

# Portfolio Committee on Economic Development

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# Content

1. Policy environment
2. SA TPSF
3. Approach to trade policy
4. Key policy parameters for negotiations
5. Update on negotiations
6. Role of Parliament



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# Policy environment



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# Policy environment

- **NDP**

- Objectives of Ch 7

- Intra-regional trade in Southern Africa should increase from 7% of trade to 25% of trade by 2030.
    - South Africa's trade with regional neighbours should increase from 15% of our trade to 30%.

- Actions

- Focus on trade penetration and diplomatic presence in fast-growing markets globally, including Africa.
    - Implement a focused regional integration strategy with emphasis on: Road, rail and port infrastructure in the region; reducing red tape, corruption and delays at border posts; using financial institutions to partner with businesses wanting to expand on the continent; strengthening regional cooperation; identifying and promoting practical opportunities for cooperation based on complementary national endowments.



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# Policy environment

- **NGP**

- Identified job drivers from infrastructure, industrial development, macro and micro economy issues and the institutional framework to increase jobs.
- Emphasised that for South Africa to grow it needs strong partnerships with other countries on the continent.
- Government will work to identify viable new productive activities in the region, especially (a) in the agricultural value chain (b) electricity (hydro and other green energy generation); (c) beneficiation of minerals; and (d) integrated manufacturing supply chains.
- Proposals in this area should support development corridors across southern and central Africa

# Policy environment

- **Industrial Policy**

- Diversification beyond traditional reliance on minerals and mineral-processing → increased value-added per capita.
- movement towards a knowledge economy
- More labour-absorbing industrialisation path
- Support economic development and integration on the African continent

**As such:**

- Industrial objectives to lead trade policy
- Movement away from the narrow market integration approach that focused on reduction and elimination of tariffs
- On-going strengthening of developmental trade policy
- Trade has the potential to promote rapid growth through structural change



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# Policy environment

- **Intra-Africa trade**

- Compared to other regions (e.g. EU, NAFTA, Asia), Africa has low levels of intra-regional trade, at 10% expected to grow to 13%.
- But aggregate figures distort the overall importance of intra-regional trade for most African countries.
- If African oil-exports are excluded, the average share of intra-regional exports increases to 21%.
- Africa is the 2<sup>nd</sup> most important export market for most African countries, behind Europe.
- Most intra-Africa trade is in manufactured goods, which provides a basis for regional industrialisation.



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# SA Trade Policy



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# SA Trade Policy

- The nature of global competition has changed:
  - Comparative advantage not only determinant for success in international trade
  - Purposeful intervention to build and deepen production capabilities, investment in human capital, research and innovation & technology
  - Strategic collaboration

# SA Trade Policy cont....

- Trends
  - Fastest growing exports in world trade are non-resource based manufactures
  - Emergence of global supply-chains for manufacturing & services as a result of production unbundling and growing trade in intermediate products
  - As a group, developing countries' exports growing faster than the world average. Asian countries dominate



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# Approach to Tariff and Trade Policy



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# Approach to Tariff Policy

- Tariffs are instruments of industrial policy
- Strategic approach to tariff reform to support industrial and employment objectives
- An evidence-based, case-by-case assessment will inform changes to tariffs (no *a priori* position) – Vital role for ITAC
- Implies
  - Reduce tariffs on mature upstream input industries → lower the costs for downstream, labour creating manufacturing
  - Raise tariffs on downstream industries with employment or value-addition potential → ensure sustainability and job creation (observing international trade obligations)

# Approach to Trade Policy

- Build trade and investment relations with Africa
- Consolidate and extend 'developmental integration' in SACU, SADC and Tripartite
- Consolidate links with key economies in the North
- South-South opportunities
- Advance developmental agenda in WTO multilateral negotiations

# Key parameters for trade negotiations



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# Key Policy Parameters for Negotiations

- Informed by and support to national development objectives set out in IPAP, NGP, NDP.
- Provide opportunities to increase exports of value added products
- Should not unduly limit development policy space
- Should support regional integration
- National consultation at intra-governmental level (DAFF, SARS, ITAC), and with business and labour in NEDLAC
- SACU consultations to protect common external tariff

# Approach to regional integration



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# Development Integration

- Addresses shortcomings and relevance of mechanical sequencing of Viner stages in developing regions.
- Argues major barriers to intra-regional trade often inadequate infrastructure and underdeveloped production structures rather than tariffs or regulatory barriers.
- Concludes integration processes must be complemented/preceded by advances in cooperation and coordination programmes to address real economy constraints. Latter must create objective conditions to make trade integration moves viable and sustainable;
- Depends on high level of political cooperation at an early stage of process.



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# Trade Agreements



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# Trade Agreements

- SACU
- SADC Free Trade Agreement
- TFTA
- India
- Trade, Development and Cooperation Agreement between SA and the EU. The trade chapter in this agreement to be replaced by the Economic Partnership Agreement between SACU and EU.
- Free Trade Agreement between SACU and EFTA.
- Preferential Trade Agreement between SACU and Mercosur - finalised but has not yet entered into force.
- CFTA

# SACU



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# Trade Agreements in place

- **SACU**

- Oldest Customs Union established in 1910.
- Renegotiated after democratic SA resulting in the 2002 Agreement,
- Free movement of goods.
- Democratised SACU through the establishment of SACU institutions based on consensus decision making.
- Agreement to move SACU away from an arrangement held together by RSA and CET into a developmental integration model.
- This necessitated a review of the SACU work programme leading to the five-point plan; (i) promoting regional industrial development as the over-arching theme in the SACU work programme (focus on identifying sectors with potential for the development of regional value-chains); (ii) improving trade facilitation; (iii) developing common SACU institutions; (iv) promoting unified engagement in trade negotiations with third parties; and (v) reviewing the revenue-sharing formula.



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# SADC Trade Protocol



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# Trade Agreements in place cont.

- **SADC Trade Protocol (TP)**
  - in force since 25 January 2000.
  - Aims to reduce customs duties and other barriers to trade.
  - 12 out of 15 MS have acceded to the TP.
  - SA/SACU grants duty free status to 99% of products under the agreement. The excluded products are second hand clothing and certain automotive parts. Sugar is liberalized subject to a volume-based quota.
  - Has resulted in increase in intra-regional trade from US\$6bn – US\$24bn.
  - Currently over 90% of products are traded duty free. If fully implemented, over 99% of products will be traded free of duty within SADC
  - Trade in services negotiations on- going on six sectors – tourism, finance, construction, transport, communications, energy.



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# Tripartite FTA



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# Tripartite FTA Negotiations

- TFTA launched on 10 June 2015 following the launch of negotiations in 2011.
- Tripartite initiative has three pillars, market access, cross-border infrastructure and regional industrial development.
- Launch signifies the conclusion of negotiations on the legal text, work towards a functional FTA will continue as part of the built-in agenda.
- T-FTA will combine markets of 26 countries with a population of nearly 625 million and a combined GDP of US\$1.6 trillion.
- Provide market scale that could launch a sizeable part of the continent onto a new developmental trajectory.
- The T-FTA will form the basis for an Africa-wide FTA.
- Negotiations are among TFTA members with no preferential arrangements in place (no reopening SADC Trade Protocol).
- In effect SACU will negotiate tariff concessions with non-SADC Members of TFTA (notably EAC, Egypt, Ethiopia, Djibouti, Eritrea, Sudan).



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# Tripartite FTA Negotiations cont.

- Process to develop market access offers advanced through NEDLAC and ATF. Offers exchanged between EAC and SACU. Offer to Egypt finalised and offers to be exchanged in August 2015.
- Negotiations on tariffs and rules of origin to continue as part of the built-in agenda.
- 2<sup>nd</sup> Phase of negotiations to start in Jan 2016- trade in services negotiations, cooperation on IPR, investment, competition policy.
- Work on the other pillars on-going, including separate track to facilitate the movement of business persons.



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# CFTA



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# Continental FTA Negotiations

- The negotiations for a Continental Free Trade Agreement has been launched by the AU Summit on 15 June 2015.
- First phase of negotiations to include goods and services.
- Indicative date for completion of phase I is 2017.
- Benefits include access to a larger market of over 1 billion people, combined GDP of US\$2 trillion.
- Follows a development integration model and will be complemented by cooperation on industrial and infrastructure development.



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# SACU-India



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# SACU-India PTA Negotiations

- PTA can boost south-south trade in a targeted manner.
- More focused approach to tariff preferences compared to FTA.
- Also provides legal-institutional framework to manage trade.
- India is now SA 6<sup>th</sup> largest trade partner.
- Trade in 2014 was almost R50 billion.
- Difficulty in finalising SA/SACU offer - Concerns raised with negotiations include NTBs in the Indian market, and that India's requests are in sensitive sectors
- Seek an early conclusion to the negotiations on a reduced level of tariff exchange (4% of SACU tariff book);
- Agreed to use the PTA as an incremental building block to enhanced trade in future.

# SACU-India PTA Negotiations cont.

- India's request list:
  - 3 fisheries lines
  - Processed agricultural products e.g. coffee, tea, pasta and other grain products, certain canned vegetables, fruit juices, as well as tobacco products and
  - NAMA - chemical products, perfumes and cosmetics, herbicides and fungicides, plastics, rubber and rubber products, leather products (including articles of leather apparel and clothing accessories), cotton yarn, synthetic yarn, woven fabrics, carpets, textiles, knitted fabrics, different types clothing, footwear, automotive parts, beads and jewellery, products of the metal industry (specifically steel and aluminium), white goods (specifically fridges and freezers), machine-tools, electrical goods, motor-vehicles, as well as household goods like brooms and brushes.



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# EPA



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# Economic Partnership Agreement Negotiations Between SADC EPA Group and the EU

- EU remains SA's largest trading partner although trade declined in recent years.
- TDCA in place between SA and EU and fully implemented since 2012.
- Total trade between SA and EU increased from R 137 billion in 2000 to R 497 billion in 2014. SA exports to the EU increased from R 64 billion to R 197 billion, while imports from the EU increased from R 72 billion to R300 billion in 2014.
- SA decided to join EPA process to establish a regional agreement with the EU and to secure further market access especially in agriculture.
- Work since 2008 was to address concerns raised with provisions in IEPA and increase access for SA agricultural products.

# Economic Partnership Agreement Negotiations Between SADC EPA Group and the EU cont.

- Agreement reached on trade in fish products not covered in TDCA;
- Agreed on extended cumulation provisions;
- In Sept 2011, SA made major concession to negotiate Geographic Indications in exchange for improved agriculture access. GI Protocol completed and agreement reached that EU will protect SA wine GI's as well as Rooibos, Honeybush and Karoo Lamb;
- Agreement between SADC EPA Group and EU initialed in June 2014- additional market access on agriculture and fisheries products, improved policy space and trade rules (EU agricultural export subsidies on goods destined to SACU are eliminated, automatic agricultural safeguard clause, export tax provision).
- Agreement currently subject to a joint legal scrubbing exercise where after it will be signed.

# Economic Partnership Agreement Negotiations Between SADC EPA Group and the EU cont.

- EU can provisionally apply the agreement while it is being ratified by all the EU countries but the SACU countries would have to ratify the agreement before it can enter into force.
- Preferential access of Botswana, Namibia and Swaziland (on certain products) into EU fall away on 30 September 2016 if EPA not ratified by that date.

# EFTA



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# European Free Trade Association (EFTA)

- EFTA comprises of Iceland, Liechtenstein, Norway and Switzerland.
- The agreement was signed in 2006 and entered into force on the 1<sup>st</sup> May 2008.
- The rationale in concluding the agreement with EFTA was to build on the existing SA-EU Trade Development and Cooperation Agreement (TDCA) and harmonise the trade relations with Europe.
- The Agreement covers trade in goods- comprises of trade in industrial products including the processed agricultural products (PAPs); fish and other marine products; rules of origin and customs duties on imports and the mutual administrative assistance.
- It covers all products falling within HS Chapters 25 to 97, including hides and skins in chapter 41 and cotton in chapter 52.

# European Free Trade Association (EFTA) cont.

- Basic agricultural products falling within chapters 1 to 24, excluding processed agricultural products, are covered under bilateral agreements with individual EFTA Member State, as EFTA MS do not have Common Agricultural Policy. Switzerland and Liechtenstein negotiated single bilateral agricultural agreements as they are members of a customs union.
- Review of the agreement was postponed until finalisation of EPA negotiations with EU.
- Consultations with domestic industries to compile request list to EFTA.

# MERCOSUR



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# SACU – MERCOSUR PTA

- Mercosur comprised of Argentina, Brazil, Paraguay, Uruguay.
- The PTA is aimed at promoting trade between the two sides on a selected number of products;
- Applies to over 1000 tariff lines in the MERCOSUR and SACU tariff book.
- PTA creates a legal basis for further integration and cooperation including through possible further exchanges of tariff preferences, as well as cooperation in a range of other areas.
- Offers preferential margins of between 10% and a 100%.
- It will enter into force once the Parliaments of each country that are Party to the Agreement ratify the agreement.
- SACU MS have ratified, agreement awaits ratification by MERCOSUR.

**Thank you!**



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