Trade Brief

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South Africa's trade relations with the EU: Implications for the local agricultural sector

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Introduction

There has been some criticism that the Trade, Development and Co-operation Agreement (TDCA) entered into between South Africa and the EU in 1999 was not a balanced agreement. Critics assert that South Africa liberalised more than it should have, compared with the EU; particularly in the agricultural sector.

If this is true, then the response of EU imports into South Africa to a change in South Africa's total imports must be relatively large – that is, import elasticity must be greater than 1. And this has to be due to the SA-EU trade relations that allowed for these EU imports to enter the local market duty-free.

This report therefore examines whether there is an excess of EU imports of agricultural products into South Africa, and if so, which products are mainly driving this. Can it be attributed to the SA-EU trade relations? It comes at a time when the economic output growth of many economies has been downgraded more than expected. Adding to this, the World Trade Organisation slashed its forecast for global trade growth in 2013 to 3.3 per cent from 4.5 per cent.

The global economic crisis half a decade on

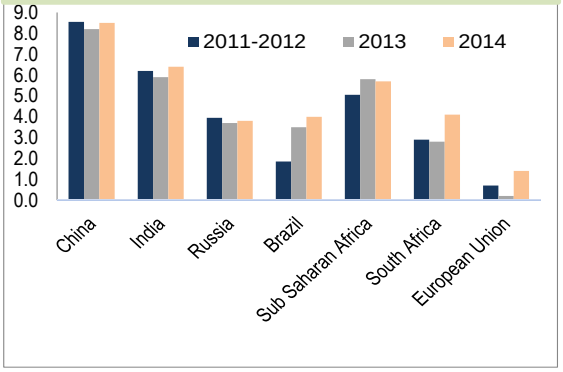
The collapse of Lehman Brothers in September 2008 triggered a synchronised recession in advanced economies, a sharp decline in global trade and manufacturing and a sovereign debt crisis in highly indebted Eurozone countries. Recovery remains sluggish and risks for the near future are still high.

Last year, the South Africa's largest trading partner entered a deepening recession. The Eurozone economies contracted at 0.2 per cent in 2012, down from 1.6 per cent in 2011. The fragility of bank balance sheets has had a severe effect on consumption and investment, particularly in Greece, Italy, Portugal and Spain.

Albeit still leading global growth, the economic output growth in China and India weakened last year by 1.5 per cent and 3.4 per cent respectively, as external demand softened. Sub-Saharan Africa is not an exception. Its growth stalled at 4.8 per cent in 2012, down from 5.3 per cent in the preceding year. This was due to a decline in commodity prices, prompted largely by a slowdown in external demand.

Consequently, South Africa's economic growth declined from 3.5 per cent in 2011 to 2.3 per cent in 2012. Weak external demand, high levels of global liquidity and fluctuating risk appetite, amongst other factors, have contributed to making South Africa less buoyant than before.

Figure 1: Sluggish recovery and an uncertain future



Source: WEO

The harmful impact on economies was expected given the interconnectedness of global trade channels. Hence, the extent to which South Africa mitigates the effect of the crisis depends on how well it manages its trade relations and administers its trade instruments, particularly in priority sectors.

Is there an excess of EU imports of agricultural products into South Africa?

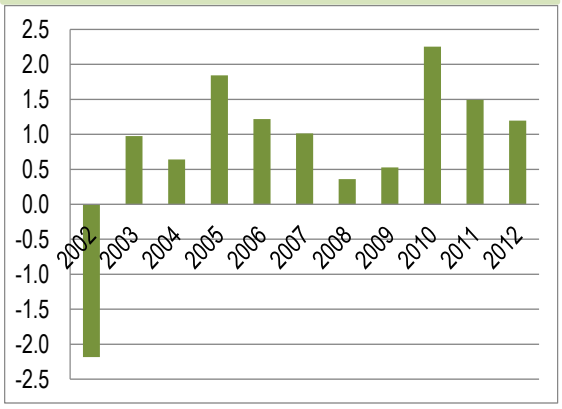
Whether or not EU agricultural imports into South Africa are in excess depends on the extent to which EU imports (supply) respond to a change in South Africa's total imports (import demand) – otherwise known as import elasticity. As already mentioned, if import elasticity is greater than 1, then one can safely conclude that an excess of imports from the EU is occurring, otherwise imports from the EU are moderate.

We examine the top 22 agricultural product imports by South Africa. Over 30 per cent of South Africa's total imports of these products comes from the EU. The value of the imports grew at US$1.6 billion in 2012, up from US$200 million in 2001.

At 0.6 per cent on average between 2002 and 2007 (or 0.8 per cent for 2002-2012), EU imports of the 22 products into South Africa are generally moderate. However, at 1.7 per cent on average for 2010-2012, it seems in the recent period there is an excess of EU imports of these products into South Africa (figure 2).

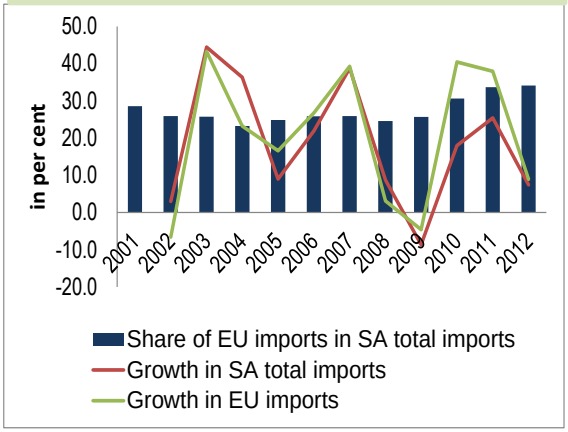
This is true considering that between 2010 and 2011, the growth of EU imports of these products into South Africa far outweigh the growth of South African total imports by more than 15 per cent, raising the share of EU imports to 31 per cent and 34 per cent in both periods, the largest since 2001 (figure 3).

Figure 2: Import elasticity on top 22 products



Source: ITC

Figure 3: Total agricultural imports from the EU



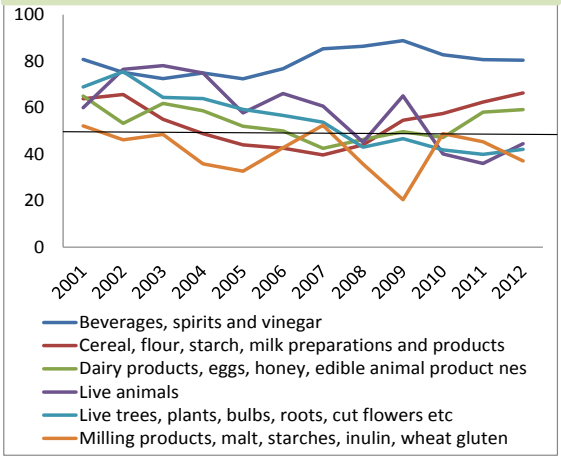
Source: ITC

Which agricultural products are mainly imported in excess from the EU, and can this be attributed to the SA-EU trade agreement?

To answer this question, we first identify the largest and fastest growing agricultural imports from EU between 2001 and 2012 out of the 22 selected products examined in aggregate above.

A total of 12 products are identified − top 6 or largest EU imports into South Africa (figure 4) − and 6 fastest growing EU imports into South Africa (figure 5).

Figure 4 Largest top 6 imports from the EU

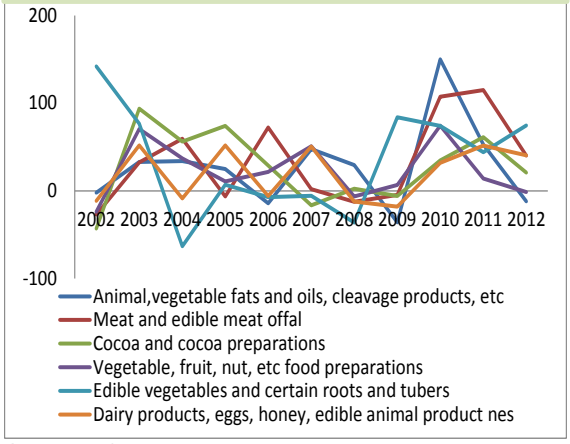


Source: ITC

About 80 per cent of South Africa's total imports of *beverages, spirits and vinegar* come from the EU. This is followed by *cereal, flour, starch, milk preparations and products* at 66 per cent, and *dairy products, eggs, honey, etc.* at 59 per cent. Others include *live animals*; *live trees, plants, bulb, etc.*; and *milling products* (figure 4).

Moreover, figure 5 shows that except for *edible vegetables and certain roots and tubers*, the growth for the remaining 5 products slipped in the recent period 2010-2012, albeit at a slower pace than in the previous periods. Between 2010 and 2012, *meat and edible meat offal* grew at 87 per cent on average from 1.9 per cent in 2007. *Dairy products, eggs, honey, etc*. also attract huge imports from the EU and is fast growing.

Figure 3: Fastest top 6 growing imports from the EU



Source: ITC

We now turn to examine 9 out of these 12 products – which make about 77 per cent of the total EU imports of agricultural products into South Africa − to ascertain which of the products are imported in excess from the EU into (of which one may expect the same pattern to continue in 2013), and whether the excess can be attributed to the SA-EU trade agreement.

Beverages, spirits and vinegar

As already indicated, about 80 per cent of total South African imports of beverages, spirits and vinegar comes from the EU. The value of the imports grew at US$405 million in 2012, up from US76 million in 2001.

Table 1 below shows that the import of this product from the EU is generally moderate both between 2002-2012 and 2010-2012 at 0.6 per cent and 0.9 per cent respectively. However, 4 products within the beverages, spirits and vinegar group are imported from the EU in excess – *beer made from malt; vinegar and substitutes for vinegar; mineral and aerated waters and ethyl alcohol and other spirits* – import elasticities for these products are greater than 1. Moreover, it should be noted that while these products are imported in large quantities from the EU, only about 8 per cent of South Africa's total imports of *ethyl alcohol and other spirits* comes from the EU.

Table 1: Import elasticity

Product	2002-2012	2010-2012	Comment
All Beverages, spirits and vinegar	**0.6**	**0.9**	**Moderate**
Spirits, liqueurs, other spirit beverages, alcoholic preparations	-0.6	0.3	Moderate
Non-alcoholic beverages (excl. water, fruit or vegetable juices)	0.7	0.5	Moderate
Beer made from malt	1.1	1.2	**Excess**
Wine of fresh grapes	0.8	0.9	Moderate
Vinegar and substitutes for vinegar	1.3	1.1	**Excess**
Mineral & aerated waters	1.9	1.4	**Excess**
Vermouth&other grape wine flavoured with plants or aromatic substances	1.1	1.0	Moderate
Ethyl alcohol & other spirits (if undenatured then higher than 80%)	4.5	8.7	**Excess**
Fermented beverages, nes	-7.6	-1.3	Moderate

Source: ITC

Table 2 reveals that on average, the EU has only liberalised about 32 per cent of its imports from South Africa while South Africa has fully liberalised its imports from the EU at 100 per cent. The excess EU imports of *vinegar, and ethyl alcohol and other spirits* could be attributed to the SA-EU trade agreement, with 0 per cent duty-free by the EU and 100 per cent duty-free by South Africa on both products. The opposite seems to be the case for *mineral and aerated waters. I*nformation on *beer made from malt* is not available.

Table 2: Tariff regime, 2012

Product	SA	EU	Duty
Waters, incl. mineral and aerated, with added sugar, sweetener or flavour, for direct consumption as a beverage	100% duty free	100% duty free	
Beer made from malt	100% duty free	-	
Denatured ethyl alcohol and other spirits of any strength	100% duty free	0% duty free	1 non-ad varolem duty
Vinegar, fermented vinegar and substitutes for vinegar obtained from acetic acid	100% duty free	0% duty free	4 non-ad varolem duty
All beverages, spirits and vinegar (average of 13 products within this group)	**100% duty free**	**32% duty free**	

Source: ITC

Meat and edible meat offal

The share of EU imports of meat and edible meat offal to South Africa's total imports of this product increased from 8 per cent in 2005 to 11 per cent in 2007 and 19 per cent in 2010. In 2012 alone, the share jumped to 43 per cent. As already indicated, this is one of the fastest growing import categories from the EU.

Table 3 shows that the import of this product from the EU is generally excessive both between 2002-2012 and 2010-2012 at 2.2 per cent and 4.1 per cent respectively. This is mainly driven by *meat and edible offal of poultry; meat of swine, fresh, chilled or frozen*; and *edible offal of red meat*.

Table 3: Import elasticities

Product	2002-2012	2010-2012	Comment
All Meat and edible meat offal	**2.2**	**4.1**	**Excess**
Meat and edible offal of poltry meat	4.0	9.0	**Excess**
Meat of swine, fresh, chilled or frozen	0.0	1.8	**Excess**
Edible offal of red meat	-1.8	5.4	**Excess**
Meat and edible meat offal	2.3	-0.1	Moderate
Pig and poultry fat	-0.6	-4.3	Moderate

Source: ITC

On average, the EU and South Africa have only liberalised 39 per cent and 17 per cent respectively, with respect to imports from each other (table 4). The excess EU imports of *meat of swine, fresh chilled or frozen* cannot be attributed to the SA-EU trade agreement, with100 per cent duty-free by the EU and 50 per cent duty-free by South Africa on this product. However, it is not clear whether the excess EU imports of *meat and edible offal of poultry* and *edible offal of red meat* are due to the SA-EU trade agreement or not, as tariff information on these products is limited.

Table 4: Tariff regime, 2012

Product	SA	Duty	EU
Fresh or chilled or frozen meat of swine (excl. carcases and half-carcases, and hams, shoulders and cuts thereof, with bone in)	50% duty free	1 non-ad varolem duty	100% duty free
Meat and edible offal of poltry meat	-	-	
Edible offal of red meat	-	-	
All meat and edible meat offal (average of 39 products within this group)	**17% duty free**		**39% duty free**

Source: ITC

Animal, vegetable fats and oils, cleavage products

The size of the share of EU imports of animal, vegetable fats and oils, cleavage products has more than quadrupled from 7 per cent in 2007 to 33 per cent in 2012. The value of the imports grew at US$350 million in 2012, up from US$16 million in 2001, making it the fastest growing agricultural import categories from the EU, particularly in the recent period, 2010-2012.

Table 5 reveals that the import of this product from the EU is generally moderate at 0.6 per cent between 2002 and 2012, but tends to be excessive at 1.6 per cent in the recent period, 2010-2012. The excess of EU imports over the recent period is mainly driven by 6 products in the group.

Table 5: Import elasticities

Product	2002-2012	2010-2012	Comment
All Animal vegetable fats and oils	**0.6**	**1.6**	**Excess**
Soya-bean oil and its fractions	26.7	7.0	**Excess**
Safflower, sunflower/cotton-seed oil and fractions	5.6	24.5	**Excess**
Olive oil and its fractions	1.1	1.4	**Excess**
Rape, colza or mustard oil & their fractions	-0.9	1.1	Moderate
Fixed vegetable fats&oils & their fractions	0.9	0.4	Moderate
Margarine	-6.4	-3.6	Moderate
Animal or vegetable fats & oils chemically modified; inedible mixtures	1.7	1.7	**Excess**
Wool grease and fatty substances derived therefrom (including lanolin)	0.7	1.8	**Excess**
Animal or veg fats, oils & fract, hydrogenated	19.0	0.3	Moderate
Glycerol (glycerine)	1.5	0.3	Moderate
Other oils from olives	-2.2	-10.6	Moderate
Vegetable waxes, beeswax & other insect waxes	0.0	0.3	Moderate
Fish/marine mammal,fat,oils & their fractions	0.8	3.9	**Excess**
Palm oil & its fraction	-13.1	-39.4	Moderate

Source: ITC

Table 6 shows that on average, the EU has liberalised about 77 per cent of its imports from South Africa while South Africa has fully liberalised at 100 per cent of its imports from the EU. The excess EU imports of *soya-bean oil* and *animal or vegetable fats and oils* could be attributed to the SA-EU trade agreement, with 50 per cent and 83 per cent duty-free respectively by the EU and 100 per cent duty-free each by South Africa on both products. The opposite is the case for *sunflower oil and olive oil*. Information on *fish/marine mammal, fats and oils* is not available.

Table 6: Tariff regime, 2012

Product	SA	EU	Duty
Soya-bean oil and its fractions	100% duty free	50% duty free	Max. ad varolem duty of 5.1%
Safflower, sunflower/cotton-seed oil and fractions	100% duty free	100% duty free	
Olive oil and its fractions	100% duty free	100% duty free	
Animal or vegetable fats & oils chemically modified; inedible mixtures	100% duty free	83.2% duty free	Max. ad varolem duty of 3.2%
Wool grease and fatty substances derived therefrom (including lanolin)	100% duty free	100% duty free	
Fish/marine mammal,fat,oils & their fractions	-	-	
All animal, vegetable fats and oils, cleavage products (average of 31 products within this group)	**100% duty free**	**77% duty free**	

Source: ITC

Edible vegetables and certain roots and tubers

At 9 per cent on average between 2001 and 2012, South Africa does not import much of edible vegetables and certain roots and tubers from the EU. However, the product is one of the fastest growing import categories from the EU as indicated earlier.

Table 7 shows that the import of this product from the EU is generally excessive both between 2002-2012 and 2010-2012 at 1.1 per cent and 2.5 per cent respectively. This is mainly driven by *frozen vegetables; dried vegetables (shelled); onions, garlic and leeks (fresh or chilled); dried vegetables; and vegetables nes (fresh or chilled).*

Table 7: Import elasticities

Product	2002-2012	2010-2012	Comment
All Edible vegetables, roots and tubers	**1.1**	**2.5**	**Excess**
Frozen vegetables	-7.5	5.7	**Excess**
Dried vegetables, shelled	7.1	10.4	**Excess**
Onions, garlic and leeks, fresh or chilled	6.6	21.5	**Excess**
Dried vegetables	1.8	4.8	**Excess**
Vegetables nes, fresh or chilled	1.4	2.0	**Excess**
Vegetables, provisionally preserved (unfit for immediate consumption)	0.6	0.3	Moderate

Source: ITC

Table 8: Tariff regime, 2012

Product	SA	EU	Duty
Frozen vegetables	100% duty free	55.6% duty free	Max. ad varolem duty of 15.2%
Dried vegetables, shelled	-	-	
Onions, garlic and leeks, fresh or chilled	-	-	
Dried vegetables	100% duty free	0% duty free	Max. ad varolem duty of 12.8%
Vegetables nes, fresh or chilled	100% duty free	50% duty free	10.4% Max. ad varolem duty and 1 non-ad varolem duty
All edible vegetables, certain roots and tubers (average of 36 products within this group)	**100% duty free**	**77% duty free**	

Source: ITC

While South Africa has fully liberalised its imports from EU (at 100 per cent), the EU has liberalised about 77 per cent of its imports from South Africa.

The excess EU imports of *frozen vegetables; dried vegetables;* and *vegetables nes (fresh or chilled)* could be attributed to the SA-EU trade agreement, as EU still imposes duties against South Africa with respect to these products. Moreover, it might be of interest to note that the EU still imposes duties against South Africa on fresh or chilled potatoes, tomatoes, onions, cucumbers and peas.

Vegetable fruit, nut, food preparations

The import of vegetable fruit, nut, and food preparations from the EU is generally excessive both between 2002-2012 and 2010-2012 at 1.2 per cent and 2.1 per cent respectively. This is mainly driven by *prepared or preserved vegetables (incl. frozen)* and *(excl. frozen*) (table 9).

Table 9: Import elasticities

Product	2002-2012	2010-2012	Comment
All vegetable fruit, nut, food preparations	**1.2**	**2.1**	**Excess**
Prepared or preserved vegetables nes (incl. frozen)	1.4	1.3	**Excess**
Prepared or preserved vegetables nes (excl. frozen)	2.4	1.5	**Excess**
Tomatoes prepared or preserved	-0.1	-0.7	Moderate
Fruit & vegetable juices, unfermented	-1.1	-4.2	Moderate
Preserved fruits nes	-0.5	-4.3	Moderate
Jams,fruit jellies & marmalades	0.0	0.2	Moderate
Cucumbers, gherkins and onions preserved by vinegar	2.3	0.3	Moderate

Source: ITC

Table 10 reveals that South Africa (at 100 per cent duty-free) has liberalised more than EU (70 per cent duty-free) with respect to vegetable fruit, nut food preparations. The EU still imposes duties against South Africa on *prepared or preserved vegetables (incl. frozen)* and *(excl. frozen),* implying that the excess EU imports of these products could be attributed to the SA-EU trade agreement.

Table 10: Tariff regime, 2012

Product	SA	EU	Duty
Prepared or preserved vegetables nes (incl. frozen)	100% duty free	80% duty free	1 non-ad varolem duty
Prepared or preserved vegetables nes (excl. frozen)	100% duty free	83.3% duty free	Max. ad varolem duty of 17.6%
All vegetable fruit, nut, food preparations (average of 44 products within this group)	**100% duty free**	**70% duty free**	

Source: ITC

Dairy products, eggs, honey, edible animal product

More than half of South Africa's total import of dairy products, eggs, honey and edible animal product comes from the EU.

The import of these products from the EU is generally moderate at 0.2 per cent between 2002 and 2012, but tends to be excessive at 1.4 per cent in the recent period, 2010-2012. This is mainly driven by *cheese and curd*; *milk and cream (concentrated or sweetened)*; as well as *butter* (table 11).

Table 11: Import elasticities

Product	2002-2012	2010-2012	Comment
All dairy products,	**0.2**	**1.4**	**Excess**
Cheese and curd	3.7	1.2	**Excess**
Milk and cream, concentrated or sweetened	1.2	1.8	**Excess**
Whey and natural milk products nes	0.6	-0.2	Moderate
Butter and other fats and oils derived from milk	1.6	3.9	**Excess**
Buttermilk and yogurt	0.5	-0.4	Moderate
Milk and cream, not concentrated nor sweetened	0.0	0.7	Moderate

Source: ITC

On average, the EU and South Africa have only liberalised 52 per cent and 33 per cent respectively, with respect to imports from each other (table 12). The excess EU imports of *cheese and curd; milk and cream (concentrated or sweetened)* as well as *butter* cannot be attributed to the SA-EU trade agreement. There are still too many restrictions on dairy products between South Africa and EU.

Table 12: Tariff regime, 2012

Product	SA	Duty	EU	Duty
Cheese and curd	0% duty free	6 non-ad varolem duties	30.3% duty free	Max. ad varolem duty, 7.7% and 22 non-ad varolem duties
Milk and cream, concentrated or sweetened	0% duty free	1 non-ad varolem duty	100% duty free	
Butter and other fats and oils derived from milk	0% duty free	1 non-ad varolem duty	0% duty free	3 non-ad varolem duties
All dairy products, (average of 21 products within this group)	**33% duty free**		**52% duty free**	

Source: ITC

Milling products, malt, starches, inulin, wheat gluten

The import of these products from the EU is generally moderate both for 2002-2012 and 2010-2012 at -0.1 per cent and -0.4 per cent respectively, albeit excessive for *starches, inulin*; and *wheat or meslin flour* (table 13).

The excessive of EU import of *starches, inulin* could be attributed to the SA-EU trade agreement, as EU still imposes duty against South Africa on this product (table 14). Information is limited for *wheat or meslin flour*. Moreover, at 98 per cent South Africa has almost fully liberalised its imports from the EU, while the EU has only liberalised about 56 per cent of its imports from South Africa.

Table 13: Import elasticities

Product	2002-2012	2010-2012	Comment
All milling products	**-0.1**	**-0.4**	**Moderate**
Malt, whether or not roasted	-1.3	-8.4	Moderate
Cereal grain, worked post hulling, excluding rice	0.3	-0.7	Moderate
Wheat gluten, whether or not dried	-0.8	-1.7	Moderate
Starches; inulin	1.6	2.4	**Excess**
Cereal grouts, meal and pellets	1.1	0.8	Moderate
Wheat or meslin flour	0.9	1.1	**Excess**
Flour, meal and flakes of potatoes	0.9	1.0	Moderate
Cereal flours other than of wheat or meslin	0.6	-0.6	Moderate

Source: ITC

Table 14: Tariff regime, 2012

Product	SA	EU	Duty
Starches; inulin	**100% duty free**	**0% duty free**	2 non-ad varolem duties
Wheat or meslin flour	-	-	
All milling products, (average of all products within this group)	**98% duty free**	**56% duty free**	

Source: ITC

Live animals and live trees, plants, bulb, roots and cut flowers

Two separate products are considered together here. The import of both products from the EU is generally moderate for both 2002-2012 and 2010-2012. The size of the EU import shares for these products is also declining. And all products within the groups also tend to be moderate for both periods.

Table 15: Import elasticities – Live animals

Products	2002-2012	2010-2012	Comment
All live animal products,	**-0.1**	**-0.5**	**Moderate**
Live horses, asses, mules and hinnies	1.5	-0.1	Moderate
Live poultry	2.2	-3.5	Moderate
Live animals, nes	-10.2	-30.0	Moderate

Source: ITC

Table 15: Import elasticities – Live trees, plants, etc.

Product	2002-2012	2010-2012	Comment
All live tree products,	**0.5**	**-1.4**	**Moderate**
Bulbs, tubers, corms, etc	0.6	0.1	Moderate
Plants, live, nes (incl their roots), cuttings & slips; mushroom spawn	-2.5	-9.3	Moderate

Source: ITC

Conclusion

There is no doubt that the depressing EU economy resulted in slowed demand, and with production remaining constant, the EU exports to South Africa increased, particularly in the agricultural sector which has been the most protected sector in the EU.

The excess of EU imports of agricultural products into South Africa gained momentum from 2010. While South Africa has fully liberalised its imports on agricultural products from the EU, the EU still imposes duties against South Africa on *vinegar and substitutes of vinegar, denatured ethyl alcohol and other spirits, soya-bean oil and its fractions, vegetable fats and oils chemically modified, frozen vegetables, dried vegetables, vegetables nes (fresh or chilled), prepared or preserved vegetables nes (incl. and excl. frozen) and starches, inulin*. This implies that the excess of EU imports on these products could be attributed to the SA-EU trade agreement.

It might also be of interest to note that, although they are not imported in excess from the EU, the following products are protected against South Africa: *wine of fresh grapes; vermouth and other grape wine flavoured; non-alcoholic beverages; palm oil and its fractions; margarine (excl. liquid); buttermilk (excl. yogurt); jams, fruit jellies; cucumbers, gherkins and onions preserved by vinegar; prepared and preserved potatoes; and frozen orange juice, grape juice and pineapple juice (unfermented, excl. containing spirit).*

Since ordinary import tariffs cannot be raised against the EU, the need to finalise the procedural guide on safeguard actions under the SA-EU TDCA has become urgent.

Moreover, to ensure that South Africa makes the most of the benefits from trade relations with the EU, a further opening of EU imports from South Africa on agricultural products is pivotal.