

An innovation in the new GSP is a graduation mechanism which will remove the benefits of the GSP from some countries which have previously received them. There are two criteria for graduation: level of income and market share. Some countries will be graduated by January 1996 for some sectors - these are specified in the *OJ*. In addition, the EU is to introduce by 1998 more general criteria for future graduation.

The EU also plans to provide extra GSP preferences for countries that meet specific environmental, social and labour standards (Title II, `Special Incentive Arrangements'). The *OJ* establishes the principal criteria that will be employed, and gives a timetable for the detailed application of the plan.

until July 1995. Since the GSP is an autonomous policy, there will not be any formal negotiations with South Africa on agricultural coverage. As the EU's decision was not known when this Working Paper was completed (and neither was the new agricultural GSP), it is not possible to determine precisely how well South Africa's `policy-relevant' products will fare from GSP treatment when the whole exercise is completed. What can be done is to identify the extent to which the agricultural items in this policy-relevant group are covered by the existing GSP. If it is assumed that the offer from the EU will be based on the existing GSP, and will not seek to anticipate the changes that might be included in the forthcoming new agricultural GSP, it follows that the best South Africa could hope for is that it is offered a preference on those products already included in the existing agricultural GSP.

Since only nine agricultural items in the list of 45 policy-relevant products are included in some way in the existing GSP for agricultural products, it is likely that a significant number of South Africa's policy-relevant items will continue to face MFN tariffs unless there is a supplementary trade agreement between the two partners, such as would be provided by accession to the Lomé Convention by South Africa or the negotiation of a Free Trade Agreement (FTA). Moreover, there are *prima facie* grounds for expecting that even on items that are included in the GSP, some or all of South Africa's actual or potential competitors will continue to have more liberal access unless a more favourable agreement than the GSP is agreed.

Treatment of South Africa's external competitors

Market access is a relative rather than an absolute matter, particularly when analysis is undertaken from a static perspective. What matters in the short term to an exporting state is not so much the absolute level of the barriers it faces in its export markets, provided these are not so high as to suffocate trade, but the relationship between the barriers it faces and those pertaining to its competitors. Hence, a fairly high tariff may be acceptable if it is faced also by other third-party suppliers, and it may even be deemed desirable if competitors face even higher barriers. By the same token, a `preferential' cut in tariffs may be less favourable than might appear if the barriers facing competitors are cut by even more.

The concern that has been expressed about the possible reaction of third parties to any EU-South Africa trade deal is founded in this realisation of the importance of relative access. Any improvement in South Africa's absolute access to the EU may involve a potential deterioration in another state's relative access. The implications for third parties of the various options are discussed in Chapter 5; this section deals only with the South African perspective.

EU import statistics were analysed for each of the 45 policy-relevant products listed in Table 1 to identify the major third-party suppliers to the European market besides South Africa, and *Taric* was analysed to indicate the terms of access of these states. This information is summarised in Table 3, which identifies for each of the 45 policy-relevant products the number of third-party competitors in the European market in 1993, and whether or not some or all of these competitors benefit from better access to the European market than does South Africa at the present time (i.e. excluding any speculation about the coverage of the agricultural GSP offer).

In a majority of cases (26 out of the 45), at least some of South Africa's competitors enjoy more favourable access to the European market. Indeed, in five of the cases all of South Africa's competitors currently have better access to the EU market. In other words, South Africa's current negotiations with the EU on market access are not necessarily concerned with being given `preferential treatment' in the sense of being treated better than others. On the contrary, they are in the first instance concerned with removing existing discrimination against South Africa and in favour of states that are, in some cases, richer and highly competitive.

EU Sources of Supply

It is clear that some EU member states fear that their domestic industries will face severe competition from South African exports if the country is given more favourable market access. How well founded are such fears?

An initial identification of potential problem commodities was made by examining intra-EU trade in the 45 policy-relevant South African exports. The object of the exercise was to discover which EU member states are also suppliers of the EU market for these items, on the assumption that intra-EU exports provide a reasonable indicator of the 45 products' relative

Table 3
Relative terms of access in the EU market for South Africa's policy-relevant exports

CN code	*Exports to EU, 1993 (Ecu '000)*	*No. of competitors* [(a)]	*Some competitors* [(a)] *better access*	*All competitors* [(a)] *better access*	*Description (abbreviated in some cases)*
08061015	75,439	1			Fresh table grapes, 1 November-14 July (excl. Emperor variety, 1 December-31 January)
08051035	50,798	4	_		Fresh navels, from 16 May to 15 October, etc.
08082033	36,775	2			Fresh pears, from 1 April to 15 July
08081083	31,021	2			Granny Smiths , fresh, from 1 April to 31 July
28046900	29,339	3	_		Silicon containing <99.99% by weight of silicon
08081081	25,459	0			Golden Delicious, fresh, from 1 April to 31 July
03037810	20,428	3	_		Frozen hake `merluccius spp.'
08044090	17,094	3		_	Fresh or dried avocados, from 1 June to 30 November
03042057	13,416	6	_		Frozen fillets of hake `merluccius'
20089271	12,925	1		_	Mixtures of fruits, prepared or preserved, no added spirit but added sugar, wt of no single fruit >50% of total wt, etc.
28092000	12,332	3			Phosphoric acid and polyphosphoric acids
08082031	11,582	3			Fresh pears, from 1 January to 31 March
08081089	11,270	5			Apples , fresh, from 1 April to 31 July (excl. Granny Smith and Golden Delicious)
08094019	10,693	1			Fresh plums, from 1 October to 30 June
22042125	10,438	6			White wine of fresh grapes, in containers =<2l, actual alcoholic strength =<13% vol., etc.
20087071	9,602	0			Peaches, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.
03074931	9,445	5	_		Frozen squid `loligo vulgaris', with or without shell
22042129	8,638	8	_		Wine of fresh grapes, incl. fortified wines, etc., in containers =<2l, actual alcoholic strength =<13% vol., etc.
32012000	7,228	1			Mimosa extract
20084071	6,854	1			Pears, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.
07108090	6,473	9	_		Other vegetables, uncooked or cooked by steaming or boiling, frozen
28253000	6,370	2			Vanadium oxides and hydroxides
76011000	5,671	18	_		Aluminium, not alloyed, unwrought
03074938	5,481	4	_		Squid `loligo spp.', frozen (excl. loligo vulgaris, pealei and patagonica)
76101000	5,325	5	_		Doors, windows and their frames and thresholds for doors, of aluminium
62031100	5,231	15	_		Men's/boys' suits of wool or fine animal hair, woven, etc.
08081033	4,641	1			Granny Smiths, fresh, from 1 August to 31 December
62034231	4,394	23	_		Men's/boys' trousers/breeches of cotton denim, woven, etc.
62034319	4,382	33	_		Men's/boys' trousers/breeches of synthetic fibres, woven, etc.
85281098	4,314	8			Television receivers, colour, without screen, etc.
28201000	4,177	3			Manganese dioxide
39232100	4,138	22	_		Sacks and bags, incl. cones, of polymers of ethylene
20085071	3,915	0			Apricots, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.
08071090	3,880	9	_		Fresh melons (excl. watermelons)

Table 3 *(continued)*
Relative terms of access in the EU market for South Africa's policy-relevant exports

CN code	*Exports to EU, 1993 (Ecu '000)*	*No. of competitors* [(a)]	*Some competitors* [(a)] *better access*	*All competitors* [(a)] *better access*	*Description (abbreviated in some cases)*
39221000	3,801	5			Baths, showers and washbasins, of plastics
09042090	3,738	8	_		Crushed or ground fruits of genus Capsicum or Pimenta
85281091	3,671	11	_		Video tuners
09042010	3,577	3	_		Dried sweet peppers (excl. crushed or ground)
08051039	3,520	1			Fresh sweet oranges, from 16 May to 15 October, etc.
06031069	3,508	9		_	Fresh flowers, other, 1 November to 31 May, etc.
08052010	3,474	1		_	Fresh or dried clementines
03037981	3,258	5	_		Frozen monkfish
20085061	3,208	1		_	Apricots, prepared or preserved, no added spirit but added sugar, sugar cont. >13%, etc.
08052090	3,172	7	_		Fresh or dried tangelos, ortaniques, malaquinas and similar citrus hybrids, etc.
20094030	3,097	7	_		Pineapple juice, density =<1.33g/ccm at 20.C, value >30 Ecu/100kg, with added sugar, etc.

Note:
(a) `Competitors' defined as extra-EU countries (excluding Austria, Finland and Sweden) with exports to the EU of 25% or more of the value of South Africa's exports to the EU in 1993.
Sources: Eurostat, COMEXT database; EC, *Integrated tariff of the European Communities (Taric)*, July 1992; Statistical Appendix 2.

importance for each of the member states. A shortcoming of the approach is that it overlooks the role of domestic producers in supplying their domestic market, but for this initial identification of the scale and extent of problems the simplifying assumption appears reasonable.

The figures are presented in Table 4, which provides several indicators of the importance of the 45 policy-relevant products to EU producers. Column 2 indicates the share of the 45 items in the total intra-EU exports of each of the member states, i.e. Greece's exports of the 45 items to other member states account for 3.5% of its intra-EU exports. This figure includes items which are exported in such low values that the data may result from statistical errors, re-exports, etc. Column 3 indicates the number of items in which exports achieve a minimal value threshold of being equal to or greater than 0.1% of the country's total intra-EU exports. Column 4 shows the share (by value) of the items specified in column 3 in each country's total intra-EU exports.

Table 4
Intra-EU trade in South Africa's policy-relevant products, 1993

Member state	*Share of 45 items in total intra-EU exports [(a)] (%)*	*No. of significant export items [(b)]*	*Share of significant items in total intra-EU exports [(c)] (%)*
Greece	3.5	6	3.25
Spain	2.6	3	1.85
Portugal	1.6	4	1.40
Netherlands	1.5	3	0.88
Belgium/Luxembourg	1.2	3	0.78
Italy	1.0	1	0.37
France	0.6	1	0.11
Denmark	0.4	2	0.35
UK	0.4	2	0.24
Germany	0.3	-	-
Ireland	0.2	-	-

Notes:
(a) Intra-EU exports of the 45 items as a percentage of total intra-EU exports (by value).
(b) Number of items in which intra-EU exports equal or exceed 0.1% (by value) of total intra-EU exports.
(c) Share of items identified in column 3 in total intra-EU exports (by value).
Source: Eurostat, COMEXT database.

In aggregate terms, no EU member state derives a significant proportion of its intra-EU exports from the products of interest to South Africa. Nonetheless, there is some potential for limited competition. Greece is the country most likely to be affected since it competes on six items which, together, account for 3.25% of the country's exports to other EU member states. Spain and Portugal come next, followed by the three Benelux states; these two groups of countries experience competition on products which account respectively for just over and just under 1% of their total exports to other member states. None of the other countries appears to have any significant area of overlap: where they have exports of the same products as those of interest to South Africa, the values involved are so small as to be less than 0.5% of their total intra-EU exports.

The products of most concern to Greece, Spain and Portugal have been identified and their market characteristics analysed below. This involves some anticipation of the discussion of principal policy options in Chapter 4, but this should not be too confusing. The products of concern to Greece are aluminium (overwhelmingly the most important, accounting for over half the value of all six items), wine, preserved peaches, trousers and preserved mixtures of fruit. Since the EU's base and bound rates on the aluminium item in question (76011000) are only 6%, and given the indication in Annex 1 that South Africa is likely to be a highly competitive supplier of this product, there does not appear to be a very strong *prima facie* case that the nature of a new trade agreement will have a major impact on the Greek industry. The two wine categories - white wine (22042125) and miscellaneous wine (22042129) - are not included in Lomé, although they do feature in two or more of the EU's bilateral trade agreements. Under both policy options, therefore, there would have to be product-specific negotiations with South Africa in which the nature of Greek interests could be ascertained clearly and protected.

The only items on the Greek list, therefore, that might face a significant difference in treatment according to whether Lomé or an FTA were to be selected are preserved peaches (20087071), which benefit from unrestricted access under Lomé but are excluded from most of the EU's bilateral agreements, together with preserved mixtures of fruit (20089271) and men's denim trousers (62034231), which have unrestricted access under Lomé and are included in several of the EU's bilateral agreements, but subject to product-by-product negotiation. The total value of Greece's intra-EU exports in 1993 of these three items was Ecu 34 million, or 0.85% of its total intra-EU exports.

In the case of Spain, the items in which there is `significant' competition (using the very low threshold adopted in Table 4) are clementines (08052010), melons (08071090) and citrus hybrids (08052090). Of these, clementines are overwhelmingly the most important, accounting for 78% of the total. There is no significant difference between the Lomé and FTA options for clementines and citrus hybrids, since both would involve product-specific negotiations on the depth and extent of any South African preference. In the case of melons, there could be a difference between the two regimes, since Lomé provides unrestricted access automatically while an FTA would involve product-specific negotiations (although the EU has several bilateral preference agreements on this product).

In the case of Portugal, the products concerned are men's synthetic (62034319) and denim (62034231) trousers, wine (22042129) and men's woollen suits (62031100). In other words, the country's interests are largely concentrated on clothing, with the single wine category accounting for only 20% of the total. The automatic unrestricted access provisions of Lomé mean that the two principal policy options would have differential implications for the Portuguese industry. Having said that, however, the point made above about the dynamic prospects of the South African clothing industry suggested that it is unlikely to emerge in the short to medium term as a major exporter.

Chapter 3

EU Exports to South Africa

The Key Products

A similar exercise was undertaken for EU exports to South Africa. As with South Africa's exports, the aim was to identify those products that are `policy-relevant' in the sense of being of substantial actual value and susceptible to trade diplomacy on the grounds that the MFN tariff rate in the importing state is greater than zero. It was not possible to follow exactly the same procedure as with the analysis of South African exports to the EU. This is because of the desirability of undertaking part of the analysis using EU statistics and part using South African data. As explained in Chapter 1, EU statistics have been used wherever possible because South African data suffer from the problem of distinguishing intra-SACU trade and because in years earlier than 1993 the coverage of published figures was particularly poor. On the other hand, South African data have to be used when the analysis turns to tariff levels. This is because many tariffs are specified at the 8-digit level, whereas the Harmonised System is common only for the first 6 digits. Hence, it is not possible to identify the tariffs that apply to the EU's 8-digit categories.

The selection criteria

An analysis of EU export data for 1993 identified 165 products (at the 8-digit level) in which EU exports to South Africa exceeded Ecu 5 million in value. The full list is presented at Statistical Appendix 3. As a result of the complications over use of EU or South African data, it proved most practical to undertake the time series analysis before sifting the list of most important exports to remove those facing low base or bound tariffs in South Africa. This analysis, based on EU export figures, is reported in full in Statistical Appendix 4, and the data have been recombined into 2-digit groups for ease of reference in Table 5, which is set out in the same format as Table 2 (the time series on South African exports).

This shows that there has been moderate growth in the value of the EU's 165 most important (in 1993) exports. Exports of these items increased by an annual average 7.7% over the period. This compares with a fall in total exports of 2.6% annually over the period. In 23 of the 2-digit aggregates of 8-digit items there was positive average annual growth, and in just under one-half of these cases the growth was in double figures. The most noteworthy growth areas (in terms of combining high absolute value with significant growth) are electrical machinery and equipment (Chapter 85), vehicles (87) and machinery and appliances (84). Other product groups that have experienced annual average growth of more than 5% and with 1993 exports exceeding Ecu 50 million are pharmaceutical products (Chapter 30), precision, medical and optical instruments (90), books and newspapers (49) and miscellaneous chemical products (38). The principal areas of decline have been meat (Chapter 02), aircraft parts (88), man-made fibres (55) and beverages

(22).

Table 5
Most important EU exports to South Africa, 1988-93

HS chapter[(a)]	*1993 imports Ecu '000*	*% of total trade 1993*	*1992 imports Ecu '000*	*1991 imports Ecu '000*	*1990 imports Ecu '000*	*1989 imports Ecu '000*	*1988 imports Ecu '000*	*Av.annual change*	*Abbreviated description*
Total trade	5,588,842		5,420,158	5,814,310	4,089,959	6,450,688	6,359,671	-2.6%	
02	14,735	0.3%	11,918	14,281	4,824	18,220	62,112	-25.0%	Meat and edible meat offal
88	42,379	0.8%	93,648	353,384	26,034	42,214	60,704	-6.9%	Aircraft, spacecraft and parts thereof
55	11,106	0.2%	5,742	7,822	5,993	14,346	13,209	-3.4%	Man-made staple fibres
22	52,698	0.9%	52,191	50,987	1,367	63,581	60,574	-2.7%	Beverages, spirits and vinegar
34	13,141	0.2%	13,145	11,456	6,670	14,653	13,447	-0.5%	Soap, organic surface-active agents, artificial waxes, etc.
39	88,623	1.6%	79,517	86,847	74,653	86,528	89,730	-0.2%	Plastics and articles thereof
05	7,585	0.1%	7,265	5,955	6,598	7,937	7,494	0.2%	Products of animal origin, nesoi
71	51,116	0.9%	36,789	40,931	42,230	65,570	49,767	0.5%	Precious/semi-precious stones, precious metals
56	7,777	0.1%	7,020	5,169	4,612	6,378	7,304	1.3%	Wadding, felt and non-wovens
32	31,309	0.6%	26,521	28,381	26,479	29,913	28,044	2.2%	Tanning or dyeing extracts
48	62,563	1.1%	47,876	54,526	39,150	51,622	50,879	4.2%	Paper and paperboard
33	26,338	0.5%	21,946	20,031	12,014	15,777	21,382	4.3%	Essential oils; perfumery, cosmetic or toilet preparations
38	63,164	1.1%	49,109	48,663	30,561	55,860	49,180	5.1%	Miscellaneous chemical products
45	6,036	0.1%	7,808	6,608	6,300	5,886	4,645	5.4%	Cork and articles thereof
11	15,809	0.3%	21,427	32,250	15,421	20,653	11,973	5.7%	Products of the milling industry
69	21,837	0.4%	20,599	20,772	20,348	21,886	16,113	6.3%	Ceramic products
73	10,036	0.2%	10,448	8,785	0	0	0	6.9%	Articles of iron or steel
84	745,285	13.3%	537,375	528,847	423,820	585,431	517,491	7.6%	Nuclear reactors, boilers, machinery/appliances, etc.
37	8,431	0.2%	5,395	5,890	5,426	4,284	5,461	9.1%	Photographic or cinematic goods
49	56,620	1.0%	47,048	43,944	2,249	39,633	35,628	9.7%	Printed books, newspapers, etc.
40	17,416	0.3%	8,789	9,713	5,332	14,156	10,198	11.3%	Rubber and articles thereof
90	76,393	1.4%	54,361	63,979	32,906	40,233	43,854	11.7%	Precision, medical, optical, etc., instruments
87	216,314	3.9%	151,825	162,257	107,977	154,486	109,259	14.6%	Vehicles other than railway or tramway rolling-stock
30	103,276	1.8%	99,081	78,821	43,155	55,399	51,024	15.1%	Pharmaceutical products
29	47,657	0.9%	39,612	22,981	15,527	16,489	22,558	16.1%	Organic chemicals
85	227,392	4.1%	199,331	116,854	71,651	102,452	76,822	24.2%	Electrical machinery and equipment
41	6,975	0.1%	11,019	9,035	7,282	2,616	1,832	30.7%	Raw hides and skins, and leather
15	11,124	0.2%	1,778	1,242	4,338	1,996	1,362	52.2%	Animal or vegetable fats or oils
89	14,782	0.3%	12,991	1,694	0	1,255	1,242	64.1%	Ships, boats and floating structures
27	6,661	0.1%	0	0	0	0	0		Mineral fuels and oils, bituminous substances
Totals	2,064,578		1,681,574	1,842,105	1,042,917	1,539,454	1,423,288	7.7%	

Note:

(a) Figures do not represent total EU exports to South Africa in each chapter; they are aggregates into chapters of the most important 8-digit items identified in Statistical Appendix 4.

Source: Eurostat, COMEXT database; Statistical Appendix 4.

The Policy Framework

Whereas the analysis of EU trade policy focused on the complex set of trade preferences, in the case of South Africa the most appropriate point of entry is the country's trade policy reforms under the Marrakech Agreement. There are two reasons for this difference of focus. The first is that South Africa does not have preferential trade arrangements except with its close regional partners and, hence, there are no precedents to examine that are appropriate models for a future accord with the EU. Second, the Marrakech changes are wide-ranging and represent a fundamental shift in the nature and balance of South African import protection.

In order to understand the relevance of these changes for EU exports, the basis of analysis was shifted to South African import data. Figures for 1993 were analysed at the 8-digit level to identify all products imported from the EU with a value greater than Rand 10 million and facing a positive bound tariff. In other words, the search discarded all imports in which the MFN tariff rate is already zero or will be reduced to this level by the end of the Uruguay Round implementation period, together with all items imported in only very small amounts. This exercise resulted in a substantial list of 408 items, equivalent to 42% by value of the total, which are presented in full in Statistical Appendix 5.

These are the products that combine the two features used to define the list of 45 policy-relevant South African exports:

- they are important EU exports to South Africa;
- and they face import restrictions in the South African market.

Current liberalisation

This database is used further in Chapter 5, but for the present it has been used to identify three sets of products, all of which are important South African imports from the EU. These are:

- items in which the MFN tariff will be reduced by one-tenth or more during the Marrakech implementation period;
- those in which the tariff will increase (which have been further sub-divided to identify separately those with a base rate of zero).

The first list provides an indication of the products on which South Africa has indicated a readiness to agree significant liberalisation but on which further tariff cuts are possible and which might, therefore, form a focus for the EU's negotiations on any reciprocal trade agreement. The second list provides an initial basis for identifying products that are particularly sensitive in South Africa. In the case of those with a base rate of zero, in particular, it may be reasonable to infer that non-tariff barriers have been replaced by tariffs; it is often the case that such a move provokes particular concern in the protected sector, resulting in particularly strong political opposition to any further liberalisation until the effect of the shift to tariffs has had time to become apparent.

There are a total of 154 items on which South Africa's MFN tariff is being reduced by one-tenth or more. South African imports from the EU of these items in 1993 totalled Rand 6.5 billion, equivalent to 49% of total imports from the EU of the 408 products selected. In the great majority of cases, the tariff cuts are much larger than one-tenth. In 92% of the cases, they are one-quarter or more, and in 34% of cases they are one-half or more. Hence, a substantial proportion of current EU exports to South Africa stand to gain from significant cuts to the tariffs they pay during the Marrakech Agreement transition period.

The most important products that will benefit from tariff cuts are listed in Table 6. This provides details on all items in which South African imports from the EU exceed Rand 50 million and the tariff cut is of at least one-quarter. The most notable items in the list, in terms of the combination of value and tariff cut, are motor vehicles and parts, whiskies, medicaments and computer programmes.

Areas for future negotiation

Since the Marrakech Agreement will not result in bound rates for these products of zero, there remains scope for the EU to use the reciprocity inherent in an FTA to achieve further reductions for its exporters. Since the EU has given no indication of its negotiating objectives in any FTA, the industries it will target are a matter for speculation. However, the products listed in Table 6 and, especially, Tables 7 and 8, would seem to be a logical place to start, as they are important EU exports which face current restrictions in the South African market.

The list of products on which a tariff is being imposed for the first time runs to 149 items, but the tariffs are mainly of moderate size. Less than one-fifth have bound tariffs of 20% or more, whereas one-half have tariffs of 10% or less. The total value of imports from the EU in 1993 of the 149 items was Rand 4 billion. The most important products (defined as import value exceeding Rand 50 million and bound tariff exceeding 10%) are listed in Table 7. Telephone apparatus, bottling machinery, medical instruments and packing machinery are among the most prominent items.

The list of products which were not previously zero-rated but on which there is set to be an increase in tariff rate is much shorter, at 66 items, and imports from the EU are generally of modest value. Many of the increases are proportionately large: in almost half the cases tariffs have been tripled or more. However, the absolute level of the new bound tariffs is in most cases 20% or less. The total value of imports from the EU in 1993 was Rand 1.7 billion. The most important products are listed in Table 8, which includes all products in which imports exceed Rand 50 million and for which the new bound tariff is more than 10%. The shortness of the list may indicate that these items have received substantial non-tariff protection in the past. The most prominent items are electrical apparatus, aircraft and engine parts.

This identification of potential areas of focus for EU negotiators is taken further in Chapter 5, in the section considering the implications of an FTA for third-party exporters to the EU market.

Table 6
South African MFN changes of interest to the EU: principal items for which tariffs are being cut by 25% or more

Tariff item no.	*S. African GATT offer:* Base rate	Bound rate	Reduction	***Imports from EU (1993, R mn)***	***Abbreviated description***
69089090	584	30	95%	90	Glazed ceramic flags and tiles
22083000	303	67	78%	459	Whiskies
30049055	60	15	75%	118	Medicaments, other, in packings of 1,000 or more measured doses
90318010	40	10	75%	81	Measuring or checking instruments
87019050	40	10	75%	69	Tractors: other (2,000-7,000 cm3)
85389090	40	10	75%	62	Electronic apparatus parts
87032390	100	50	50%	467	Hearses, other
87032490	100	50	50%	127	Hearses, other
87012000	100	50	50%	110	Truck tractors
87032290	100	50	50%	103	Hearses, other, depending on engine size
48101100	10	5	50%	61	Coated paper and paperboard, weighing =<150g/m2
48119000	10	5	50%	55	Paper, paperboard, coated, impregnated, covered, surface-decorated or printed, nes
48113900	10	5	50%	54	Paper and paperboard coated, impregnated with plastics, nes
15149090	123	67	46%	92	Rape, colza or mustard oil
87089990	50	30	40%	1,053	Motor vehicle parts nes
90328990	50	30	40%	86	Automatic regulating or controlling instruments, other
84073490	50	30	40%	85	Engines over 1,000 cc, other
87084090	50	30	40%	77	Tractor parts (excluding road tractors), other
87082900	50	30	40%	73	Motor vehicle body parts, nes
84133000	50	30	40%	63	Pumps for internal combustion piston engines
11071020	65	41	37%	84	Malt, not roasted, of barley
84818090	30	20	33%	56	Valves other than HS 8481.80
02074200	50	37	26%	54	Frozen cuts and offal (excl. liver) of turkeys
30049090	20	15	25%	177	Medicaments (excluding goods of heading no. 3002, 3005 or 3006)
85249030	20	15	25%	146	Recordings for computers (excluding computer and video games)
73121020	20	15	25%	100	Other stranded wire
39072010	20	15	25%	57	Polyether-polyols, liquids or pastes with a hydroxyl number of 20-800 mg koh/g
Total value				4,059	

Sources: Databases on South Africa's imports and GATT offer provided by the South African DTI; Statistical Appendix 5.

Table 7
South African MFN changes of interest to the EU: principal items facing new tariffs of 10% or more

Tariff item no.	***S. African GATT offer:*** *Base rate*	*Bound rate*	***Imports from EU (1993, R mn)***	***Abbreviated description***
85179000	0	20	135	Telephone parts
84223000	0	20	88	Machinery for bottling, packaging and aerating beverages
90189090	0	20	85	Instruments used in medical, surgical, dental or veterinary sciences
84224000	0	20	66	Packing machinery nes
84196000	0	15	78	Machinery for liquefying gases
30042090 other	0	15	75	Medicaments containing antibiotics,
84198990	0	15	69	Machinery for liquefying gases, other
85421100	0	15	64	Monolithic integrated circuits, digital
30043900	0	15	63	Medicaments or other hormones, for retail sale, nes
38083090	0	15	59	Insecticides, fungicides, herbicides
85044000	0	15	55	Static converters, nes
85421900	0	15	52	Monolithic integrated circuits, nes
39081000	0	10	152	Polyamide -6, -11, -12, -6,6, -6,9, -6,10 or - 6,12, in primary forms
84295990	0	10	77	Self-propelled excavating machinery nes, other
84798966	0	10	55	Other industrial machinery or appliances
38151990	0	10	55	Supported catalysts, nes, other
39095000	0	10	53	Polyurethanes, in primary forms
Total value			1,283	

Sources: Databases on South Africa's imports and GATT offer provided by the South African DTI; Statistical Appendix 5.

Table 8
South African MFN changes of interest to the EU:
principal items facing tariff increases of 10% or more

Tariff item no.	***S. African GATT offer:***			***Imports from EU (1993, R mn)***	***Abbreviated description***
	Base rate	*Bound rate*	*Increase*		
85174000	5	20	300%	183	Carrier-current line systems, apparatus nes
85173000	5	20	300%	77	Telephonic switching apparatus
85369090	5	15	200%	66	Other radio-telegraphic apparatus
85365090	5	15	200%	51	Radio/television switches, other
84099990	20	30	50%	82	Parts for aircraft engines nes, other
84099190	20	30	50%	77	Parts for engines (heading no. 8407 or 8408), other (excl. piston rings)
Total value				536	

Sources: Databases on South Africa's imports and GATT offer provided by the South African DTI; Statistical Appendix 5.

Chapter 4

The Policy Options: A Free Trade Agreement or Lomé?

Although there are a number of ways in which the bilateral commercial diplomacy of the EU and South Africa could be advanced, discussion appears to have centred on two principal options: full or qualified accession by South Africa to the trade provisions of the Lomé Convention or a `Free Trade Agreement'. The second of these is presented in inverted commas because of the obscure nature of the FTA option. Whereas the Lomé Convention provisions are clearly established (see Box 2), even though South Africa might not be eligible for all of them, there is virtually no hard information on the coverage or timing of an FTA. It would appear, on the basis of past EU practice and the statements made thus far, that what is envisaged is an agreement that provides for a transition over a period of years to free trade on a significant number of commodities by way of a partial and asymmetrical removal of barriers. During the transition period, any such agreement might be open to attack (depending on its specific provisions) on the grounds that it bears more resemblance to a bilateral preference agreement than to one fulfilling the WTO requirements for an FTA.

The Characteristics of an FTA

A first step in the analysis is to establish in broad terms what might be in an FTA. This has involved taking into account both the agreed international rules on free trade areas and the precedents set by the EU's existing bilateral accords with its southern and eastern neighbours. The former is primarily a task for international trade lawyers rather than economists, but in the absence of any definitive guidance it is necessary to attempt a sketch of the legal framework.

The WTO

Rules

The principal influence on the formal characteristics of internationally acceptable free trade areas is Article XXIV of the GATT, as amended by the Uruguay Round. Two salient requirements of Article XXIV are that the free trade agreement must be completed `within a reasonable length of time' and that `duties and other restrictive regulations of commerce ... are eliminated on substantially all the trade between the constituent territories ...' [GATT, 1947; Part 3, Article XXIV, paras 5(c) and 8(b)]. The Uruguay Round text provides further clarification of a `reasonable length of time'. Para. 3 of *Understanding of the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994* specifies that it `should exceed ten years only in exceptional cases' [WTO, 1995: 32].

What do such requirements imply for an FTA with South Africa? The duration requirement seems to make it clear that although implementation of tariff cuts may be asymmetrical, South

Box 2
The Lomé Convention

The Lomé Convention sits at the apex of the EU's trade accords with countries outside the European Economic Area in three senses: it covers a wide range of products, the reduction of tariff or non-tariff import barriers tends to be deeper for the items covered than under other agreements, and controls are often implemented more sensitively. It is for these reasons that Lomé has been viewed during the negotiations as an `ideal' in the sense that it is the best `off-the-peg' deal available. For comparison purposes, the type of FTA assessed in the Working Paper is similarly `ideal' in that it contains all the best features of the various EU agreements.

These stylised versions of ideal preferential accords should not be taken as evidence either that Lomé is faultless or that South Africa would necessarily obtain all the benefits available to the existing ACP states (or, by the same token, an FTA deal that is as good as any described in this chapter). There are two general criticisms of Lomé that should be taken into account, although they do not alter the broad conclusion that the Convention represents as good a trade deal as is available `off-the-peg'.

- The product coverage, whilst broad, is not universal. The Convention provides concessions (usually duty-free entry) for all industrial products and almost all hard commodities and tropical soft commodities. The principal limitations are on items that compete directly with the CAP or with ECSC products. The Convention provides duty reductions on some of the former, often limited to a certain quantity.
- The EU has on occasion flouted the spirit of the Convention by imposing voluntary export restraints or using administrative devices (including unduly onerous rules of origin) to restrict competitive ACP exports.

Although these cut the absolute value of Lomé to its signatories they do not reduce its relative attractions: product coverage remains wider than under any other accord, and the imposition of non-tariff barriers has been much less widespread or severe than under other agreements.

Africa will have a maximum of ten years within which to remove restrictions on `substantially all' its imports from the EU, unless it is agreed that it is an `exceptional case'.

Matters are not so clear cut with respect to the proportion of trade that has to be covered. As explained in Chapter 2, a high proportion of South Africa's exports to the EU already enter the European market duty free, and an even larger share will face low or zero MFN duties by the year 2000. The problem for South Africa is that a substantial share of the remaining items, which will continue to face high MFN tariffs, are goods that are particularly sensitive to the EU, notably those falling under the Common Agricultural Policy (CAP). If the term `substantially all' were interpreted as less than, say, 90% of current South African exports, then the EU could probably fulfil the requirements of Article XXIV without making any significant reductions to the tariffs it applies to South Africa. But this would rather remove the object of the exercise from the South African perspective. If, alternatively, the term `substantially all' were taken to imply a major reduction in existing high tariffs, then it would require the EU to open up its agricultural market to many very sensitive items from South Africa. This, in turn, is likely to cause major political problems for the EU.

Procedures

The formal procedure for obtaining WTO approval for a free trade agreement is fairly straightforward. The parties to the agreement should notify the WTO following signature. Under the GATT, notification was generally followed by the establishment of a working group (membership of which was open to any country that felt it to be in their interests to belong) which produced a report that should then be adopted by consensus by the Council. This practice is set to continue under the WTO. The majority of the cases notified to the GATT were interim agreements, some of the provisions of which came into effect before the relevant working group had completed its deliberations.

It would appear, therefore, that to be accepted by the WTO an FTA requires universal approval (because of the practice of achieving consensus). However, during the time of the GATT this was rarely achieved. As of January 1995, a total of 98 agreements had been notified under Article XXIV, but only six (of which only two are still operative) had been explicitly acknowledged as being in conformity with Article XXIV. In other words, the formal requirements for legitimisation of an FTA are high, but in the past a failure to achieve these has not proved to be a barrier to those countries wishing to create one.

The procedures for adopting a preferential agreement such as quasi or full membership of the Lomé Convention are not quite so clear cut. There would appear to be two principal approaches. One would be based on the enabling clause in the Tokyo Round Agreement of 1979 concerning special and differential treatment for developing countries. Footnote 2 to paragraph 2(c) of the enabling clause (which is primarily about the GSP, i.e. a standard system for all developing countries) states that:

> it would remain open for the contracting parties to consider on an *ad hoc* basis under the GATT provisions for joint action any proposals for differential and more favourable treatment not falling within the scope of this paragraph.

This is somewhat uncharted territory, not least in South Africa's case because it is classified as a developed country within the GATT/WTO.

An alternative, and better-trodden path would be to seek a waiver from the MFN rule under Article XXV. This was sought and obtained by the EU in respect of the Lomé Convention in 1994. A majority of the 28 waivers granted since the inception of GATT have involved preferences granted by developed to developing countries on a non-reciprocal basis.

In principle, it might be possible for South Africa to be associated with the existing Lomé waiver, but there may be a reluctance to do this on the grounds that an adverse response in the WTO could have negative repercussions on the Lomé waiver and, in any case, it would serve no purpose since any opposition to a special deal for South Africa would not be lessened in this way. The more likely approach would be to seek a waiver for South Africa alone.

The Marrakech Agreement has made more onerous the rules for approving a waiver than was the case under GATT (when the Lomé waiver was agreed). The level of support required for approval of a waiver has been increased from a two-thirds majority under the GATT to a 75% majority under the WTO. This is still less onerous than the consensus required for an Article

XXIV approval of an FTA but, as explained above, this requirement has been honoured mainly in the breach. In other words, it appears arithmetically more easy to obtain a Lomé-style waiver than an FTA approval, but consequences of a failure to achieve positive support for an FTA appear to be less damaging to the continued existence of a trade policy than does the failure to obtain a waiver.

EU bilateral agreements with other states

Guidance as to what is likely to be politically feasible for the EU may be obtained from an analysis of the Community's bilateral accords with other countries. Salient characteristics of a representative sample of these are presented in Table 9. A distinction needs to be made between the agreements with Europe's eastern neighbours (Poland, Hungary, Bulgaria) and the others. In the case of the former, the agreements are of a special kind (and have been given a special name - *Europe Agreements*), indicating that they are seen as a prelude to full membership of the Union (in the case of Poland and Hungary) or closer integration (in the case of Bulgaria). One feature of them is that they foresee substantial harmonisation between the sectoral and other trade-related policies applied in the eastern European countries with those currently in force in the EU. This is made possible by the unusual circumstances of these countries that have had to jettison their old economic systems and the legal/institutional frameworks that related to them. It is also a logical action, given their desire for eventual full membership of the EU. Whether it would make sense for South Africa is rather doubtful.

Table 9
Association Agreements

Country	***Type***	***Implementation period***	***Product exclusions or restrictions***	***Policy harmonisation***
Poland Hungary	Full FTA	10 years	Some agricultural and fishery items	Yes
Bulgaria [(a)]	Partial FTA	10 years	Some agricultural and fishery items	Yes
Cyprus	Customs Union	Phase 1: at least 10 years Phase 2: 5 years	Some agricultural items None	No Yes
Algeria Tunisia Morocco Jordan Egypt	Bilateral Co-operation Agreement	Unspecified [(b)]	Some agricultural and sensitive industrial products	No

Notes:
(a) Based on Commission proposal.
(b) Agreements signed in 1976. An `Additional Protocol' of 1987 (dealing with the consequences of the Iberian enlargement) refers to further negotiations to take place in 1995.

The North African states' agreements share many similar features, and would seem to be an ideal model for South Africa. *But* they date from the 1970s, and are in the process of being renegotiated. They may well be considered an inappropriate model for the 1990s - but they serve a purpose in demonstrating the point of departure for the current negotiations.

The Cyprus agreement is, perhaps, the most instructive for South Africa, not least because it replaces one similar to the North Africa accords. This is a `two-phase' `Customs Union Agreement'. Inverted commas have been used in relation to two-phase since, if the earlier bilateral accord is taken into account, there is really a three-stage progression in trade policy. The inverted commas in respect of a Customs Union have been used because Phase 1 of the agreement, which will last ten years, does not lead automatically to the full removal of barriers to trade; this will occur only during Phase 2, which will be undertaken only after a further political decision has been taken, and which (like the Europe Agreements) will be accompanied by policy harmonisation. During the first phase there will just be selected removal of tariffs following a pattern which, apart from the fact that it is reciprocal, is not dissimilar to the provisions under the Lomé Convention.

In short, the EU's bilateral agreements suggest that the Community is willing to undertake, with a wide range of countries and with few formal restrictions, selective, partial tariff reductions that are substantial on less sensitive items but more restrictive on the most sensitive items (notably CAP products). However, it is willing to move to a full removal of trade barriers only in cases where there is sufficient policy harmonisation that price levels in the partner countries will approximate to similar levels. Since it seems unlikely that South Africa could justify such harmonisation in the medium term, it suggests that any agreement with the EU would tend towards an agreement that is more similar to the Cyprus Phase 1 accord than to Cyprus Phase 2 or the Europe Agreements with the EU's eastern neighbours.

Product Coverage of Lomé and an FTA

In theory, any of the exports of South Africa or the EU could be included in an FTA but, as suggested above, during a transition period coverage of an FTA may be less than total. The EU's existing body of bilateral trade agreements may provide guidance on the extent to which the Community is likely to be willing to offer early, liberal access to its market.

The list of 45 policy-relevant South African exports to the EU was analysed to identify the extent to which the items are covered by the Lomé Convention and by the existing bilateral agreements of the EU. The results are presented in Table 10, which classifies the 45 products into four categories: Lomé unrestricted, Lomé restricted, FTA probable, FTA possible.

- The column `*Lomé: unrestricted*' indicates that the item in question has preferential access to the EU market (without quantitative limits).
- The column `*Lomé: restricted*' indicates that there is preferential access to the EU market but that the Lomé Convention establishes tariff quotas which might not be adequate if South Africa were to become a party to the Convention. Hence, negotiation of this item would have to include specific discussion on the size of the Lomé quota.
- The column `*FTA: probable*' indicates that the item in question is included in two or

more of the bilateral trade agreements that the EU has made (mainly with the Mediterranean and Eastern European states). The terms of access will generally be preferential but, because each agreement differs, it is not feasible to provide any strong guidance (except at a detailed, item-by-item, agreement-by-agreement level) to the degree of preference or the extent of any quantitative restrictions. Despite this, the general rule of thumb is that for those products covered bilateral agreements tend to be better than GSP, and often as good as Lomé.

Table 10
Policy-relevant South African exports to the EU: coverage under Lomé and FTAs

CN code	*Exports to EU, 1993 Ecu '000*	*Lomé unrestricted*	*Lomé restricted*	*FTA probable*	*FTA possible*	*Relative attraction*	*Description (abbreviated in some cases)*
08061015	75,439			_		F	Fresh table grapes, 1 November-14 July (excl. Emperor variety, 1 December-31 January)
08051035	50,798		_	_		S	Fresh navels, from 16 May to 15 October, etc.
08082033	36,775		_		_	S	Fresh pears, from 1 April to 15 July
08081083	31,021		_		_	S	Granny Smiths , fresh, from 1 April to 31 July
28046900	29,339	_		_		L?	Silicon containing <99.99% by weight of silicon
08081081	25,459		_		_	S	Golden Delicious, fresh, from 1 April to 31 July
03037810	20,428	_		_		L?	Frozen hake `merluccius spp.'
08044090	17,094	_		_		L?	Fresh or dried avocados, from 1 June to 30 November
03042057	13,416	_		_		L?	Frozen fillets of hake `merluccius'
20089271	12,925	_		_		L?	Mixtures of fruits, prepared or preserved, no added spirit but added sugar, wt of no single fruit >50% of total wt, etc.
28092000	12,332	_		_		L?	Phosphoric acid and polyphosphoric acids
08082031	11,582		_		_	S	Fresh pears, from 1 January to 31 March
08081089	11,270		_		_	S	Apples , fresh, from 1 April to 31 July (excl. Granny Smith and Golden Delicious)
08094019	10,693		_	_		S	Fresh plums, from 1 October to 30 June
22042125	10,438			_		F	White wine of fresh grapes, in containers =<2l, actual alcoholic strength =<13% vol., etc.
20087071	9,602	_			_	L	Peaches, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.
03074931	9,445	_		_		L?	Frozen squid `loligo vulgaris', with or without shell
22042129	8,638			_		F	Wine of fresh grapes, incl. fortified wines, etc., in containers =<2l, actual alcoholic strength =<13% vol., etc.
32012000	7,228	_		_		L?	Mimosa extract
20084071	6,854	_			_	L	Pears, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.
07108090	6,473	_			_	L	Other vegetables, uncooked or cooked by steaming or boiling, frozen
28253000	6,370	_		_		L?	Vanadium oxides and hydroxides
76011000	5,671	_		_		L?	Aluminium, not alloyed, unwrought
03074938	5,481	_		_		L?	Squid `loligo spp.', frozen (excl. loligo vulgaris, pealei and patagonica)
76101000	5,325	_		_		L?	Doors, windows and their frames and thresholds for doors, of aluminium
62031100	5,231	_		_		L	Men's/boys' suits of wool or fine animal hair, woven, etc.
08081033	4,641		_		_	S	Granny Smiths, fresh, from 1 August to 31 December
62034231	4,394	_		_		L	Men's/boys' trousers/breeches of cotton denim, woven, etc.
62034319	4,382	_		_		L	Men's/boys' trousers/breeches of synthetic fibres, woven, etc.
85281098	4,314	_		_		L?	Television receivers, colour, without screen, etc.
28201000	4,177	_		_		L?	Manganese dioxide
39232100	4,138	_		_		L?	Sacks and bags, incl. cones, of polymers of ethylene
20085071	3,915	_			_	L	Apricots, prepared or preserved, no added spirit but added sugar, sugar cont. >15%, etc.

Table 10 *(continued)*
Policy-relevant South African exports to the EU: coverage under Lomé and FTAs

CN code	*Exports to EU, 1993 Ecu '000*	*Lomé unrestricted*	*Lomé restricted*	*FTA probable*	*FTA possible*	*Relative attraction*	*Description (abbreviated in some cases)*
008071090	3,880	_		_		L?	Fresh melons (excl. watermelons)
39221000	3,801	_		_		L?	Baths, showers and washbasins, of plastics
09042090	3,738	_		_		L?	Crushed or ground fruits of genus Capsicum or Pimenta
85281091	3,671	_		_		L?	Video tuners
09042010	3,577	_		_		L?	Dried sweet peppers (excl. crushed or ground)
08051039	3,520		_	_		S	Fresh sweet oranges, from 16 May to 15 October, etc.
06031069	3,508	_		_		L?	Fresh flowers, other, 1 November to 31 May, etc.
08052010	3,474		_	_		S	Fresh or dried clementines
03037981	3,258	_		_		L?	Frozen monkfish
20085061	3,208	_		_		L?	Apricots, prepared or preserved, no added spirit but added sugar, sugar cont. >13%, etc.
08052090	3,172		_	_		S	Fresh or dried tangelos, ortaniques, malaquinas and similar citrus hybrids, etc.
20094030	3,097	_		_		L?	Pineapple juice, density =<1.33g/ccm at 20.C, value >30 Ecu/100kg, with added sugar, etc.

Sources: Eurostat, COMEXT database; EC, *Integrated tariff of the European Communities (Taric)*, July 1992.

- The column `*FTA: possible*' means that the item in question is included in just one bilateral trade agreement of the EU. This indicates that *at some point in the past* the EU has been willing to offer preferential access to the item, but there is some reason to suppose that it may not easily agree to extend this preferential access to South Africa.

Most of the 45 items are covered by both of the two options. Thirty-one items have unrestricted preferences under Lomé, and a further 11 have preferences that are subject to some quantitative limit. Thirty-five items are covered by more than one of the EU's existing bilateral agreements, and the remaining ten by at least one such accord.

Most of the information in Table 10 is factual, but there is also one column of subjective information. This is headed `*Relative attraction*', and it provides a broad judgement on the relative attractions for that product of an FTA (along the lines of an existing EU bilateral agreement) and the Lomé Convention.

- The term `F' indicates that an FTA may be superior, `L' indicates Lomé superiority;
- `L?' indicates that Lomé may be better but further item-specific analysis is required;
- and `S' indicates that the two regimes are similar.

The principal reason for judging an FTA to be better than Lomé or *vice versa* is that the product in question is included in the one but not in the other. The term `similar' is used in cases where a product is to be found in both the `*Lomé: restricted*' and one of the `*FTA*' columns. This is a broad judgement, which needs to be reinforced by item-by-item analysis. It arises from the knowledge that most of the EU's bilateral agreements have some limits on preferential access on very sensitive products, and the assumption that similar forces will have been at work when setting the level of these limits in the Lomé Convention and in the bilaterals.

The term `L?' is used in cases of products falling in both the `*Lomé: unrestricted*' and the `*FTA: probable*' columns. Since Lomé provides *carte blanche* for duty-free imports of all products other than those falling under the CAP (which are to be found in the `*Lomé: restricted*' column), while some bilateral agreements have quantitative restrictions, it is possible that the Lomé approach will provide less restrictive access. However, once again this needs to be verified on an item-by-item analysis.

With these caveats in mind, the table provides a broad indication of the relative attractions to South Africa in terms of product coverage of the two types of agreement. It suggests that seven products would have better access under Lomé, three would have better access under an FTA, and 24 products might possibly have better access under Lomé. For 11 items access under either Lomé or an FTA is likely to be similar.

Such considerations suggest that from a static perspective Lomé would appear to have the better product coverage, although in over half of the cases covered further detailed analysis of the terms of the EU's bilateral trade agreements is desirable to verify this. But, put another way, on at least 11 and possibly as many as 35 products from the list, the EU's position may not be vastly different between an FTA and a Lomé package.

The principal attraction of the Lomé Convention is not to be found in the static part of the analysis, but from a dynamic perspective. Whereas a bilateral FTA will make specific changes for listed products, and *could* be framed in such a way as to open up whole sectors, the Lomé *carte blanche* approach automatically means that duty-free, unlimited access must be available for all items that are not specifically restricted. At a time when the commodity composition of South Africa's exports to the EU may be undergoing rapid change, the increased flexibility provided by this approach may be extremely valuable. It is also likely to be a reason for caution on the part of the EU.

Chapter 5

The Policy Options: Implications for Third Parties

The depth and product coverage of tariff cuts under Lomé and an FTA are not the only factors to be taken into account; also important is the likely reaction of the international community. The precise nature of the effects on third parties will depend upon the commodity characteristics of the two agreements, but in broad terms the two regimes are likely to have different implications for third parties. Both agreements would have implications for third-party suppliers to the European market of competing products (by improving South Africa's relative access). Since an FTA would accord EU exporters better-than-MFN access terms, it would also have implications for other third-party suppliers to the South African market that did not also benefit from similar preferences over MFN levels. The Lomé Convention, by contrast, is non-reciprocal, and so South Africa's accession to it would not have implications for third parties in the South African market. Although the WTO procedures for obtaining approval would be different for the two options, both would be essentially political exercises - with the EU and South Africa seeking to rally as many states to their support as possible and to persuade potentially hostile states that their interests are not adversely affected.

Changes in the EU Market

The extent of relative preference change

The preceding chapters have referred to the third-party suppliers to the EU market most likely to be affected by either Lomé or an FTA (with full details provided in Statistical Appendix 2). This information is indicated graphically in Figure 1, which combines three sets of information. The horizontal axis indicates the number of South Africa's policy-relevant exports in which the countries shown on the scatter diagram compete with South Africa in the European market. Those countries on the right-hand side of the figure compete on a larger number of products than do those countries on the left-hand side. The vertical axis provides an indicator of each country's level of development in the form of the UNDP's Human Development Index (HDI) [UNDP, 1993]. The horizontal line two-thirds of the way up the figure represents South Africa's HDI. Countries above this line in the figure have a higher HDI and those below it have a lower HDI than does South Africa. Finally the symbol for each country indicates the broad terms on which they trade with the EU. Except for those countries that trade on MFN or GSP terms only, it can be assumed that the terms of access are generally more favourable than those of South Africa.[2]

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[2] A similar exercise was undertaken using GDP *per capita* in place of the HDI as an indicator of development. The results are shown in Annex 2. The picture is broadly similar, although as would be expected South Africa has a higher `level of development' *vis-à-vis* its competitors than when using the HDI.

Figure 1
South Africa and its competitors:
human development index and trade regime with the EU

It can be seen from the figure that most of the countries that compete with South Africa on the largest number of products have a higher HDI than does South Africa, and over half of them have generally better terms of access to the European market (although not necessarily on the items in which they compete with South Africa).

In *broad* terms, therefore, it would appear that the extension to South Africa of improved access under the Lomé Convention or an FTA would tend to remove existing discrimination against the country in favour of richer countries rather than to place South Africa in a privileged position over competitors. Much depends, however, on which items are exported by which country. This information is summarised in Table 11, which is based on a product-by-product analysis and identifies the countries most frequently affected and the extent to which an improvement in South Africa's access to the European market would merely remove existing discrimination against South Africa or would elevate the country to a more preferred position than that of its competitors. The table indicates the number of products on which South Africa is currently preferred or not preferred *vis-à-vis* each of its competitors, and the effect on this relative position of an improved deal under either the Lomé Convention or an FTA. (Given the uncertainty over quota negotiations under Lomé for CAP products and the coverage of an FTA, the table takes the best possible scenario which assumes that South Africa receives effective tariff cuts on all the items identified in Table 10 as possible or probable.)

The table confirms the expectation that under the *status quo* South Africa's competitors from the Mediterranean and Eastern Europe tend to have better access to the European market, whilst those from Asia and Latin America are treated equally on many products (although

Table 11
Implications for third countries of improved South African access to the EU

Country	***Status quo:***		***Effect of Lomé/FTA [a]:***		
	Preferred [b]	*Not preferred [c]*	*Preference removed [d]*	*Equal to worse [e]*	*Preference reversed [f]*
USA	-	15	-	5	-
Brazil	1	13	-	13	1
Morocco	11	2	7	1	4
China	1	10	-	9	1
Chile	1	10	-	10	1
Israel	9	2	6	1	3
Hungary	7	3	2	3	5
Turkey	9	-	9	-	-
Argentina	1	7	-	7	1
Poland	5	2	1	1	4
Thailand	2	5	-	5	2
Taiwan	-	5	-	1	-
Philippines	1	4	-	4	1
Switzerland	4	1	4	-	-
Slovenia	4	1	4	-	-
Hong Kong	-	5	-	5	-

Notes:

(a) The effects shown are for Lomé if the product is covered under Lomé; otherwise for the best FTA available.
(b) Number of items for which access is better than South Africa's.
(c) Number of items for which access is not better than South Africa's.
(d) Number of items for which a change in South Africa's preferences would result in a relative preference being replaced by equal treatment.
(e) Number of items for which a change in South Africa's preferences would result in current equal treatment being replaced by relative discrimination.
(f) Number of items for which a change in South Africa's preferences would result in a relative preference being replaced by relative discrimination.

Details of EU imports of the items identified in this table from Morocco, China, Brazil, Chile, Argentina and Thailand are provided in Statistical Appendix 6.

more favourably on some). The countries that are more preferred on the largest number of competitive products are Morocco, Israel, Turkey, Hungary, Poland, Switzerland and Slovenia.

The effects of an improved deal for South Africa are classified under three headings, presented in broadly increasing order of adverse impact on third parties:

- the removal of a competitor's existing preference;
- a change from a position of equality of treatment between South Africa and its competitors to one in which the competitors are less well treated;
- and the reversal of a preference such that a competitor with better access to the EU at present ends up with worse access.

Although a country that loses an existing preference will undoubtedly complain, the normal position adopted by the EU (and others) is that preferred states have no right of redress if their preferences are eroded. (This position has regularly been restated by the EU following ACP complaints that the GSP and the Uruguay Round have eroded Lomé preferences.) Third parties have more legitimate rights for complaint if a situation of equality is turned into one of relative discrimination or, even worse, existing preferences are replaced by discrimination.

The greatest number of country/product entries is to be found in the second group: equal to worse. The states that would be most broadly affected are Brazil, Chile and China, followed by Argentina, Thailand, Hong Kong, USA and Philippines. Of these, only China and Philippines have lower HDI scores; all of the others have a higher development index, although in the case of Brazil, Thailand and Turkey, it is only modestly higher than that of South Africa.

The third group, preference reversal, is the smallest in terms of country/product score and the effects are concentrated on a relatively small number of countries: Hungary, Morocco, Poland and Israel. Of these, Morocco is the most noteworthy because it has an HDI lower than South Africa's and it also has a relatively high score in the preference removal column (seven items).

It is outside the scope of this Working Paper to go into detail on the international dynamics of the commodities for which these countries will be adversely affected, but the products concerned can be identified, together with a preliminary indication of the possible extent of the problem. Details of EU imports of the items identified in Table 11 from Morocco, China, Brazil, Chile, Argentina and Thailand, are provided in Statistical Appendix 6. Since the first two of these have a lower HDI than South Africa, the nature of the competition has been identified in more detail.

In the case of **Morocco**, the items on which preferences will be reversed are clementines, citrus hybrids, melons and preserved apricots. Of these, clementines are the most important Moroccan export (with EU imports from the country in 1993 totalling Ecu 56.6 million). Moreover, South Africa is Morocco's main competitor in the EU market. This suggests strongly that the country would stand to lose from any improvement in South African access. A similar situation applies to preserved apricots, for which EU imports from Morocco totalled Ecu 7.3 million. In the case of citrus hybrids and melons, however, the value of Moroccan exports is low (at Ecu 3.6 and Ecu 5.3 million respectively), and the country faces, in addition to South Africa, several strong competitors on the EU market, including Israel and Turkey that are highly preferred. In these cases, therefore, the *prima facie* evidence that there would be a significant adverse impact on the country is much less strong. The single product which will face a shift from equal to worse treatment is dried sweet peppers. In this case Moroccan exports are very small (Ecu 1.6 million), and there is competition from Turkey (highly preferred) as well as China and South Africa.

In the case of **China**, the products on which the country would be moved from equal to worse treatment are, in declining order of 1993 import value, plastic sacks, video tuners, TV receivers, men's trousers (two varieties), men's suits, dried sweet peppers, capsicums and frozen monkfish. In all of these the country already faces a range of competitors on the EU market, and in all except video tuners, TV receivers and frozen monkfish some of these are highly preferred. Given the analysis in Chapter 2 suggesting a bleak outlook for South African exports of video and TV equipment, the very low value of EU imports of monkfish from China (Ecu 0.8 million) and the existence of preferred competitors, the items on which the *prima facie* evidence is strongest of a possible adverse impact from an improved trade policy with South Africa is dried sweet peppers. The one item facing a potential preference reversal is frozen vegetables. Here again, China faces several highly preferred competitors on the EU market, and so the *prima facie* evidence of substantial damage is slight.

Using the same criteria of the value of EU imports from each of the countries and the number of preferred competitors on the EU market, the country/commodity combinations with the strongest *prima facie* evidence of a potential adverse impact would appear to be: Brazil (pineapple juice, navels, sweet oranges, other apples, pears, silicon, manganese dioxide, mimosa extract); Chile (frozen hake, grapes, Granny Smiths and other apples, pears, plums, wine); Argentina (frozen hake, navels, Granny Smiths and other apples, pears); and Thailand (preserved mixtures of fruit, pineapple juice, frozen squid).

This suggests that the areas of potential conflict are quite specific. In many cases, both the Lomé and FTA options would require product-by-product negotiations with the EU, during which the concerns of interested third parties could be taken into account. Moreover, although the analysis demonstrates that any concern over the impact of a new trade agreement with South Africa on third parties has a basis in fact, it also shows that the number of countries with direct, significant concerns is far fewer than the blocking minority required to reject a waiver under Article XXV, even under the more stringent voting requirements of the WTO. As indicated in Chapter 4, any such vote would be determined by a range of political considerations, with objectively identifiable direct interests being only one of the factors at work. Nonetheless, the present analysis does at least indicate that there is no overwhelming commercial argument that would doom a South African/EU attempt to achieve a 75% majority to failure. It also provides reasons to suppose that the achievement of a consensus for an FTA might prove difficult unless it excluded many of the agricultural products which are, in the short term, the items of greatest potential interest to South Africa.

Sensitive products under Lomé

An area of particular interest concerns those agricultural products that are given restricted preferences under Lomé. In many cases, the restrictions include a tariff quota. A comparison has been made between the size of these quotas and the volume of EU imports from South Africa and the ACP. This is designed to throw light on two issues:

- the first is whether South African membership of the Lomé Convention could adversely affect the other ACP countries by competing for the existing tariff quotas;
- the second is whether any Lomé negotiations would have to deal item by item with these sensitive agricultural products in order to increase the quotas to levels that would make them useful for South Africa (and thus provide the EU with the opportunity to protect sensitive items).

The results of the comparison are given in Table 12. This covers the five policy-relevant South African exports that receive quota-restricted preferences under the Lomé Convention.[3] For each

[3] This five-item list is derived from the 11 items listed in Table 10. The reason for the reduction in the number of

product, the table shows the volume of EU imports in 1993 from the ACP and from South Africa as a percentage of the tariff quota or reference quantity in Lomé IV.

Table 12
Quota-restricted products under Lomé

Restricted products	*ACP utilisation of quota/RQ*	*EU imports from S. Africa as % of quota/RQ*
Fresh/dried oranges, 15 May to 30 September	26%	416%
Fresh/dried mandarins etc., 15 May to 30 September	20%	303%
Fresh apples	78%	13766%
Fresh pears	76%	8074%
Fresh plums, 15 December to 31 March	1%	423%

In none of the cases do the ACP currently fill the Lomé quota. Indeed, in three of the five the volume of exports is well short of the quota level. This suggests that some imports from South Africa could be accommodated without adversely affecting sales from the ACP (provided that, for example, there were specific sub-quotas for South Africa that prevented it pushing out its ACP competitors). However, it is clear from column 3 that the quotas are very small in relation to normal South African exports. In two cases, the quota represents only a tiny fraction of South African exports, and in the other three cases it is equivalent to only one-quarter to one-third of South Africa's exports. Hence, Lomé would be of little practical value to the South African fruit industry unless accession to the Convention were accompanied by a substantial increase in the quotas. In other words, despite the fact that Lomé is `a package', the EU would not be forgoing any opportunity to protect its sensitive agricultural sub-sectors by opting to negotiate South Africa's accession to the trade component of Lomé as compared to negotiating an FTA.

Changes in the South African Market

Countries that feel threatened by improved access to the South African market for the EU may object to an FTA. An attempt has been made to identify the countries concerned by comparing the structure of South African imports from the EU with its imports from other sources, and in particular the USA and Japan. This exercise has of necessity utilised South African import data.

As explained in Chapter 3, South African import statistics for 1993 were analysed at the 8-digit level to identify all products imported from the EU with a value greater than Rand 10 million and facing a positive bound tariff. In other words, the search discarded all imports in which South Africa's MFN tariff rate is already zero or will be reduced to this level by the end of the

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items is that the Lomé quota/reference quantity is set at the 6-digit level for oranges, mandarins etc., *(continued/...)*

[3] *(.../continued)*
apples and pears, so one line for each in Table 12 covers, respectively, 2, 2, 4 and 2 of the 8-digit products in Table 10. For plums, the reference quantity is set very specifically for part of the one 8-digit code which appears in Table 10.

Uruguay Round implementation period, together with all items imported in only very small amounts. This exercise resulted in a substantial list of 408 items, which are presented in full in Statistical Appendix 5.

The EU's principal competitors

A first step was to identify the EU's competitors in the South African market for these items. Note was taken of the source of all South African imports of these 408 items with a value of more than Rand 500,000. The results are shown in Table 13, which presents the information in declining order of the value of South African imports of the 408 products from each of the countries listed. It can be seen that the EU's principal competitors for its most important products are Japan and the USA. The USA competes on the largest number of products (three-quarters of the total), but the value of imports from Japan is higher. Other significant competitors (in terms of the number of products supplied, although less so in terms of the total value) are Switzerland and Taiwan. A little under a half of the EU's competitors supplying more than Rand 100 million of the products are developing countries, all of which except Brazil are from East and South East Asia.

The highest-ranking African supplier of competitive products is Zimbabwe, which supplies 18 out of the 408 to a value of Rand 67 million. In other words, there is only slight direct competition between the EU and African states in the South African market.

Competition with USA and Japan

Product-by-product details of the value of South African imports from Japan and USA of the 408 most important EU items are provided in Statistical Appendix 7. This information has been aggregated at 2-digit chapter level, and is shown in Table 14. The products are presented in declining order of value of imports from the EU.

Although these figures cannot indicate degree of competition between the supplying states, they do suggest areas in which Japan and the USA might feel their commercial interests to be strongly at risk as a result of any preferential reduction in South African import duties towards the EU. For Chapter 87 (vehicles), for example, the EU and Japan are both major sources of imports. Other chapters in which imports from Japan and/or the USA are substantial in relation to those from the EU include 84 (machinery and appliances), 85 (electrical equipment), 90 (optical instruments), 38 (chemical products), 88 (aircraft parts), 40 (rubber articles), 28 (inorganic chemicals), 37 (photographic products), 72 (iron and steel), 55 (man-made fibres), 10 (cereals) and 24 (tobacco).

The potential commercial advantage for the EU

If South Africa removed tariff barriers to imports from the EU as part of an FTA, how great a commercial advantage would this give European suppliers over competitors from other countries? The level of South Africa's base and bound tariff rates for each of the 408 most important imports from the EU is shown in Statistical Appendix 5. A broad indication of the static value of any trade concessions may be obtained by relating the bound tariff rate to the value of imports. This will indicate the revenue loss to the Government of South Africa from providing duty-free access and will also provide a broad indication of the sub-sectors in which the absolute gains to European exporters would be greatest. The results of this calculation for all products in which imports from the EU in 1993 exceeded Rand 30 million are

Table 13
The EU's competitors in the South African market
(main sources of South African imports of the 408 most important imports from the EU)

Competitors[a]	*Competitive products:* Number	Value (1993, R mn)	Share of total (%)
Total imports[b]		24,055	100
EU	408	13,386	56
Japan	219	4,151	17
USA	304	2,752	11
Switzerland	141	535	2
Taiwan	128	381	2
Australia	47	300	1
Brazil	53	246	1
South Korea	61	235	1
Canada	46	232	1
Israel	54	195	1
Sweden	40	160	1
Singapore	54	160	1
Hong Kong	54	153	1
Austria	42	112	0
Finland	16	83	0
Zimbabwe	18	67	0
Thailand	14	51	0
China	24	43	0
USSR	4	38	0
Turkey	10	36	0
Norway	7	28	0
Zambia	4	27	0
Saudi Arabia	4	21	0
Mozambique	5	21	0
Czechoslovakia	24	18	0
India	9	17	0
Kenya	2	16	0
Hungary	4	13	0
UAE	3	12	0
Pakistan	3	12	0
Argentina	7	12	0
New Zealand	6	9	0
Indonesia	4	9	0
Zaïre	2	8	0
Malaysia	8	8	0
Mexico	4	5	0
Iran	4	4	0
Philippines	2	3	0
Ecuador	2	3	0
Puerto Rico	2	2	0
Romania	3	2	0
Yugoslavia	3	2	0
Poland	2	1	0

Notes:
(a) All countries from which South Africa imports more than one of the top 408 imports from the EU. Country designations are as indicated in the South African statistics; they do not always accord with political realities in 1993.
(b) Total value of South African imports of the 408 most important imports from the EU in 1993.
Source: Database on South Africa's imports provided by the South African DTI.

Table 14
Principal areas of competition between the EU, Japan and USA in South Africa

HS from: chapter[(a)]	*Abbreviated description*	*Value of imports (1993, R mn)*		
		EU	*Japan*	*USA*
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	2,582	2,817	153
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	2,475	413	525
85	Electrical machinery and equipment and parts thereof	1,804	403	491
39	Plastics and plastic products	787	38	160
29	Organic chemicals	620	35	94
30	Pharmaceutical products	593	1	42
90	Optical, photographic, measuring, checking, precision, medical, surgical, etc. instruments and apparatus; parts thereof	526	60	224
38	Miscellaneous chemical products	495	32	126
22	Beverages, spirits and vinegar	474	0	4
48	Paper and paperboard; articles of paper pulp, paper or paperboard	390	19	64
73	Articles of iron or steel	243	27	17
88	Aircraft, spacecraft, and parts thereof	239	2	211
40	Rubber and articles thereof	195	107	29
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments, etc.	165	3	22
69	Ceramic products	135	9	1
34	Soaps, organic surface-active agents, washing preparations, artificial waxes, etc.	131	3	15
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	120	0	23
15	Animal or vegetable fats or oils	114	0	2
02	Meat and edible meat offal	111	0	0
28	Inorganic chemicals; organic or inorganic compounds of precious metals, etc.	106	5	93
11	Products of the milling industry; malt; starches; inulin; wheat; gluten	84	0	0
31	Fertilisers	72	0	1
54	Man-made filaments	72	2	4
41	Hides and skins (other than furskins) and leather	69	0	18
37	Photographic or cinematographic products	67	96	17
72	Iron and steel	59	41	1
35	Albuminous substances; modified starches; glues; enzymes	51	6	13
55	Man-made staple fibres	49	13	1
10	Cereals	45	0	264
82	Tools, implements, cutlery, spoons and forks, of base metal	43	2	15
59	Impregnated, coated, covered or laminated textile fabrics	36	0	2
56	Wadding, felt and non-wovens; special yarns; twine, cordage, rope, etc.	35	2	5
45	Cork and articles of cork	35	0	0
25	Salt; sulphur; earth and stone; plastering material, lime and cement	34	1	1

Table 14 *(continued)*
Principal areas of competition between the EU, Japan and USA in South Africa

HS from: chapter[(a)]	***Abbreviated description***	***Value of imports (1993, R mn)***		
		EU	*Japan*	*USA*
94	Furniture	34	1	1
83	Miscellaneous articles of base metal	33	7	1
21	Miscellaneous edible preparations	31	0	14
70	Glass and glassware	27	0	2
96	Miscellaneous manufactured articles	27	6	6
24	Tobacco and manufactured tobacco substitutes	26	0	59
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, etc.	22	0	0
52	Cotton	20	0	2
81	Other base metals; cermets; articles thereof	17	0	0
60	Knitted or crocheted fabrics	16	0	7
95	Toys, games and sports requisites	13	0	0
57	Carpets and other textile floor coverings	12	0	7
23	Residues and waste from the food industries; prepared animal fodder	11	0	4
51	Wool, fine and coarse animal hair; yarn and fabrics of horsehair	11	0	0
04	Dairy produce	10	0	1
49	Books, newspapers, etc., and other products of the printing industry	10	1	11
76	Aluminium or articles thereof	10	0	1
		13,386	4,151	2,752

Note:
(a) Figures do not represent total South African imports from the EU, Japan and USA in each chapter; they are aggregates into chapters of the most important 8-digit items identified in Statistical Appendix 7.

Sources: Database on South Africa's imports provided by the South African DTI; Statistical Appendix 7.

presented in Table 15. Motor vehicle parts, hearses and whiskies would reap overwhelmingly the greatest rewards. The tax equivalent gains to these three sub-sectors account for 40% of the total gains for all 102 sub-sectors listed in Table 15. Motor vehicles are also strongly represented in the next tranche of beneficiaries: three out of the four sub-sectors with tax gains of around Rand 50 million or more are in the vehicle industry, with the exception being rape oil. Other agricultural products figure prominently in the next tranche (barley malt, frozen turkey and wheat).

These figures undoubtedly reflect the nature of the old import protection regime. Since the tax equivalent calculation is based on the value of 1993 imports, it follows that it will understate the effects of an FTA on those products that were so heavily protected under the old system that there was a negligible level of imports. Hence, it is no more than a preliminary guide to the European industries that would gain most from an FTA. However, it may well be an appropriate guide to the sources of pressure for an FTA in the EU and against it among Europe's competitors. It is reasonable to expect those industries that already have a strong position in the South African market to be particularly keen to see a policy change that would give them a significant competitive edge over their rivals. By the same token, the third parties over which they are seeking an advantage are likely to be especially vociferous in their complaints.

Table 15
The scope for South African preferences for the EU

Tariff no.	*Imports from EU 1993 (R mn)*	*SA bound rate of duty*	*Tax equivalent (R mn)*	*Abbreviated description*
87089990	1,053	30	316	Motor vehicle parts nes
87032390	467	50	233	Hearses, other
22083000	459	67	307	Whiskies
88023000	220	5	11	Aircraft nes (2,000-15,000 kg unladen weight)
38239090	206	10	21	Prepared binders for foundry moulds or cores, chemical products and preparations
85174000	183	20	37	Carrier-current line systems, apparatus nes
30049090	177	15	27	Medicaments (excluding goods of heading no. 3002, 3005 or 3006)
39081000	152	10	15	Polyamide -6, -11, -12, -6,6, -6,9, -6,10 or - 6,12, in primary forms
85249030	146	15	22	Recordings for computers (excluding computer and video games)
85179000	135	20	27	Telephone parts
87032490	127	50	64	Hearses, other
30049055	118	15	18	Medicaments, other, in packings of 1,000 or more measured doses
87012000	110	50	55	Truck tractors
87032290	103	50	52	Hearses, other, depending on engine size
73121020	100	15	15	Other stranded wire
15149090	92	67	62	Rape, colza or mustard oil
69089090	90	30	27	Glazed ceramic flags and tiles
84223000	88	20	18	Machinery for bottling, packaging and aerating beverages
90328990	86	30	26	Automatic regulating or controlling instruments, other
84073490	85	30	26	Engines over 1,000 cc, other
90189090	85	20	17	Instruments used in medical, surgical, dental or veterinary sciences
11071020	84	41	35	Malt, not roasted, of barley
84099990	82	30	25	Parts for aircraft engines nes, other
90318010	81	10	8	Measuring or checking instruments
84196000	78	15	12	Machinery for liquefying gases
84295990	77	10	8	Self-propelled excavating machinery nes, other
87084090	77	30	23	Tractor parts (excluding road tractors), other
84099190	77	30	23	Parts for engines (heading no. 8407 or 8408), other (excl. piston rings)
85173000	77	20	15	Telephonic switching apparatus
30042090	75	15	11	Medicaments containing antibiotics, other
87082900	73	30	22	Motor vehicle body parts, nes
87019050	69	10	7	Tractors: other (2,000-7,000 cm3)
84198990	69	15	10	Machinery for liquefying gases, other
84224000	66	20	13	Packing machinery nes
85369090	66	15	10	Other radio-telegraphic apparatus
85421100	64	15	10	Monolithic integrated circuits, digital
84133000	63	30	19	Pumps for internal combustion piston engines
30043900	63	15	9	Medicaments or other hormones, for retail sale, nes
85389090	62	10	6	Electronic apparatus parts
48101100	61	5	3	Coated paper and paperboard, weighing =<150g/m2
32041790	61	10	6	Azo pigments
38083090	59	15	9	Insecticides, fungicides, herbicides
34021320	59	20	12	Non-ionic organic surface-active agents, in immediate packings of a content exceeding 10 kg
39072010	57	15	8	Polyether-polyols, liquids or pastes with a hydroxyl number of 20-800 mg koh/g
84818090	56	20	11	Valves other than HS 8481.80
84798966	55	10	6	Other industrial machinery or appliances
85044000	55	15	8	Static converters, nes
38151990	55	10	6	Supported catalysts, nes, other
48119000	55	5	3	Paper, paperboard, coated, impregnated, covered, surface-decorated or printed, nes
48113900	54	5	3	Paper and paperboard coated, impregnated with plastics, nes
02074200	54	37	20	Frozen cuts and offal (excl. liver) of turkeys
39095000	53	10	5	Polyurethanes, in primary forms
85421900	52	15	8	Monolithic integrated circuits, nes
85365090	51	15	8	Radio/television switches, other
84143090	49	20	10	Pneumatic tyre pumps, hermetically sealed; exc. 0,125 kw

Table 15 *(continued)*
The scope for South African preferences for the EU

Tariff no.	*Imports from EU 1993 (R mn)*	*SA bound rate of duty*	*Tax equivalent (R mn)*	*Abbreviated description*
84314990	48	10	5	Picks etc. for coal cutting machinery, other
29339090	48	10	5	Hetero-cyclic compounds with nitrogen hetero-atom(s) only, other
39069090	47	15	7	Acrylic polymers in primary forms, other
29309090	47	10	5	Organo-sulphur compounds, other
87084020	46	30	14	Other gear boxes
29161400	46	15	7	Esters of methacrylic acid
40111015	45	30	14	Rubber pneumatic tyres, new, other (less than 20 kg)
10019000	45	72	33	Wheat and meslin, other
38081000	45	7	3	Insecticides, put up for retail sale
85371090	44	15	7	Boards and other bases, equipped for electric control or the distribution of electricity
84295290	43	10	4	Shovels and excavators with a 360 degree revolving superstructure, other
33029090	43	10	4	Specified pharmaceutical goods, other
87019020	42	10	4	Tractors imported without internal combustion piston engines (excluding steam tractors)
85119080	42	30	13	Armatures,other, for motor vehicle engines
48025200	42	5	2	Paper and paperboard for writing etc., weighing 40-150g/m2
87085090	41	30	12	Wheel hubs, of unmachined castmetal: other
84186990	40	30	12	Refrigerating equipment, other
84137090	39	30	12	Concrete pumps fitted with submersible motors (excluding bore-hole pumps)
85438090	39	15	6	Electronic and radio testing and control equipment, other
29349090	38	10	4	Other heterocyclic compounds, other
29310090	38	10	4	Organo-inorganic compounds, nes, other
55033000	38	10	4	Acrylic or modacrylic synthetic staple fibres
39011000	37	15	6	Polyethylene having a specific gravity <0.94, in primary forms
87089490	37	30	11	Motor vehicle steering wheels, columns and boxes, other
84859090	37	10	4	Marine engine stern tubes
84819090	36	20	7	Other valves than HS 8481.90
90189010	36	20	7	Electro-medical instruments and appliances
30063090	35	10	4	Specified pharmaceutical goods, other
87042290	35	50	18	Off-the-road logging trucks, other
56030090	35	20	7	Non-wovens, other
84818003	35	20	7	Other pressure or flow control valves, automatic
45031010	35	10	3	Stoppers of cork
84221100	34	30	10	Household dishwashing machines
25199000	34	5	2	Magnesia and other magnesium oxide
94019000	34	30	10	Parts of seats other than those of heading no. 9402
69091990	33	10	3	Ceramic wares for laboratory, chemical or other technical uses nes, other
87032340	33	50	16	Other hearses: depending on engine size
39033000	32	15	5	Acrylonitrile-butadiene-styrene (abs) copolymers, in primary forms
28211010	32	5	2	Iron oxides
39041000	31	15	5	Polyvinyl chloride, not mixed with other substances, in primary forms
31021000	31	15	5	Urea
84148030	31	20	6	Other air compressors
84149040	31	20	6	Air or vacuum pumps
33029080	31	10	3	Mixtures of odiferous substances for the perfumery industry
38220000	30	15	5	Composite diagnostic or laboratory reagents (excluding those of heading no. 3002 or 3006)
84794090	30	10	3	Machines and mechanical appliances having individual functions, nes in this chapter
39069020	30	15	5	Liquids and pastes (excl. polyacrylamide flocculating agents and the like (anionic and nonionic))
Totals	8,251		2,120	

Sources: Databases on South Africa's imports and GATT offer provided by the South African DTI; Statistical Appendix 5.

Chapter 6

Conclusions

South African Export Opportunities

The Working Paper is primarily concerned with a static analysis of EU-South African trade to identify the industries in the EU and South Africa with strong current interests in bilateral trade, and the implications for them (and the wider international community) of alternative trade policy regimes.

Only a small proportion of South Africa's current exports to the EU could benefit from improved access to the European market. Some 45 important export items have been identified. Despite their small share of the total the trade policy negotiations could have a substantial sectoral impact since there is a strong agricultural bias in these `policy-relevant' products. Four-fifths of the value of EU imports from South Africa of these items are accounted for by agricultural products. The negotiations may also have an impact on the evolution of South Africa's exports as the current political and economic changes alter the structure of production.

South Africa has better-than-MFN access for only one-quarter of these `policy-relevant' items. Moreover, in most cases in which a preference exists, it is of modest proportions. There will remain a significant number of South African policy-relevant items that continue to face MFN tariffs even after the GSP is extended to agricultural products.

Yet better-than-MFN tariffs are available on every single item to at least one of the EU's trading partners. In over half of the policy-relevant products, at least some of South Africa's actual competitors enjoy more favourable access to the European market, and in five cases all the country's competitors do so.

There are no significant EU interests at stake in any of these items. One broad indicator of potential EU member state interest is the level of intra-EU trade. Only a handful of the 45 items equal or exceed 0.1% of the value of each member state's exports to its partners, and for only three countries does the total value of such products exceed 1% of their intra-EU exports. The three states are Greece, Spain and Portugal, and a product-by-product analysis of commodities of interest to them suggests either that there are few significant interests at stake or that there is no practical difference between the two principal policy options in terms of their effect on these countries' competitive position.

EU Export Opportunities

EU exporters could also benefit from improved access to the South African market. Under South Africa's Marrakech Agreement tariff cuts, a substantial proportion of EU exports will benefit from lower tariffs over the five-year transition period. An analysis of the 408 most important EU exports which will continue to face some tariff after the year 2000 has shown that many (totalling Rand 6.5 billion in 1993) will benefit from tariff cuts that are, in the great majority of cases, at least one-quarter or more. The most notable items, in terms of the combination of current value and tariff cut, are motor vehicles and parts, whiskies, medicaments and computer programmes.

Although the EU has not indicated the products on which it would most like to have better-than-MFN access, an analysis of current trade and South African tariffs suggests that the industries most likely to benefit from such a move would be the EU industries producing motor vehicles and parts, whiskies, medicaments, computer programmes, telephone apparatus, bottling machinery, medical instruments, packing machinery, electrical apparatus and aircraft parts.

Lomé or an FTA?

The attractions of substantial membership of the Lomé Convention and of a free trade area have been compared in terms of the breadth of coverage, the depth of preferences, and the potential implications for third parties. Regulations and procedures for obtaining WTO approval for the two options have also been assessed. Established procedures exist for obtaining approval of both an FTA and a temporary preference agreement. Although the requirements for full approval of the former tend to be arithmetically more severe than the latter (in terms of the number of supporting votes required), it appears that in the past the FTA requirements have been honoured largely in the breach. In both cases, the approval procedure would be primarily a political and legal affair, with economic analyses such as the present one doing no more than identifying the existence, or otherwise, of objective factors supporting or detracting from one or other of the options. In the event, this Working Paper has not produced any conclusive evidence that would tend to identify one option as superior to the other in terms of WTO compatibility.

Product coverage

Although the scope of any FTA is unclear, it would appear from a comparison with the EU's other bilateral agreements that most of South Africa's 45 policy-relevant exports would be covered to some extent by both options. The Lomé Convention has rather better coverage, but the differences are not great. However, a principal attraction of Lomé over an FTA is that its *carte blanche* approach (which automatically provides duty-free access to all industrial products) is more suited to the rapidly evolving state of South Africa's economy. (It is perfectly feasible to draft an FTA in such a way as to provide similar coverage - but this would be subject to negotiation, not guaranteed from the outset.) In addition, there are some reasons to suppose that the depth of preference might be better for some products under the Lomé Convention than under an FTA.

Implications for third parties

Both options would have implications for third parties, but in different ways. Both would alter South Africa's relative position in the EU market, with actual or potential adverse consequences for its competitors in that market. The precise nature of this change would depend upon the details of any agreement, and there is no *a priori* reason to expect any difference between the impact of the two options.

Effects of both options

It is recognised that any improvement in South Africa's absolute access to the EU market may involve a potential deterioration in another state's relative access. However, it should be emphasised that South Africa's current negotiations with the EU on market access are not necessarily concerned with being given `preferential treatment' in the sense of being treated better than others. On the contrary, they are in the first instance concerned with removing existing discrimination against South Africa in favour of states that are, in some cases, richer and highly competitive.

Most of the countries that compete with South Africa on the largest number of products have a higher HDI than does South Africa. Moreover, over half of them have terms of access to the European market that are generally more favourable. The developing countries most likely to have an objective case that their interests have been adversely affected are Morocco, China, Brazil, Chile, Argentina and Thailand. Although this list is not insignificant, the areas of potential conflict are quite product specific and could be addressed in the negotiations between the EU and South Africa. Moreover, the countries concerned do not, by themselves, form a blocking minority for a WTO waiver.

Additional effects of an FTA

In the case of an FTA there would be an additional effect on third parties in terms of relative access to the South African market. By extending reciprocal better-than-MFN treatment to EU exporters to South Africa, the government would run the risk of provoking opposition from other countries that export to South Africa.

There is a significant overlap in the commodity composition of South African imports from the EU and from other states, particularly other OECD states. Of the 190 most important EU exports to South Africa, for example, no fewer than 152 are also exported by the USA to South Africa. An accord that provided the EU with better-than-MFN access to the South African market but did not extend similar treatment to the USA might be expected to provoke opposition in Washington.

Lessons on Trade Diplomacy

South Africa's negotiations with the EU provide a window through which to observe the current state of trade diplomacy. It is a continuing story, with this Working Paper providing the background information to help interpret future events. Although the action so far has involved only the EU and South Africa, the cast will widen when any deal is presented to the WTO and the story becomes a bell-wether for the international community's attitude, post Uruguay Round, to North-South trade accords.

In one sense South Africa is an unsatisfactory bell-wether, but in another it is a very good one. The problem arises because of divided opinion over the competitiveness of the South African economy. One argument made in this Working Paper is that South Africa appears unable at present, or in the near future, to be able to export competitively to Europe a wide range of products that are subject to import restrictions. Another is that it has many characteristics of a `developing country', using the term in the sense of states with which the EU has been willing to conclude better-than-MFN trade accords in the past. But this is not a universally held perception. For some, South Africa's size and potential set it apart from the ACP. It is impossible to identify how far the EU's reluctance to consider Lomé status reflects a change in attitude towards liberalism and how far it is the result of genuine, if misguided in the view of this Working Paper, concerns of incompatibility.

At the same time, the EU-South African negotiations provide an excellent vantage point from which to observe trade diplomacy, both because the products in contention are particularly sensitive and because the South African case is being put clearly and forcefully. Although South Africa may not be the super-competitive giant that is claimed by some EU policy-makers, its current policy-relevant exports are concentrated on CAP products. In consequence any deal that would be valuable to South Africa in the short term must reduce EU protection on goods that are politically sensitive in Europe and for which South Africans are highly competitive suppliers. As such, it is difficult for the EU to paper over illiberalism by copious concessions on non-sensitive items.

The evidence so far tends to indicate that there has been a considerable hardening in attitude by the EU - certainly against non-reciprocal liberalisation, and possibly against liberalisation altogether on sensitive items. If it is true that the EU is ill-disposed towards liberalisation the outlook is not good for early progress on the unfinished business of the Uruguay Round.

When, in 1994, South Africa was offered the EU's industrial GSP, alone among developing countries it was not also granted the agricultural GSP. This situation will change, but the different treatment meted out to South Africa compared with what has been done with states like South Korea and Brazil in the past provides a stark example of the change in attitude. Moreover, given the Working Paper analysis that the precise provisions of an accord based on (possibly partial) Lomé membership could be identical to those in an FTA, the strong preference of the EU for the latter seems to indicate a change in general attitude towards alternative models of trade agreement.

The EU emphasis on an FTA fits with the pattern of recent trade diplomacy, such as the conclusion of Europe Agreements with states of Central Europe and the current negotiations with some Mediterranean states. But these are not obvious models for South Africa: there is no prospect of the agreement leading to full EU membership (as in the case of the Europe Agreements) and it does not build upon an existing foundation of wide-ranging preferences (as with the Mediterranean negotiations). The argument that an FTA would be easier to sell to the WTO remains unsubstantiated. Moreover, it is difficult to see how an FTA would be in South Africa's interests: although outside the scope of this Working Paper, there are perfectly respectable arguments in favour of South Africa liberalising its import regime beyond what has been agreed under the Uruguay Round, but it is not obvious that the anticipated gains are best achieved by limiting liberalisation to just one of the country's trade partners. In the absence of any compelling positive arguments to justify the EU's preference for an FTA there must be a strong suspicion that its motive is a negative one: to camouflage a reluctance to liberalise on products of interest to South Africa.

Annex 1

The Implications of Trade Liberalisation for Selected Agricultural and Industrial Activities in South Africa

Industry

Pulp and paper

The pulp and paper industry is increasingly important in South Africa in terms both of import substitution and of exports. During the 1980s imports of paper products declined substantially; by 1990 the pulp and paper industry made up 3.7% of all manufactured exports from the country [Bethlehem, 1993]. It is likely that this reflected the industry's successful calls for protection rather than an increased local ability to produce competitively. Calculations of the effective rate of protection (ERP) of pulp, paper and board estimate the figure to be at about 22% between 1988 and 1990 [Hirsch, 1994]. However, this figure must be treated with caution as it averages out substantial differences in protection of the whole chain of products.

Studies show that the country is a very competitive producer of pulp and of a limited number of low value-added products, but as production moves up the value chain the country's competitiveness declines [Bethlehem, 1993]. According to Bethlehem, part of the problem is that oligopolistic producers of pulp sell their products to paper product manufacturers at prices above the world market level. In order for the paper manufacturers to survive, they in turn ask for protection from cheap imports. Industry sources expect the government will move to reduce remaining protection.

Two large companies, Sappi and Mondi, dominate the sector from agro-forestry to the manufacture of paper products. They have made considerable investments and acquisitions in European and North American companies. This gives access to markets and technology, although the product composition of exports will continue to be heavily influenced by trade policy. Higher value-added products will still face tariffs under the EU GATT reforms: pulp will be able to enter the market without duties, but products such as paper and paperboard will face duties of up to 7%. This will make production of higher valued-added products in South Africa less attractive than production within Europe. Considering South Africa's upstream competitive advantages (trees grow much faster than in Europe), there is the potential for the country to improve its downstream performance [Bethlehem, 1993]. It is likely that tariff reforms will play an important role in the future trajectory of the national industry.

Summary prospects: increased exports of low value-added products, greater import penetration of paper products.

South Africa's relative position among major producers of pulp and paper, 1992
(EU producers in italics)

Pulp production			Paper and board production		
	Country	*'000 tons*		*Country*	*'000 tons*
1.	USA	59,282	1.	USA	74,729
2.	Canada	22,481	2.	Japan	28,322
3.	China PR	11,985	3.	China PR	17,251
4.	Japan	11,200	4.	Canada	16,594
5.	*Sweden*	*9,589*	*5.*	*Germany FR*	*12,930*
6.	*Finland*	*8,525*	*6.*	*Finland*	*9,147*
7.	CIS	6,800	*7.*	*Sweden*	*8,378*
8.	Brazil	5,368	*8.*	*France*	*7,697*
9.	*France*	*2,609*	9.	CS	6,050
10.	**South Africa**	**2,320**	*10.*	*Italy*	*5,961*
11.	*Germany FR*	*2,240*	11.	Korea Rep.	5,504
12.	Norway	2,009	*12.*	*UK*	*5,128*
13.	Chile	1,681	13.	Brazil	4,915
14.	*Portugal*	*1,592*	14.	Taiwan	3,997
15.	*Spain*	*1,530*	*15.*	*Spain*	*3,448*
16.	*Austria*	*1,489*	*16.*	*Austria*	*3,252*
17.	India	1,400	*17.*	*Netherlands*	*2,835*
18.	New Zealand	1,288	18.	Mexico	2,825
19.	Australia	982	19.	India	2,540
20.	Indonesia	821	20.	Indonesia	2,263
21.	Poland	650	21.	Australia	2,072
22.	Argentina	629	**22.**	**South Africa**	**1,814**
23.	Mexico	560	23.	Norway	1,684
24.	*UK*	*545*	24.	Switzerland	1,305
25.	*Italy*	*511*	25.	Thailand	1,245

Source: Bethlehem, 1993.

Footwear

South Africa had a negative growth rate in its shoe industry between 1970 and 1990 [Ismail, 1993]. Production is essentially for the home market, behind substantial protection (the ERP increased from 51% in 1984/5 to 87% in 1988/90) [Hirsch, 1994]. Ismail points out that while the industry has substantial domestic access to leather, unlike Italy, it has developed in a highly inefficient manner. It is likely that producers will not survive without continued protection for the medium term and a thorough programme to restructure the sector. There is some pressure on the government to tread carefully with liberalisation considering the potential job losses, although this needs to be put in the context of the high local costs faced by consumers.

> *Summary prospects: increased penetration of imports, potential to increase imports with restructuring of industry.*

Footwear: South African and European production, 1990

Country	***Millions of pairs***
South Africa	21.8
United Kingdom	56.2
Netherlands	5.2
Belgium	2.4
Italy	320.0
Finland	6.6
Greece	13.8
Ireland	2.6
Portugal	96.4
Spain	158.5

Source: Ismail, 1993.

Clothing and textiles

The two important features of the South African clothing industry are employment and clothing prices [Altman, 1993]. The clothing industry employs many people, but South Africans have had to bear the high prices as a result of import protection (particularly for textile producers). There is provision under South Africa's GATT agreement for clothing manufacturers to continue to receive some protection. It has been suggested that this should be linked with export/productivity performance, and the clothing sector has started to restructure in a comprehensive manner. The textile industry has done the same, but it remains in a more difficult position because of its inability to compete internationally against countries with low wages or better access to technology.

> *Summary prospects: increasing pressure from imports on textiles, with niche potential for clothes exports but imports of clothing also likely to increase.*

Industrial chemicals

South Africa's chemicals industry is an important player in the manufacturing sector. Extremely capital intensive (of necessity in most instances), it developed as a classic import-substituting sector [Crompton, 1993]. However, the past decade has seen it slim down to become a more efficient producer of a variety of products and a technological leader in some areas.

A close relationship between the state and the industry (of which the key players are SASOL, Sentrachem and AECI, an Anglo-American subsidiary) has seen a high level of protection to products that are inputs to downstream industries, which, in consequence, pay prices that are above world market rates (see `Plastics nec' section). This has retarded the growth of an industry with potential labour intensive characteristics. Because downstream producers (where they exist) have had to pay uncompetitive prices, they have needed protection in turn from cheaper imports [Crompton, 1993].

Production of petroleum dominates the sector: other branches include energy products, synthetic resins, cleaning compounds, toilet preparations, medical and pharmaceutical products. Tariffs range up to 100% and there is substantial import control. Formula duties are frequently imposed on intermediate products for the plastics and petrochemicals industry. Tariff concessions have also been used widely to assist local development of productive capacity [GATT, 1993].

Summary prospects: exports as well as imports set to rise.

Chemicals nec

> ... most of our chemical plants are still sized for the internal market and not for exports. The effect of this strategy is that plants are not world scale sizes and we lose the economy of scale and therefore have to constantly fight for higher protection (J. Fourie, General Manager of SASOL [Crompton, 1993]).

The big players, SASOL, Sentrachem and AECI, have pushed for cautious change and have stressed the importance of effective anti-dumping measures. Converters have pressured for more rapid change. This reflects the fact that the ERP for upstream producers is higher than that for downstream producers [Crompton, 1993].

It is argued by some that allowing full access to the South African market of polymers at the world prices would close down inefficient producers, and force the major producers into some sort of vertical integration - buying out of down stream producers to enter more profitable exports of value added products. The big polymer producers have complained about dumping, but they themselves subsidise their export price by charging higher domestic prices [Crompton, 1993]. To avoid an unsustainable increase in imports, the removal of tariffs would necessitate a range of other measures to alter the structure of production in the sector. Those firms in the down stream sector that do export, rely on the GEIS to compensate for the high price of polymers. Licensed technology agreements with firms in the developed economies also restrict South African exports.

Summary prospects: liberalisation to benefit exports prospects of downstream producers.

Plastic products nec

Downstream producers have to pay higher-than-world prices for polyethylene, an important plastics input, even though effective protection on polyethylene fell during the 1980s to its present rate of 25% [GATT, 1993]. The high level of protection reflects the institutionalised interests of the petro-chemicals sector, and results in the local economy providing a cross-subsidy for exports since producers for the domestic market pay artificially high prices for their inputs. In turn, final product producers need import protection. This is reflected in the fact that the ERP of plastic products has increased from 53.6 in 1984-5 to 215 in 1988-90 [Hirsch, 1994]. There is pressure from economic reformers and downstream producers to liberalise input imports, but it is unlikely that this pressure will extend to the liberalisation of final product imports. Import surcharges and other barriers have also resulted in downstream producers using old, inefficient and environmentally damaging technology.

Summary prospects: as long as downstream plastic product producers faces inflated *input prices, prospects for exports are not good, and neither will greater access be given to imports.*

Machinery nec

There is generally little import protection in this area with limited import control and formula duties. Effective protection is just over 7%. Imports make up over half domestic demand, especially in the office and accounting sectors. Exports have also grown with support from GEIS [GATT, 1993].

Summary prospects: likely increase in imports, especially with increased domestic economic growth.

Drugs and medicines

The Health Minister has expressed an intention to remove the import barriers which make the supply of drugs to South Africa very costly. The ERP is estimated at 24%. Domestic producers and multinational corporations, which have been able to take advantage of protection to sell products at prices above the world market rates, have made strenuous representations to the Minister to seek a change of approach. Meanwhile negotiations with low-cost producers such as India continue. Between 1985 and 1990 the share of imports in the domestic market rose from 29 to 33%. The classic trade barriers that other countries use in this sector (patent protection, product approval procedures, regulations and restrictions) tend to be less important in South Africa [GATT, 1993].

Summary prospects: uncertain future, although greater access to cheap imported drugs expected to be given to reduce health costs.

Electric industrial machinery

Imports of electrical machinery make up nearly half of domestic demand. The ERP is 22%, but a programme of selectively reducing tariffs has been undertaken [GATT, 1993]. Much of this sector is dominated by Armscor and its subsidiary Denel. Both have strong institutional power.

Summary prospects: increased import penetration expected.

Household electrical goods, radio, TV and communications equipment

The retail cost of consumer electronics is inflated by tariff protection, excise duties and surcharges. Duties have ranged from 15% for various parts to 90% for completed items [Baumann, 1993]. There are also local content requirements, especially where there are military applications. Also, SABS standards on TVs have required costly modification of imported sets, thereby protecting local manufacturers: some estimates put the ERP of TVs in South Africa at 571%, including the numerous duties on imported parts. The tariff structure is being simplified, in some cases by combining tariffs and surcharges into new customs duties and in others, such as electronic components, by complete removal of tariff protection.

The import and export figures for South Africa have fluctuated wildly over the past few years. South African exports are stronger in items such as cooking and heating equipment than in TVs, VCRs and radios. It is argued that South Africa cannot hope to match the economies of scale attained by large international players in this sector therefore, and that barriers should be removed to avoid costly distortions. A mix of GEIS and re-exports to African countries have distorted the figures so that they do not necessarily reflect the country's true ability to export competitively. An example of this is the real growth in export of TV parts of 314% between 1988 and 1991 and a decline of imports of 32% over the same period (for hi-fi and video parts exports grew by 330% in the period). This reflected the influence of GEIS and the recession in the domestic market resulting in reduced absorption capacity of imports and local production.

It is important to note that South Africa is not, and is unlikely to become, a major market for exports from Europe (most imports are sourced elsewhere) or a major threat to European producers as a source of EU imports as it is not price competitive. The industry has made representations for continued (but reduced) protection as well as protection against dumping.

> *Summary prospects: increase in imports expected, with potential to expand local parts manufacturing and assembly, perhaps for export.*

Motor vehicles

This is an extremely contentious area of the South African economy. The motor industry has operated behind import barriers for decades and employs a substantial number of people. It is the third largest industry in the manufacturing sector. Customs duties on cars and commercial vehicles have been 100%, although the average sectoral tariff protection is closer to 30% since some parts imports are zero rated. The ERP was estimated to be 46% in 1992. A local content programme with rebates has been operating for a number of years, and effectively rules out foreign competition. Significant changes will occur as a result of South Africa's GATT offer. The government has expressed its intention to proceed at a faster pace than required, in order to release government funds for reconstruction and development. Both the industry federation and unions have complained, but the government seems committed to reducing its commitments to the motor industry [Belli *et al*., 1993: GATT, 1993].

> *Summary prospects: likely increase in imports with reduction of barriers, although full extent of reforms yet to be seen.*

Non-ferrous metal industry

Aluminium is the dominant sub-sector [GATT, 1993]. South Africa is becoming a major world player in the production of this metal through the firm Alusaf: the world's largest aluminium smelter is at present being built in Richards Bay with generous finance domestically and internationally. It has been able to take advantage of a number of schemes offered by the government to claim incentives. The state electricity corporation (Eskom) has agreed to supply Alusaf with power at a cheap rate when the world price of aluminium is low and to receive a percentage of profits when it is high; this amounts to a further subsidy. There is limited downstream production in the country and this is not being promoted by the industry. More open trade in a global industry that is heavily influenced by cartel-type decisions made by the big players would benefit South Africa, and is unlikely to threaten the local industry, although the potential to move downstream might be affected.

The Columbus project (steel and chrome) is another recent development in the country's mineral beneficiation programme. The potential of this plant is substantial; not only does it have modern technology, but it also has sufficient capacity to take advantage of economies of scale. Located near a metal-working centre, there is much opportunity for a sector which exports a range of products already to expand further.

> *Summary prospects: exports likely to increase, with medium term benefits of beneficiation programme beginning to show.*

Agriculture and Fishing

Fisheries

The main problem facing the fishing industry in South Africa is declining stocks. South Africa would like additional access to the European market while ensuring limited access to its waters. The extent of opposition to the opening up of the South African market is hard to establish.

Floriculture

South Africa exports R37 million worth of proteas to the EU annually, despite facing heavy tariffs (which are also imposed on dried flowers). Due to different climate and soil conditions, South Africa is unlikely to compete with the EU in the same type of flowers - most South African exports are considered exotics in the EU.

Miscellaneous fruit

South Africa is an important exporter of avocados, mangoes, papayas, sweet potatoes, prickly pears and litchis, items on which the EU has seasonally variable tariffs. The various growers' associations have called for zero rating. South African exports are also of a different quality to those of other exporters according to the growers' associations. The example of South African mangoes selling for R10 more than Brazilian mangoes is given - although quality does vary with seasons.

Fruit and vegetable canning

The deciduous fruit canning industry employs about 59,000 factory and farm workers in South Africa and exports to the value of R481 million *per annum*. The South African industry is the EU's largest supplier of canned deciduous fruit imports. While the EU is South Africa's largest export market, it is also the least profitable. The GEIS support the industry currently receives is being phased out (fully by the end of 1997). The industry would benefit significantly from EU liberalisation, although the EU-proposed tariffs cuts will not compensate fully for the loss from the phasing out of GEIS.

Similar arguments have been made for the pineapple canning industry.

Summary prospects (for agriculture and fishing): potential to expand production does exist - much depends on access to new markets and greater access to established markets.

Annex 2

South Africa and its competitors:
real GDP *per capita* and trade regime with the EU

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