

Status Report on Trade Negotiations

Presentation to NEDLAC

by

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Contents

1. Approach to trade negotiations
2. Regional integration
 - SACU
 - SADC Trade Protocol and Trade in Services
 - TFTA
 - CFTA
3. Agreements with BRICS countries
 - MERCOSUR
 - SACU-India
5. Europe
 - EPA
 - EFTA
6. AGOA
7. WTO
8. Brexit



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Approach to trade negotiations

- Informed by and support to national development objectives set out in NDP, NGP and IPAP.
- Provide opportunities to increase exports of value added products.
- Should not unduly limit development policy space.
- National consultation at intra-governmental level and in NEDLAC.
- SACU consultations to protect common external tariff.
- Focus areas: exchange of tariff concessions and related rules of origin; related legal provisions.
- Should support regional integration.



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Regional Economic Integration (REI)

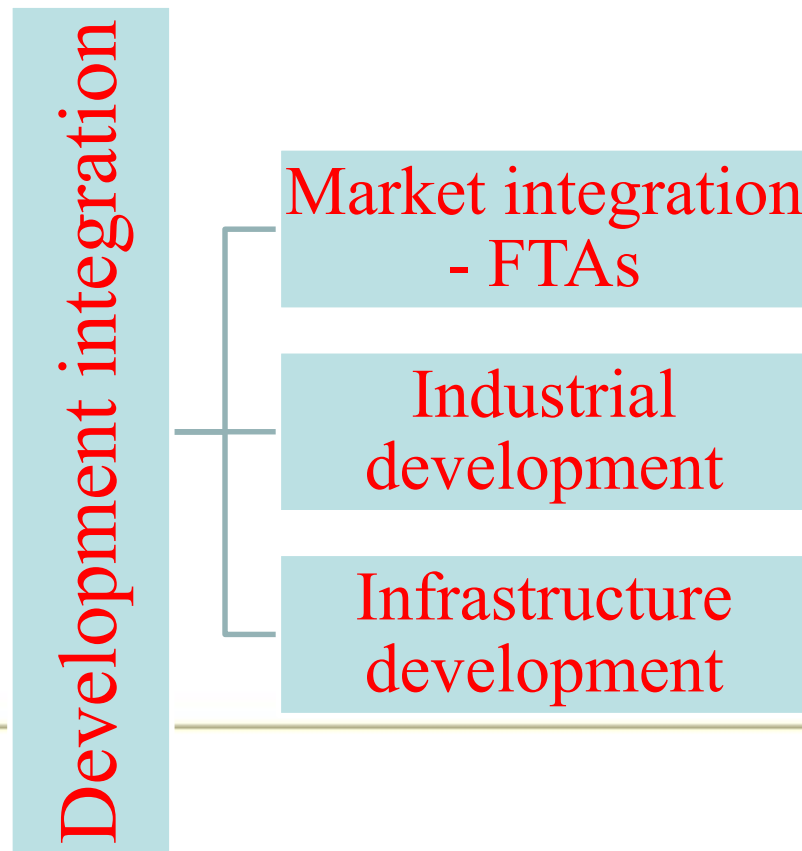


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Approach to REI

- SA advocates a developmental integration approach in all African regional economic integration initiatives.
- Informed by the realization that trade integration alone does not bring sufficient economic benefit. It combines market integration with industrial and infrastructure development.

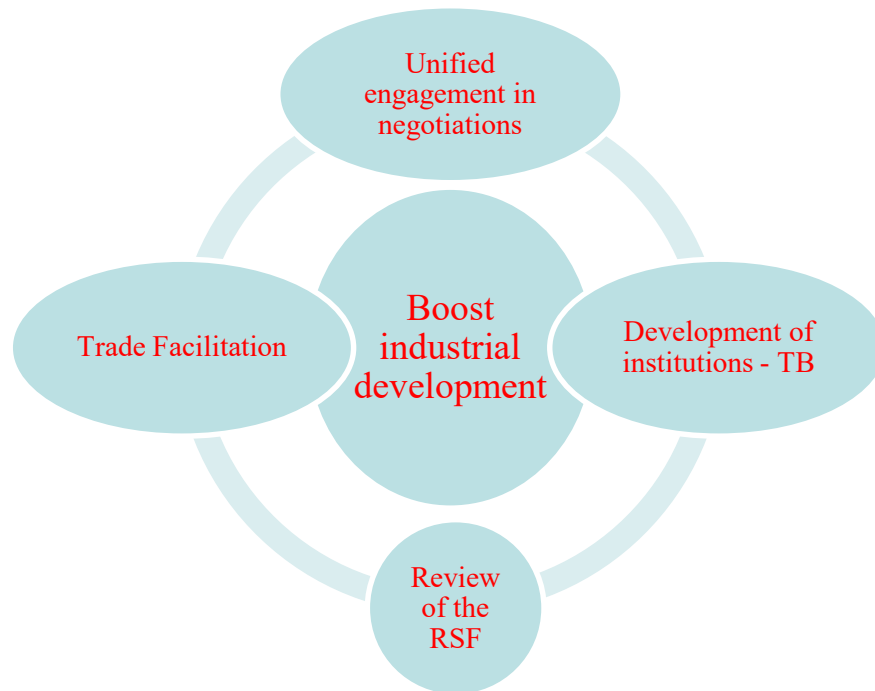


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SACU

- Oldest Customs Union – allows free movement of goods.
- Agreement to move SACU into a developmental integration model.
- This necessitated a review of the SACU work programme leading to the five-point plan;



- Agreement to review the 2002 Agreement.
- In 2015, imports from the BLNS represented 2.70% and our exports to the BLNS were 13.52% of total exports.



SADC Trade Protocol

- 13 SADC MS have established a Free Trade Area (FTA) – priority is the consolidation of the FTA rather than establishment of a Customs Union.
- Has resulted in increase in intra-regional trade from US\$6bn – US\$24bn. Currently over 90% of products are traded duty free. Will result in over 99% of products traded free of duty upon completion.
- In 2015 trade with SADC (excluding BLNS) represented 3.58% of imports and 11.12% of exports.
- Seychelles is the last member to accede and submitted its Instrument of Ratification in July 2015, with effect from 1 April 2015.
- Angola and the DRC still to join the Trade Protocol.
- Non-implementation and roll back of commitments targeting SA products of export interest due to balance of payment and liquidity challenges, use of tariffs as a revenue source among others.
- Challenges with Zimbabwe – increase in tariffs, surcharges, import bans, requirements for import permits and other forms of restrictions
- Malawi and Tanzania – non-recognition of SADC certificates.



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SADC Services Negotiations

- The first round of negotiations covers six priority sectors: communication, construction, energy, financial, transport and tourism services
- Only 11 Member States submitted their initial offers in four priority sectors (communications, financial, tourism and transport services): Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Seychelles, South Africa, Swaziland, Tanzania and Zambia.
- Negotiations in Communication, Financial, Tourism and Transport services sectors are close to completion. Negotiations on Construction and Energy still in early stages.
- To date only Malawi, Seychelles and Zambia have made offers in construction services.
- SA has a well developed services sector, Protocol will enhance access for SA services providers in the SADC region.
- Liberalization will give SA an advantage over suppliers from outside the region. The Protocol will lay basis for wider services trade in the African market.



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TFTA Negotiations

- Tripartite initiative has three pillars: market access, cross-border infrastructure and regional industrial development.

MARKET INTEGRATION

- Legal scrubbing has been completed on all Annexes except for Annex 1 (Elimination of Import Duties), Annex 2 (Trade Remedies) and Annex 4 (Rules of Origin) which are subject to negotiations with a few issues outstanding.
- RoO, especially on clothing and textiles, will need to be addressed to advance the negotiations. SA will need to consider options informed by industrial policy objectives.
- Tariff liberalisation negotiations are on-going between SACU and EAC as well as SACU and Egypt where the parties have exchanged initial tariff offers.
- Progress has been achieved with Egypt and SACU agreeing to negotiate on 60% and 25 % tariff lines in parallel as there might be linkages in the positions of the two categories.

TFTA Negotiations cont.

- Focus in the EAC-SACU negotiations has been to ensure the EAC offer is aligned to the modalities so as to advance the negotiations. Agreement on this has been reached. In addition, SACU is to consult on the EAC request list consisting 296 tariff lines, some of these are on the SACU sensitive list and report back in the next meeting in October 2016.
- **INDUSTRIAL DEVELOPMENT**
 - Draft Modalities for Cooperation on Industrial Development are completed at technical level.
- **INFRASTRUCTURE DEVELOPMENT**
 - The Pillar concentrates on improving the region's trade and transport infrastructure and is coordinated by the Tripartite Task Force.



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TFTA Negotiations cont.

- **MOVEMENT OF BUSINESS PERSONS**

- The Draft Tripartite Agreement on Movement of Business Persons is currently under negotiations. The main purpose of the agreement is to guide and facilitate the movement of business persons within the Tripartite region.

PHASE 2 NEGOTIATIONS

- 2nd Phase negotiations cover trade in services, cooperation on IPR, investment, competition policy and; trade and development. The Tripartite Task Force has commissioned studies which will inform the approach. High level consultative meetings to be convened thereafter to agree on the approach.

CFTA Negotiations

- The AU Assembly launched the Continental Free Trade Area (CFTA) negotiations during on 15 June 2015 in Johannesburg, South Africa.
- The Summit also adopted the Objectives and Guiding Principles for the CFTA negotiations, the Terms of Reference for the CFTA Negotiating Forum (CFTA-NF); and Indicative Roadmap for the CFTA.
- Terms of References in various Technical Working Groups were approved.
- Focus is on finalisation of modalities for negotiating trade in goods and services.
- The African Union Assembly held in Rwanda, in July 2016 reaffirmed its decision of fast tracking the establishment of the CFTA and decided to establish a High Level Panel (one from each region) to champion the fast tracking of the CFTA.
- Phase 1 will deal with negotiations on both trade in goods and services.
- SA is of the view that Trade in services negotiations should be rationalised – hence negotiations should be at the SADC and AU level only and not at the TFTA

Agreements with BRICS countries



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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 6th largest trade partner. Trade in 2015 was almost R95 billion. Trade with India represented 4.9% of SA imports and 4.1% of exports.
- Difficulty in finalising SA/SACU offer - Concerns raised by labour and business with negotiations include NTBs in the Indian market. Many of the market access requests by India are in sensitive sectors.
- A number of South African industries have indicated an interest in increased market access into India. As first step a PTA concluded on limited number of products.
- PTA to be an incremental building block to enhanced trade in future.
- The negotiations have revealed challenges associated with S-S trade as India's request is in SA's sensitive sectors.
- SACU consolidating position after extensive national consultations.



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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%.
- All the SACU and MERCOSUR member states have ratified the agreement and it has entered into force on 1 April 2016.
- SACU is still in the process of finalising the administrative processes to be able to implement the agreement and it is expected that these processes will be finalised by the second half of 2016.
- As per the Agreement - a Joint Committee meeting must be held to agree on implementation. MERCOSUR indicated that it is not available and will propose a new date likely to be in first quarter of 2017.



Economic Partnership Agreement (EPA) between the EU and SADC EPA Group

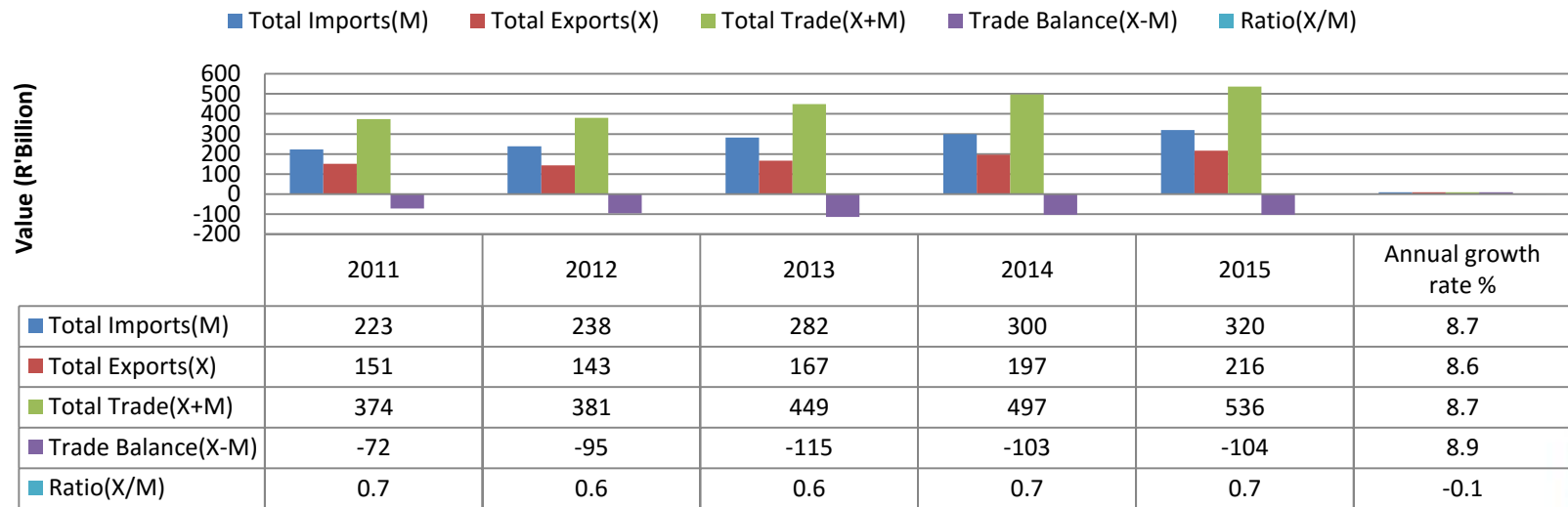


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SA-EU Trade figures

SA Trade with the EU (R'Billion)



The EU remains South Africa's main trading partner

Total trade increased from R374 Billion in 2011 to R 536 Billion in 2015; an increase of 43%

SA exports and imports with the EU both had an annual growth of about 9% during the period 2011 to 2015

SA exports to EU increased from R 151 Billion in 2011 to R 216 Billion in 2015

Total trade has grown by 257% since the agreement was implemented in 2000. The trade balance continues to grow wider in favour of EU and this contradicts SA's aim of reaching balanced trade.



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SA-EU Trade figures cont.

- SA exports have been highly concentrated on primary products
- Platinum, Ferro-alloys, coal and iron ore are among the top 10 of our exports to the EU and contributed a share of 13.2%, 4.8%, 3.6% and 3.1% respectively in 2015
- On a more positive side, some manufactured goods are also counted among the top 10 SA exports
- Our top export in 2015 were motor cars and motor vehicles for transport that jointly contributed 21% in our exports to the EU in 2015.
- Grapes, citrus and wine were also among our top exports to the EU.



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Background on EPA Negotiations

- The EU started the negotiations for the various Economic Partnership Agreements with African, Caribbean and Pacific countries on 27 November 2002.
- EPAs are to replace the unilateral trade regime that governs the trade between the EU and ACP countries embodied under the Cotonou Partnership Agreement (CPA). SA was excluded from the unilateral trade regime provided by EU to the ACP countries.
- For the SADC-EU EPA configuration: SA joined the SADC group as an observer at the onset of the negotiations due to the existing TDCA that entered into force with the EU in 2000. SA participated in the SADC-EU EPA configuration negotiations since 2007.
- SA's core interest has been to harmonise trading regime between SACU and the EU; to secure further market access in agriculture (beyond the TDCA provisions) and claw back of some policy space lost under the TDCA.

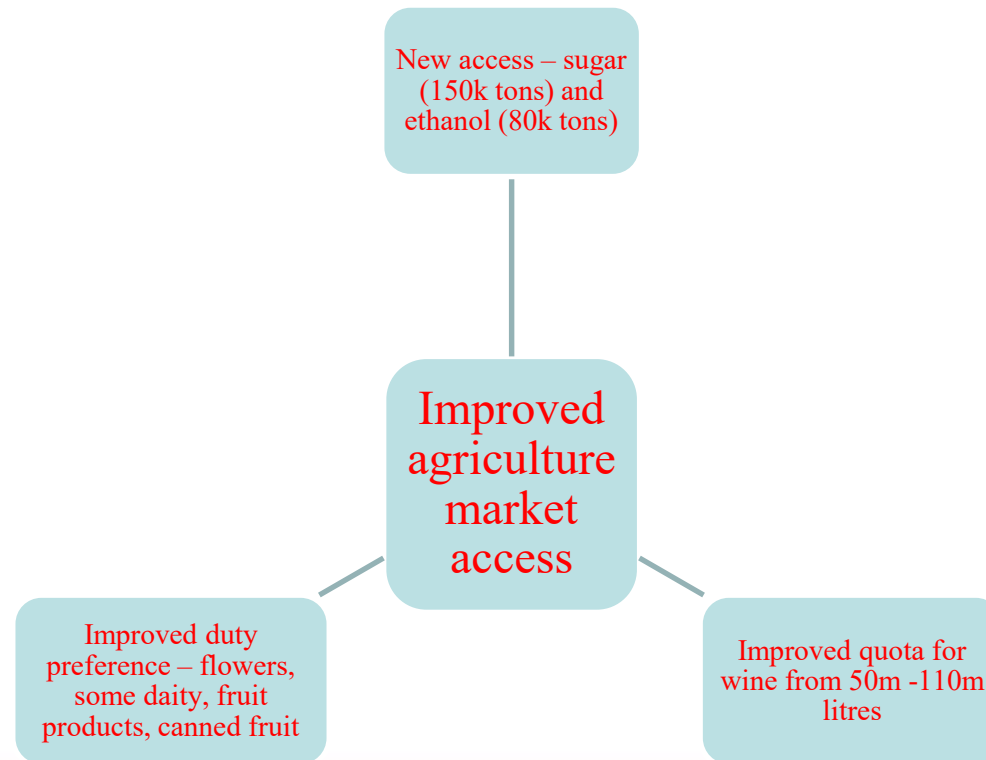


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Improvement on TDCA – Market Access

- SA achieved its objectives and improved market access better than TDCA on fisheries products as well as 32 agricultural products including:



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Improvement on TDCA – textual provisions

- SA also managed to improve textual provisions from what was agreed in TDCA as follows:
 - EPA rules of origin would now allow for extended cumulation that can facilitate intra-regional trade and industrialisation across the Southern and Eastern Africa region in particular.
 - Export taxes can be introduced on exports from EU under certain circumstances
 - Standstill clause will not apply to products excluded from liberalization and tariffs on products from EU can be increased as long as margin of preference agreed is maintained.
 - Bilateral Safeguard Provision that will continue to apply indefinitely on all products subject to liberalization.
 - Automatic Specific Agricultural Safeguard agreed on list of products.



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SA – EU Geographical Indications

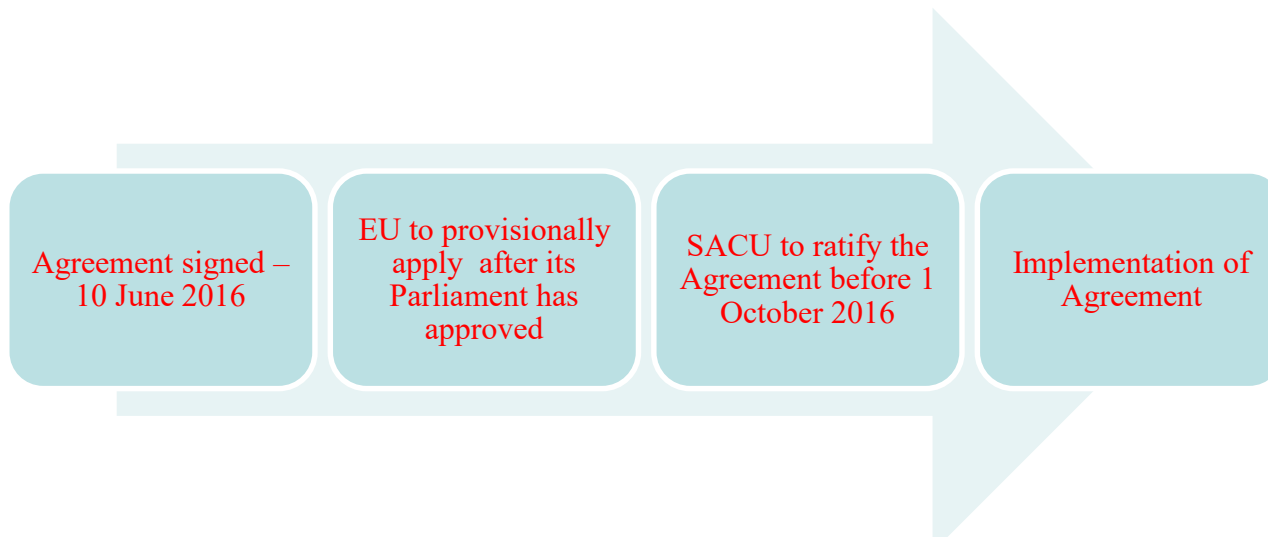
- The SADC-EU EPA made provisions for a bilateral protocol between SA and the EU on the protection of GIs and on trade in wine and spirits.
- The Protocol addresses the issue of protection of SA's wines names exported to the EU and vice-versa as well as protection of a list of agricultural products.
- The GI negotiations reached an agreement that will ensure the protection of product names currently being used by producers in the EU and SA:
 - the EU will receive protection of names for 251 GIs (which covers 120 wines, 5 beers, 20 spirits and 106 agricultural products. The latter includes (special meats, cheese, olives, etc)
 - SA will receive protection for 105 GI names of which 102 are wine names and three agricultural product names (Rooibos, Honeybush and Karoo Lamb). Provision also made for South Africa to add 30 agricultural product names in future.



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Way forward



- EU can provisionally apply the Agreement while it is being ratified by all the EU countries subject to approval by EU Parliament.
- SADC EPA countries would have to ratify the Agreement before it enters into force.
- Ratification process in South Africa finalised and instrument of ratification being finalised to be deposited at EPA Depository
- Botswana, Namibia and Swaziland have ratified the Agreement and deposited their instruments of ratification. Lesotho in the process and should be done before end of September.
- EU Parliament to consider the Agreement in next week and if approved the EU can provisionally apply the Agreement.



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SACU - European Free Trade Association (EFTA) Free Trade Agreement (FTA)



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European Free Trade Association (EFTA) FTA

- EFTA comprises of Iceland, Liechtenstein, Norway and Switzerland.
- The agreement was signed in 2006 and entered into force on the 1st May 2008.
- The Agreement comprises of trade in goods including industrial products, processed agricultural products; fish and other marine products; rules of origin and customs duties on imports into SACU
- The main Agreement covers all products falling within HS Chapters 25 to 97. Bilateral Agreements on basic agricultural products (within chapters 1 to 24, excluding processed agricultural products) are entered into with individual EFTA States.
- The Agreement is scheduled to be liberalized over a period of ten years
- SACU states received duty free quota free access (DFQF) for all industrial products at entry into force of the agreement



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EFTA FTA cont.

- The trade balance between South Africa and EFTA has consistently been in SA's favour.
- SA's total exports were R18.21 billion in 2015, while total imports were R10.43 billion.
- SA's main exports are primary products.
- The Agreement has been due for review since 2013, however, it has been postponed pending the conclusion of the EPA negotiations. Now that the EPA negotiations are concluded, the SACU EFTA FTA review will resume and preparation are underway.
- Improvement of SACU's access to EFTA will only be on agricultural products as DFQF treatment is already in place on all NAMA products.
- Stakeholders engagements held and a request list for additional market access in agricultural products submitted to EFTA.
- First review negotiations meeting scheduled for October 2016.



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Africa Growth and Opportunities Act (AGOA) of the United States of America



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US-SA bilateral trade

- The US was the 2nd largest destination for SA exports globally in 2015. Similarly, SA was the 2nd largest destination after Egypt for US products in Africa.
- Our bilateral trade has surpassed the pre-economic crisis level of R122 billion to reach close to R154 billion in 2015.
- Bilateral investments between SA and US were approximately R2 trillion in 2014, as reported by the SA Reserve Bank.
- South Africa continues to be home to over 800 US companies and the number is growing rapidly.
- Similarly, a growing number of SA companies invest in the US in sectors such as beverages, mining, oil, steel, furniture, ICT, and heavy-duty trucks.
- SA exports accounted for 0.35% of total US imports. Meanwhile US exports to South Africa accounted for 0.39% of total US exports globally.



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Africa Growth and Opportunities Act (AGOA)

- US's top exports to SA were machinery and mechanical appliances; vehicles, vessels and aircrafts; chemical products and plastics.
- SA's top exports were vehicles & associated transport equipment (representing 27% of total SA exports to the US), precious metal (23%), base metals (11%), mineral products (9%), and chemical or allied industries (16%).
- AGOA utilisation rate:
 - Out of 1835 tariff lines, SA utilised 141 (8% utilisation rate), while SSA utilises 367 (20%)
 - Out of 3400 GSP lines- SA utilised 459 (14%). SSA utilises 819 tariff lines (17%)
 - 40% of the products exported are commodities so AGOA has assisted to diversify exports into the US market.

Conclusion

- USTR has submitted a report to the US Congress in June 2016 which highlighted progress made since renewal. USTR is expected to report to Congress in 5 years (2021) time on countries ready to conclude reciprocal arrangements.
- The US have a very specific model for their FTA negotiations and require countries to make comprehensive commitments on a wide range of areas including investment and public procurement. It will therefore be very difficult for SA/ SACU to negotiate a FTA with the US since it will limit policy space in many areas.
- A study on the future of SA-US trade relations has been commissioned by NEDLAC.
- SA will need to use the time to develop a clear position on the long-term relations with the US post-AGOA.

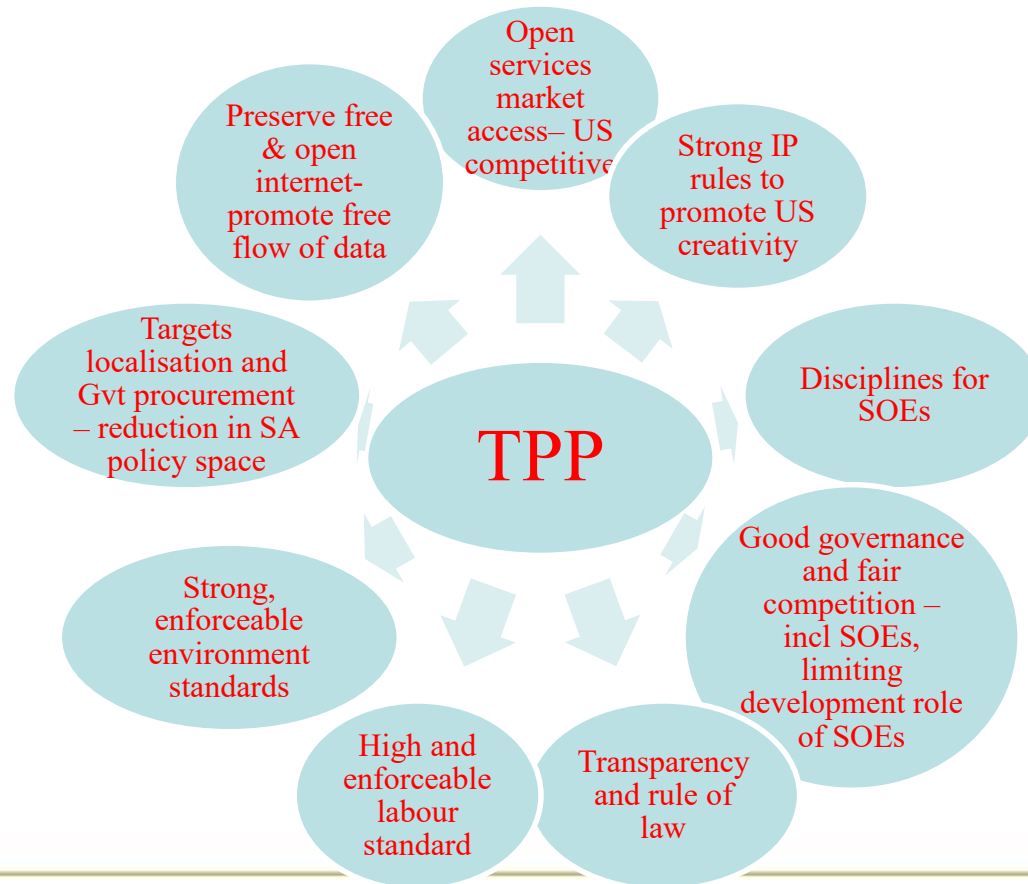


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Conclusion cont.

- TPP is likely to be the template for future US negotiations:



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World Trade Organisation (WTO)



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Key issues in WTO

- Future of the DDA
- No movement on outstanding issues
- New issues and implications for developing countries
 - LCRs
 - Government procurement
 - E-commerce
 - Competition
 - Investment
 - IPRs
- Need to fully assess policy space we have and how we safeguard it.
- Implementation of the TFA – there is big push for implementation of the single-window that is best endeavor provision.



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BREXIT



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Implication of Brexit

- United Kingdom (UK) was 8th largest trading partner of SA in 2015.
- South Africa's export to the UK was R41 Billion and imports was R35 billion.
- The UK is and will remain an important trading partner for South Africa.
- Currently, Article 50 of the Lisbon Treaty that will start negotiations for the UK exit from the EU has not been triggered. Unlikely that will be triggered before later next year.
- The EPAs will provisionally enter into force for the UK and stay in force until UK has completed its exit from the EU.
- The dti are engaging the UK on the implications on trade when UK leaves EU and how to address it.

Conclusion



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Conclusion

- Consultations- NEDLAC, ATF, IDD, Export Councils (line by line)
- Key priorities
 - Rest of Africa
 - South-South
 - Consolidate market access in the North
 - Safeguard policy space
- Strategies
 - Awareness campaigns for the trade agreements – NEDLAC and Export Councils
 - Development of exporters' guide (AGOA, EPA and Mercosur)
 - Alignment between DAFF and **the dti** on key priority markets on agriculture



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