



# **Portfolio Committee on Trade and Industry** **Status Report on South Africa's** **Trade Negotiations**

**11 September 2019**

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# Principles and Approach

- SA trade should support industrial development.
- Tariff negotiations should support industrial development.
- Trade and tariff negotiating outcomes should enhance SA exports of higher value added products.
- Protect sensitive sectors.
- Preserve policy space for development.
- Regional/continental integration for development, structural transformation and industrialisation.

# SA Trade Performance

- SA's share of world trade grew from 0.45% in 2000 to 0.53% in 2018.
- Subdued global trade growth, 2013 to 2018: 1% p/a.
- SA total trade in 2018: R2.38 trn / US\$187.8 bn:
  - Average annual growth since 2013: -1.1% p/a (in US\$ terms).
- SA total exports in 2018: R1.15 trn/US\$94.42 bn:
  - Average annual growth since 2013: -0.1% p/a.
  - SA export dominated by minerals; resource slump affected SA exports disproportionately.
  - Mining export values declined more over last 5 years, than manufacturing export values.



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# SA Trade Performance

- SA total imports in 2018: R1.24 trn /US\$93.42 bn:
  - Average annual growth since 2013: -2.0% p/a.
  - The large decline in the oil price contributed to strong decline in SA imports; oil accounts for  $\pm 20\%$  of SA import value.
- SA recorded trade surplus of R13bn/\$999 mn in 2018.
- SA's top 5 export partners: China, US, Germany, Japan, Namibia.
- Top 5 import sources: China, Germany, US, India, Saudi Arabia.
- EU - as a block - is the top trade partner.
- Namibia, Botswana, Mozambique, Zambia, Zimbabwe, Lesotho and Swaziland in top 20.



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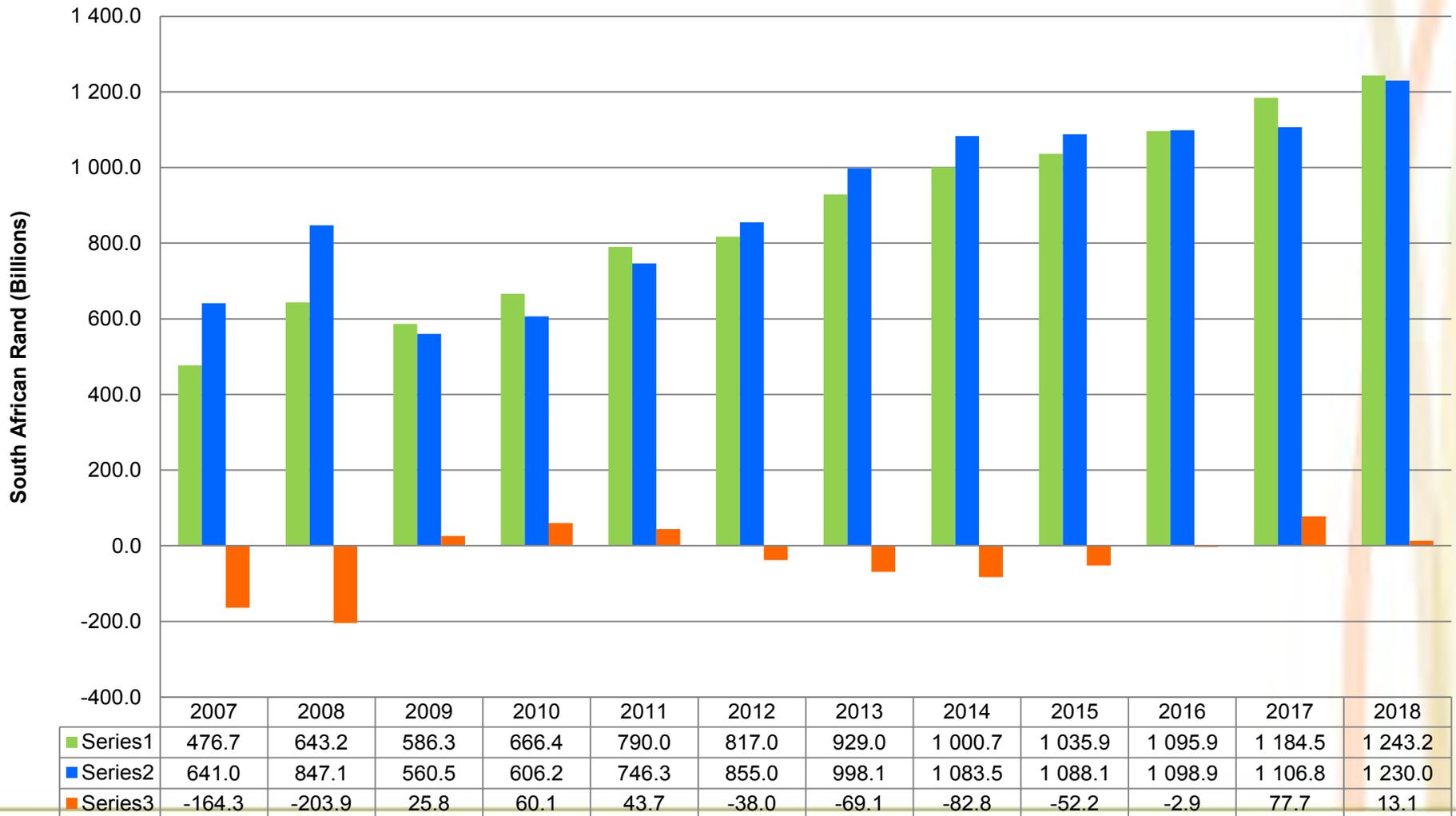
# SA Trade Summary

- Overall, SA trade has declined in \$ terms largely due to end of the mineral export super cycle.
- Trade is relatively balanced with exception in 2008: moves in a band between approximately -R80bn and +R80bn.
- Exports: 56.7% commodities and 42.9% manufactures -
  - Destinations for SA manufactures: Africa (35.6%, mainly SADC), EU (30%, UK, Belgium, Germany, Netherlands), US (6.8%), Japan (3.9%).
- Imports: 40.5% commodities and 59.4% manufactures -
  - Sources: EU (34%, Germany, UK, France, Italy), China (25.6%), US (6.8%), Thailand (4.7%), Japan (4.5%), India (3.6%).

# Economic and Trade Outlook

- Weak global demand, sluggish growth with downside risks.
- Widespread backlash against trade.
- Spike in restrictive trade measures ('trade war').
- Uncertainty impacts investment.
- Low growth in EU (1.3% in 2019 to 1.6% in 2020) and US (2.6% in 2019 to 1.9% in 2020).
- Growth in developing Asia expected at 6.2% in 2019-20.
- 40% of African countries expect growth of +5% in 2019.
- Competition for growing markets will intensify.
- SA well positioned from growth in Africa through preferential access in SACU and SADC.
- New market access anticipated through TFTA and AfCFTA.

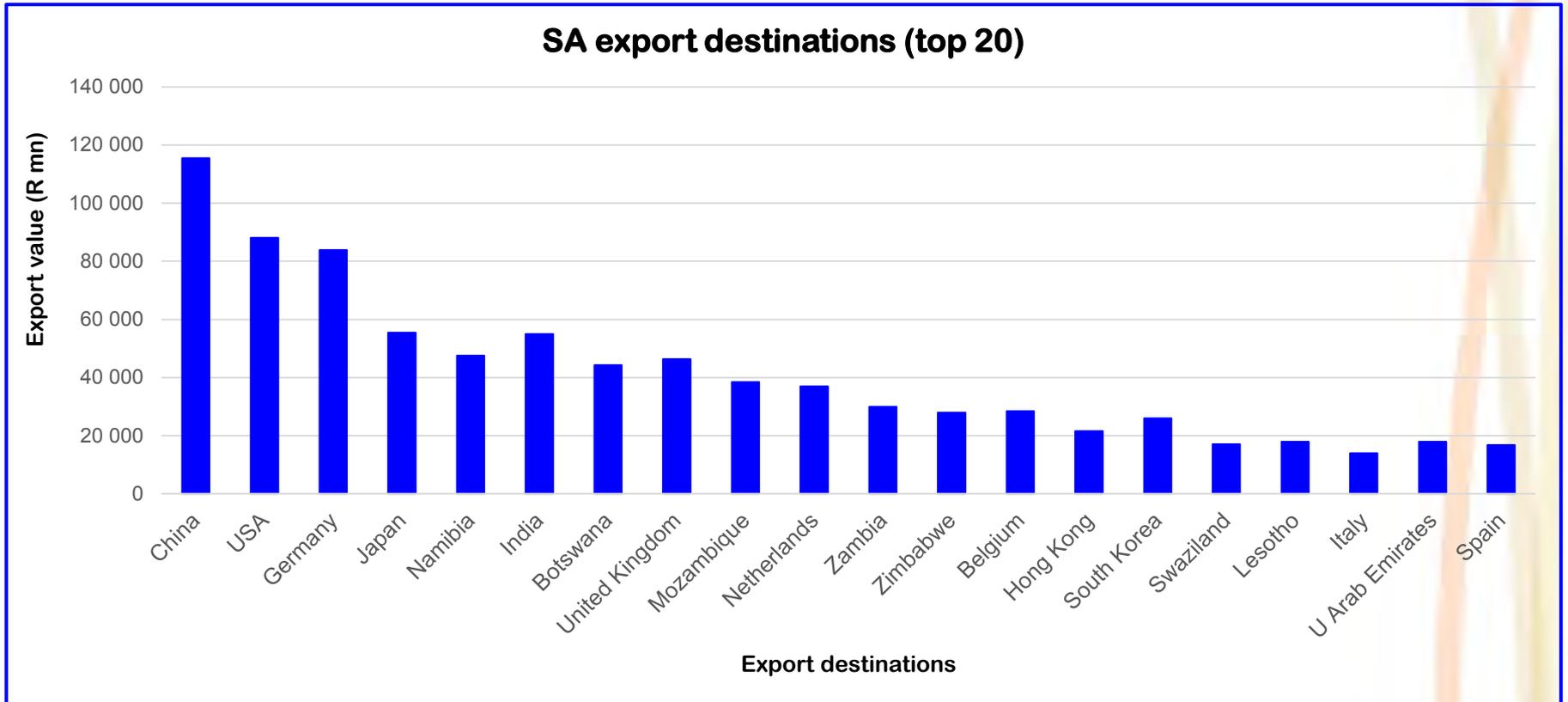
# SA Trade Balance



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# SA Export Destinations



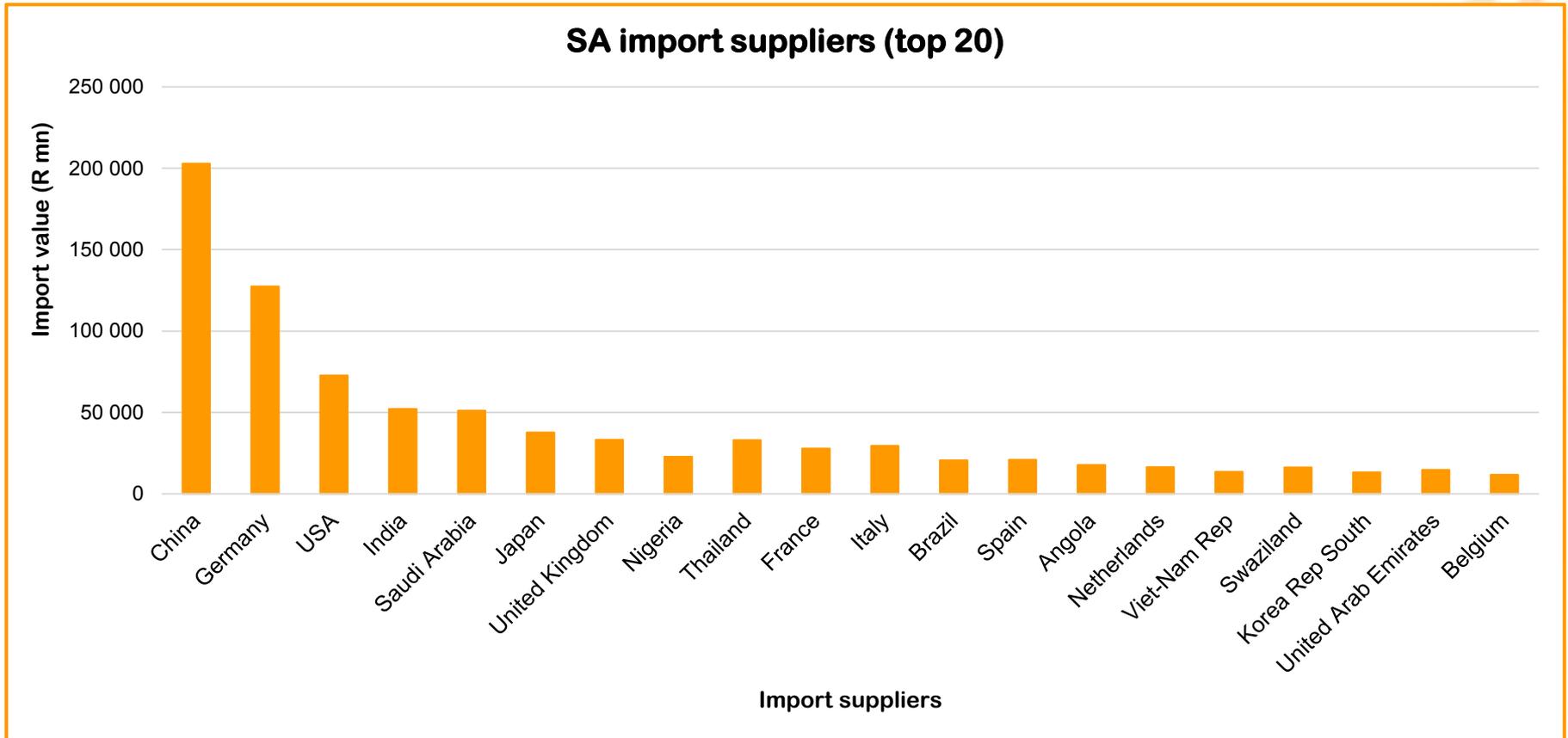
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# SA Import Sources



Source:  
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# WTO: SA's Broad Approach

- WTO sets framework for global trade but is confronting a crisis.
- Unbalanced rules and widening backlash against trade.
- SA supports rules-based multilateral trading system.
- Recognises WTO rules are imbalanced, prejudice developing country interests, and should be reformed.
- Reform for a better balance between global rules and space for national policies to advance development.
- WTO reform should foster inclusivity and development by advancing agricultural reform, and rules that open space for industrial development and technology transfer.
- To this end, we pursue a developmental agenda at the WTO with like-minded countries.

# WTO: Recent Developments- Crisis?

- In 2018, citing national security, US imposed unilateral tariff increases on steel and aluminium - beyond WTO legal bindings.
- Exceptions for some countries violate the WTO MFN rule.
- Retaliation, further measures have triggered the 'trade war'.
- US continues to block the selection of new Appellate Body Members, the cornerstone of rules-based trading system.
- By Dec 2019 the AB will have no quorum – effectively disabled.
- Trade disputes will no longer be resolved through due process but negotiation – where trade power will have stronger sway.



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# WTO: Recent Developments – Reform?

Developed countries and allies propose a reform agenda that would extend imbalances:

- Undermine consensus-decisions by legitimising plurilateral agreements on issues not agreed by all.
- Narrow the scope for special and differential treatment (SDT) in favour of developing countries – case-by-case.
- Graduate larger developing countries (China, India and SA).
- US, EU and Japan propose to narrow scope on policies for industrial development, technology transfer and state-owned enterprises.
- Targeted at China but will affect all developing countries.
- Narrowing flexibility will make outcomes more difficult.

# WTO: Negotiation on Fish Subsidies

**Sustainable Development Goal 14:** Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

WTO to contribute by establishing rules that:

- Prohibit subsidies to Illegal, Unreported and Unregulated (IUU) fishing.
- Constrain subsidies that lead to overfishing and overcapacity to fish.
- Policy space for Members with low subsidies to develop fishing industries.
- Ensure policy space for sustainable fishing (positive subsidies).
- Provide policy space to support artisanal, small scale, poor fishing communities.



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# WTO: Negotiation on Fish Subsidies

- SA is negotiating as part of the ACP Group
  - Technical co-ordinator.
- Little chance of conclusion by deadline of Dec 2019.
- Wide differences between Members on definitions, scope of disciplines and exceptions including on SDT for developing countries.

# African Integration

- Africa accounts for a growing share of SA trade particularly in manufactured products.
- Africa must overcome limitations of small, fragmented markets, over dependence on commodities and poor infrastructure.
- To address these, we advocate a developmental integration approach that combines:
  - Market integration (FTAs).
  - Co-operation on industrial development to build supply capacity, regional value chains, economic diversification.
  - Development of cross border infrastructure linkages.



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# African Integration

- Africa has a market of 1 bn+ people, a combined GDP of US\$3.3 trn with a growing middle class and consumption.
- AfCFTA will help integrate African markets, boost intra-Africa trade, create a basis for scale economies, encourage investment, and enhance legal certainty with a rules-based regime underpinned by a dispute resolution mechanism.

# AfCFTA- State of Play

- 54 AU Members (all except Eritrea) have signed the AfCFTA.
- 27 have been ratified.
- SA deposited its instrument of ratification on 10 Feb 2019.
- Agreement formally entered into force on 30 May 2019.

Negotiations set in two phases:

- **Phase I:** Trade in Goods covering tariff reduction schedules; Rules of Origin; Rules on non-tariff barriers (SPS, TBT); Co-operation on customs controls, trade facilitation and transit; Trade in Services commitments.

# AfCFTA: State of Play

## Phase I: Outstanding Issues

- Legal texts are completed (technical adjustment needed).
- Rules of Origin: negotiations sugar, autos and textiles and clothing should be finalised by Feb 2020.
- Tariff negotiations and preparation of tariff schedules:
  - Members should submit schedules of tariff reduction covering 90% of tariff lines by Sept 2019 and offers on the remaining 10 per cent of the tariff lines by Nov 2019.
  - Feb 2020 date more likely.
  - Tariff reductions should commence by 1 July 2020.

# AfCFTA- State of Play

- The schedules of specific commitments for Trade in Services should be submitted for adoption by AU Summit in Feb 2020.

## Phase II Negotiations

- Draft Protocols for Intellectual Property Rights, Competition and Investment should be submitted for adoption by the AU Summit in Jan 2021.

# AfCFTA: Concerns

- Concern at level of ambition of tariff liberalisation and short time.
- Constituencies ready to offer just 86% of lines for liberalisation.
- Import competing sectors, industrial capacity and employment may be negatively affected.
- Risk of transshipment and SARS capacity to monitor and enforce RoO.
- Risk of non-implementation by some.
- Risk of new NTBs impairing exports.
- In general, top-down institutional approaches may not work if benefits of liberalised trade are not shared equitably.



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# TFTA: State of Play

- Based on the 3-pillar development integration: trade liberalisation; industrial cooperation and infrastructure development.
- **Phase I:** trade in goods; and Phase II - trade in services negotiations, cooperation on IPR, investment, competition policy.
- Negotiations on the legal texts concluded.
- Agreement adopted, and ratified by 5 countries (Egypt, Kenya, Uganda, SA and Rwanda).
- Requires 14 ratifications to enter into force.
- Countries are in the process of ratifying the Agreement.

# TFTA: State of Play

- Modalities for tariff negotiations: 60% immediate liberalisation, 25% over 5 to 8 years, and 15 % subject to negotiations.
- Tariff negotiations between SACU and EAC finalised in June 2019.
- SACU-Egypt tariff negotiations still required.
- For others, SADC, EAC, COMESA tariff regimes extended across the TFTA countries.
- RoO still to be finalised (sugar, autos and textiles and clothing).
- **Phase II** negotiations on trade in services and competition commenced in July 2019.

# SACU Review

- SACU remains an important market for SA.
- SACU Agreement premised on a longstanding arrangement of a common external tariff, free flow of goods within the Union, and a redistributive revenue sharing arrangement in favour of smaller Members.
- Under SACU review, SA has advocated allocation of part of the revenue for industrial and infrastructure development purposes to transform SACU into a developmental project.
- Others propose establishment of a SACU Tariff Board that would set SACU tariffs by consensus.
- Differences in economic size, policy imperatives and objectives have lead to an impasse.
- Status quo is the likely scenario.

# SADC: Implementation

- 13 SADC countries established a FTA in 2000.
- Tariff liberalisation program fully implemented.
- Angola, DRC and Comoros still to join.
- Current focus is implementation and consolidation.
- Zimbabwe reversing some commitments: applied for 8 years exemption from tariff liberalisation for 995 products.
- Under Trade in Services Protocol, negotiation completed on transport, finance, telecommunications and tourism.
- Negotiations in energy and construction services ongoing.
- Regional Industrialisation strategy has been approved.

# SADC-EU EPA: Implementation

- EU-SADC EPA provisionally entered into force on 10 October 2016 and tariff regime between SADC/SA and EU is in place.
- Current implementation issues include:
  - Safeguard imposed on EU poultry imports.
  - EU requested consultations towards arbitration in Sept.
  - Tariff treatment of vehicles with engine capacity of 1000cc and below.
  - Wheat tariff rate quota allocation – “first come first served”.
  - SPS issues on agriculture products for both parties.
  - For SA key issues are poultry, beef, lamb, horses, and citrus (CBS).

# Implementation

## SACU-EFTA FTA

- Review on-going.
- SACU focus is on additional market access on basic and processed agricultural products.
- SACU has submitted a list of priority products for improved market access.
- Engagement continues.

## SACU-MERCOSUR PTA

- Entered into force on 1 April 2016.
- The PTA provides preferential tariff access on over 1000 tariff lines on both sides.

# BREXIT: A New SACUM-UK EPA?

- The UK is SA's 5<sup>th</sup> largest trading partner.
- Trade between the UK and SA increased from R63.7 billion in 2012 to R106.2 billion in 2018 - under SADC-EU EPA terms.
- The UK seeks to leave the EU but the terms are unclear.
- A 'hard' Brexit would entail, from our view, the UK leaving the EU customs union.
- The chances of a hard Brexit appear to have increased – new deadline is 31 October 2019.

# BREXIT: A New SACUM-UK EPA?

- To avoid trade disruption an ‘in principle’ agreement was reached to roll over trade rules of the SADC-EU EPA into a new SACUM-UK EPA.
- Failure to conclude such an arrangement would mean that trade with the UK would be on WTO MFN terms.
- This implies new tariffs on 114 tariff lines of export interest to SA, notably on autos, textiles and clothing and sugar.
- A great deal of progress on the SACUM-UK EPA has been achieved.
- Rules of origin, SPS, transitional arrangements and a built in agenda were subjects of the last round in mid-July.



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# BREXIT: A New SACUM-UK EPA?

- Convergence on:
  - UK to have full cumulation with the EU for exports to SACUM.
  - Continued recognition of EU SPS certification and establishment listing for a period of time.
  - GIs: SA proposal on Irish Cream, Irish Whiskey; wine making practices under consideration.
- Key outstanding issue: transitional arrangements on SACU safeguard on EU poultry (UK major exporter).
- UK can cumulate with EU, but EU cannot cumulate with UK.
- SACUM cannot cumulate with UK and obtain preferential access to EU.
- Further engagement to conclude agreement and ratify by

31 October.

# SA-US Trade/AGOA

- SA exports to US under three regimes:
  - MFN: in 2018, 72.1% of exports - mainly commodities.
  - GSP: preferential tariff regime that provides duty free access for some auto and other value-added products: 10.3% of exports.
  - AGOA – adds 1600 tariff lines to GSP, notably autos, and offered greater certainty by extending review cycle to 10 years (whereas under the GSP it was annually) – 17.4%.
- Expansion of SA higher value exports to US, peaking in 2008 at \$3.8 billion.

# SA-US Trade/AGOA

- Since 2008 trade with US has been on a steady decline falling to \$2.3bn in 2018.
- AGOA now 27% of total SA exports to US - down from 36%.
- SA no longer benefits from AGOA certainty - subject to 'out of cycle' reviews on any issue US deems of concern.
- Reviews are also possible under GSP that underpins AGOA.
- Uncertainty from Section 232 investigation on Autos (exports down 51% in 2018).
- SPS restrictions on Citrus (CBS).



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# SA-US Trade/AGOA

- With AGOA set to end in 2025, US is proposing a new framework for trade and investment with Africa.
- Strengthening intra-governmental engagement with Africa (Prosper Africa).
- New Build Act to mobilise US private sector for investment and trade in Africa.
- Promise to incentivise US firms to support African development but with commitments that African governments open their economies and reduce restrictions on US firms' operations.
- Recognising the importance of the AfCFTA, the US has signalled an interest in pursuing an FTA with one African country that would be a Model for others.

# SA-US Trade/AGOA

- At last AGOA Forum, Ministers gave broad response.
- Many highlighted that while AGOA was important it had not fulfilled its promise (lack of African productive capacity and stringent US product standards).
- Most emphasized priority is now operationalisation and consolidation of the AfCFTA.
- Some indicated FTA with third party could undermine AfCFTA or distract from priority work.
- US indicated the new USMCA agreement is their ‘gold standard’.
- Includes extensive tariff liberalisation, WTO-plus rules for Services, IPR, government procurement, investment etc.



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# Digital Trade

- Rapid but uneven process of digital transformation affecting the way we produce, consume and trade.
- Impacts on industrial production, trade and employment.
- Need to prepare a considered, comprehensive and coherent response.
- The digital economy can be harnessed to advance social and economic development, but technological change on this scale is disruptive with a range of challenges -
  - persistent digital divide along various dimensions;
  - lack of adequate and affordable digital infrastructure; and
  - weak digital skills base.

# Digital Trade

- Strengthened competition policy to address high concentration in the digital economy and rise of anti-competitive practices.
- Tax base erosion aggravated by digitalisation.
- The revenue and industrial development implications of the WTO moratorium on customs duties for electronic transmission.
- Balancing free data flows with a data policy for privacy, national security and economic development.
- ‘Data for development’ needed to ensure we are more than a consumer market for digital services produced elsewhere.
- We must become innovators and producers, exporting services and building capabilities for economic inclusion and growth.
- Need robust dialogue between all stakeholders in SA.

# Acronyms

- ACP African Caribbean Pacific
- AfCFTA African Continental Free Trade Agreement
- AGOA Africa Growth and Opportunity Act
- CBS Citrus Black Spot
- COMESA Common Market for Eastern and Southern Africa
  
- EAC East African Community
- EFTA European Free Trade Association
- EPA Economic Partnership Agreement
- EU European Union
- FTA Free Trade Agreement
- MFN Most Favoured Nation



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# Acronyms

- MERCOSUR Southern Common Market initially established by Argentina, Brazil, Paraguay and Uruguay, and subsequently joined by Venezuela and Bolivia
- NTB Non Tariff Barrier
- RoO Rules of Origin
- SACU Southern African Customs Union
- SADC Southern African Development Community
- SPS Sanitary and Phyto sanitary
- TBT Technical Barriers to Trade
- TFTA Tripartite Free Trade Agreement
- USMCA US-Mexico-Canada
- WTO World Trade Organisation



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# Thank You



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