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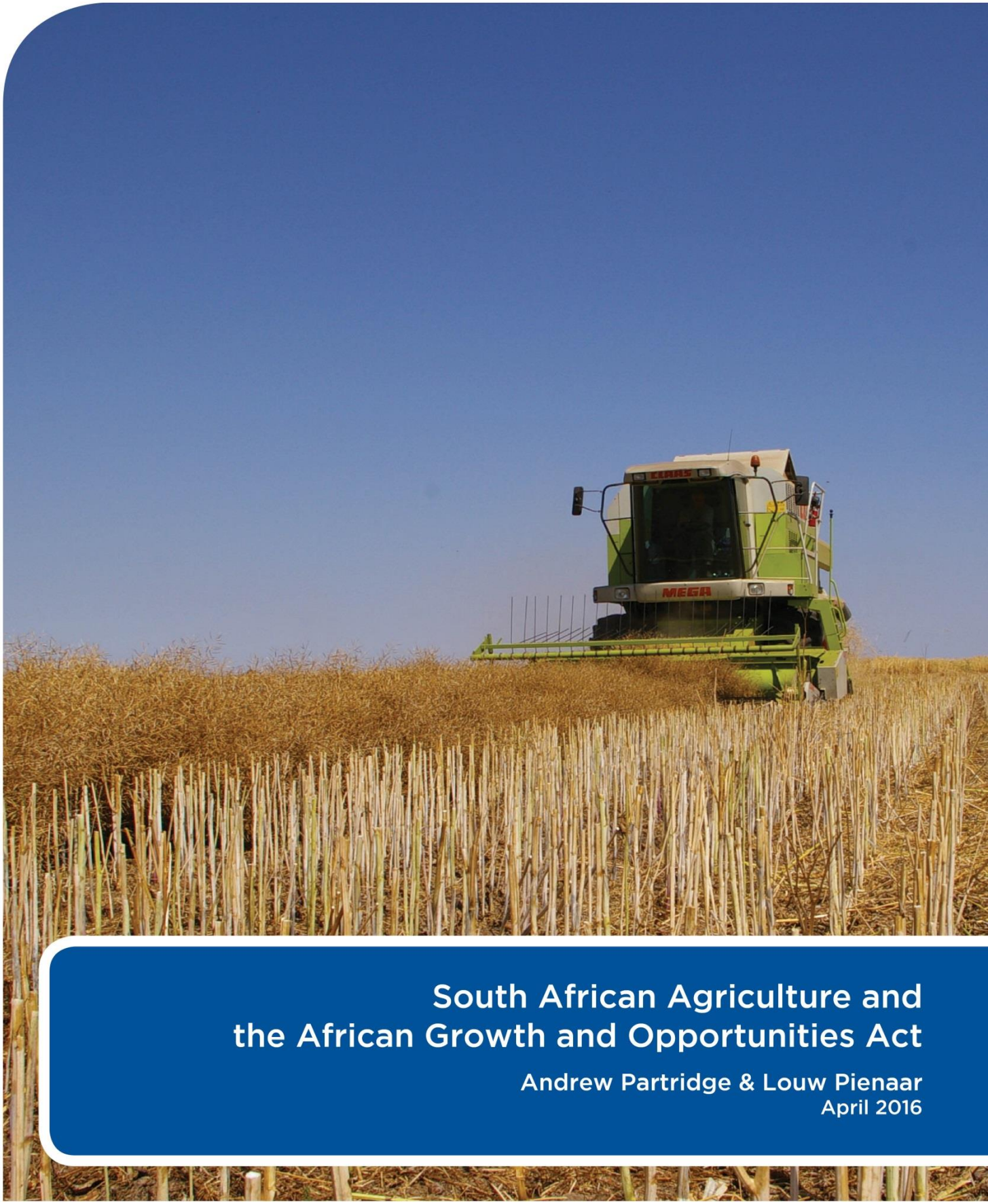

South African Agriculture and the African Growth and Opportunities Act

Andrew Partridge & Louw Pienaar

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Contents

Acknowledgements

The authors would like to acknowledge the contribution of Dr Dirk Troskie (Director: Business Planning and Strategy, Western Cape Department of Agriculture) in providing guidance and advice in the drafting of this report

Executive Summary

South Africa and the United States of America (USA) have enjoyed a fruitful trading relationship in recent decades. Between 1990 and 2000 trade between the two countries increased significantly following the end of apartheid in South Africa in the early 1990s and the subsequent removal of USA sanctions against SA trade under the Comprehensive Apartheid Act of 1986. In 2000 USA introduced the African Growth and Opportunity Act (AGOA), giving Sub-Saharan African countries duty free access into USA for a set list of 6400 products. Since 2000 South African exports have benefited as evident by an increase in total exports significantly in excess of the rate of inflation. However it is also worth noting that there has also been significant growth in USA's imports into South Africa as USA firms have benefited from increased access to the growing economy.

AGOA was initially intended for the time period 2000 to 2008, but was later extended to 2015. In 2015 it was decided to extend AGOA by an additional 10 years to 2025. Up until 2015 South Africa has qualified for AGOA benefits, however the country's future eligibility has been cast into doubt with the introduction in the AGOA renewal of an allowance to conduct a special review to determine whether beneficiaries should continue to be included in the list of AGOA-eligible countries. This process has resulted in USA demanding certain concessions by South Africa in order to continue benefiting from AGOA. Such concessions include the removal of anti-dumping duties and health and safety regulations which prevent certain USA imports into South Africa.

In 2014 South Africa exported 264 different agricultural products to USA. Although 661 agricultural products are eligible to receive duty-free access under AGOA, South Africa is currently only utilising 44 of these which make up 56% of South Africa's agricultural exports to USA markets. Based on 2014 trade flows, the total additional cost which South Africa would face were it to lose duty free access for these products, would stand at R52 million per annum. Trade in edible ice was the biggest contributor to this total due to a 17% tariff on a product with considerable USA exports. Other big contributions come from oranges, citrus juice and pears.

When USA agricultural exports are viewed through the lens of total world exports, the additional cost of the tariff resulting from the loss of AGOA benefits is relatively small. Thus at the economy-level changes are quite marginal. That said, in an increasingly challenging environment for agricultural producers, a predicted decline in economic activity as a result of losing AGOA benefits should be cause for concern. Just looking at the impact of the extra tariffs on agricultural products,

this is estimated to lead to an economic loss of more than R40 million of South Africa's Gross Domestic Product. Whilst primary agricultural activity is expected to contract, there will be even more pressure on processed agricultural production further downstream in the country's agricultural value chains. Once the total overall impact of losing AGOA benefits on agricultural exports is considered, the hardest hit sector will be the beverages and tobacco sector.

The following policy recommendations are proposed in light of the findings in this report:

- A call for more research into the implications of not conceding to USA's demands, particularly in terms of opening up South Africa's borders to USA meat imports.
- Search for new non-traditional markets to penetrate in order to expand and diversify agricultural exports.
- Build on research into identifying agri processing production which will yield the greatest marginal ("bang for your buck") benefits in terms of economic growth and employment.
- Support industries which are important to the competitiveness of agri processing production such as glass production, plastics and paper.
- Look to reduce the costs associated with moving goods between the different stages of production along agricultural value chains.

1

Understanding AGOA in the South African Context

Author: ***Louw Pienaar***

Introduction

In the latter part of 2015, renewed emphasis was placed on the trade relationship between South Africa and the United States of America (USA). This was mainly due to the fact that the African Growth and Opportunity Act (AGOA) was to be renewed and extended for the next ten years. The Act enables greater trade and economic development by offering preferential market access for eligible African countries into USA. Up until 2015 South Africa has qualified for AGOA benefits, however the country's future eligibility has been cast into doubt with the allowance in the AGOA renewal to conduct a special review to determine whether the current beneficiaries should continue to be included in the list of AGOA-eligible countries. In the process, South Africa's inclusion as a beneficiary of AGOA has come into question from USA as they have noted several impediments hindering market access for their imports into South Africa. South Africa has repeatedly justified they're actions, for example citing legitimate health concerns for certain products entering the market from USA. These conflicting views have translated into USA threatening to exclude South Africa in the AGOA renewal process and also to uphold tariff preferences on all agricultural goods until the matter is resolved.

USA is an important trade partner for several South African agricultural products, while USA has particular interests in the South African meat market. It is therefore imperative that the current negotiations enforce mutual benefit, whilst also resolving some of the grievances from both sides. The majority of these issues have apparently been resolved and South Africa is awaiting the final confirmation that all AGOA trade preferences are restored. However, it is still necessary to start planning for a possible AGOA exclusion in the short term, whilst also in the longer term look at post-AGOA trade relations between the two countries. To do this, it is essential to better understand the current trade environment and to have a concrete bearing on how trade agreements impact on the South African economy.

To date, most of the analysis on the impact of AGOA on the South African economy has failed to measure its impact in isolation to other Preferential Tariff Agreements (PTA) and has not specified the wider economic impacts in a sufficient level of detail. The aim of this report by the Western

Cape Department of Agriculture is therefore to understand the impact of AGOA on agricultural trade, whilst at the same time set out to measure the impact of a possible exclusion from AGOA on both exports and other macroeconomic variables.

It should be made clear from the outset that AGOA is important to the agricultural sector in South Africa and particularly the Western Cape, which exports many products to USA. Extending South Africa's beneficiary status under AGOA for the next 10 years is important for the sector. Particularly in light of the current macro-economic environment which will briefly be highlighted, AGOA exclusion will place increased pressure on the South African economy. It is therefore important to understand where the pressure will come from in the possible scenario where South Africa is excluded from the list of counties eligible to receive AGOA benefits.

The South African economy is currently under great pressure due to domestic and global economic factors impacting its current growth trajectory. Indeed, the International Monetary Fund (IMF) adjusted its Gross Domestic Product (GDP) growth rate forecast for South Africa for 2016 by half from the initial 1.3% to 0.7% (IMF, 2016). The current downward cycle of low commodity prices, coupled with the slower growth in China, a market South Africa has become dependent on for mineral exports, has put increased pressure on the South African economy. Furthermore, the current monetary policies of USA and other advanced economies toward higher interest rates are also impacting growth in the global economy (IMF, 2016).

Domestically, the South African economy needs to grow at a sufficient pace to create employment, alleviate poverty and to secure food security (NPC, 2011). The country is currently facing a severe drought in many parts of the country's main production areas (BFAP, 2016). Furthermore, the exchange rate volatility in recent months, and the continued weak performance in export growth since 2010 exacerbates the downward pressure on economic growth (Anand, et al., 2016). In light of these factors, losing AGOA preferences for agricultural exports to USA will have an additional negative impact on local producers, exporters and the wider economy. This report seeks to investigate these impacts in 5 chapters.

Chapter 1 gives some context to AGOA as it relates to South Africa, highlighting the main factors influencing the current negotiations taking place. This will enable greater understanding of the pertinent challenges faced by South Africa in terms of its economic participation with USA. Chapter 2 of this report will then give a brief synopsis of South Africa's trade with USA from 1990-2014. This will provide a background of the bi-lateral relationship that currently exists between the two trading partners with particular emphasis on agricultural products. Chapter 3 will specifically analyse tariff preferences under AGOA and seek to calculate the cost to the agricultural industry if South Africa is excluded from the agreement. Furthermore, Chapter 3 will also look at the relative tariff rates faced by the closest competitors in the USA market to get a sense of losses in competitiveness

without tariff preferences. Finally, Chapter 4 will look at the economy-wide impact of losing AGOA benefits on agricultural products by utilising a Computable General Equilibrium (CGE) model for South Africa. The final chapter will end off by giving some key policy recommendations to come from the analysis.

About AGOA

Since its introduction, AGOA has marked a significant and fundamental shift in USA's policy towards African countries, away from emergency relief and poverty alleviation towards more economic development and trade (Nauman, 2015). AGOA grants preferential market access to beneficiary African (Sub-Saharan) countries on a non-reciprocal basis with only a set of eligibility criteria as decided upon by USA. In return, these beneficiaries are committed to improve their economic policy environment, participate in globalisation, promote political and economic stability and foster human rights (Nouve & Staatz, 2003). The AGOA trade preferences are exclusive to eligible African countries in addition to the already existing General Scheme of Preferences (GSP) to developing countries which also allows for lowered tariff preferences for certain products.

Product eligibility under AGOA, whilst extensive, only covers a finite number of products. This eligibility is based on the list of GSP eligibility products (which includes 5 000 products), while another 2 000 products have been added under AGOA legislation (Nauman, 2015). AGOA benefits translate into two distinct provisions to the included countries. First, these countries are able to export certain products to USA duty-free and quota-free, additional to the preferential treatment of the GSP. This provision provides more predictability and certainty over a longer period that distinguishes AGOA benefits beyond the GSP. Second, AGOA makes provision for countries to export apparel and textiles to USA duty-free, specified by a special rule known as the Preferential Rules of Origin (RoO) (Cook & Jones, 2015). The literature suggests that this provision for apparel and textiles has contributed to significant export diversification and expansion between AGOA beneficiaries and USA. However, in the case of being a beneficiary country, exporters are still required to comply with USA's technical as well as sanitary and phyto-sanitary requirements (DAFF, 2009). It is these measures which can often limit obvious opportunities for agricultural trade to expand under the current AGOA arrangement.

Turning the attention solely to agricultural products, it is clear that South Africa has benefitted from the agreement since its introduction in 2000. South Africa is currently one of 40 other beneficiary countries and is, amongst these, the biggest exporter of agricultural products to USA (ITC, 2016). South Africa is also an important destination market for agricultural exports from USA, particularly for certain meat products such as poultry. The next section will elaborate further on the current process

of renewing South Africa's eligibility for AGOA and, most importantly, explain the main reasons behind the current hindrances with regards to agricultural trade between the two countries.

The Trade War

After the first 15 years of trade under AGOA, the legislation needed to be extended and passed by USA Congress. In the process South Africa's inclusion in the Act for the next 10 years was put under review and there was much debate on whether South Africa should remain a beneficiary of AGOA preferences. Since the start of AGOA, South Africa has been treated slightly differently from other beneficiary countries, mainly by being one of a very few that were excluded from the flexible RoO rule of apparel (Nauman, 2015). South Africa stands out as the largest beneficiary of AGOA preferences considering the utilisation rates for products (excluding oil) and has consistently been in the top three AGOA exporters. Furthermore, South Africa has by far the most diverse export portfolio among all beneficiaries and is also the most industrialised of all members (Nauman, 2015). Thus, some argue that South Africa is not in need of the goodwill arrangement AGOA provides. Lastly, failed negotiations for a Free Trade Agreement between the South Africa Customs Union (SACU) and USA for bilateral and reciprocal trade have heightened the ongoing tensions.

On the other side of the argument, South African exporters are believed to be the most reliable suppliers of goods to USA importers, offering greater value propositions compared to other beneficiary countries. Furthermore, the perception in South Africa is that bilateral trade should continue for the next 10 years under the AGOA renewal and even that certain additional products be included under the agreement (Davies, 2015). The main argument for continued participation under AGOA from the South African perspective is that bilateral trade between the two countries benefits both equally.

Regardless of the abovementioned opposing sides of the argument, the trade war was mainly sparked by what has become known as the "chicken caucus" in USA Congress (Nauman, 2015). At the heart of the matter lie the fundamentally different local markets for chicken and the specific preference of different cuts. Demand for bone-in chicken or so-called "brown" meat in USA is very low due to consumer's pronounced preference for the more highly priced "white" meat (such as chicken breast). The demand for bone-in chicken like drumstick and even chicken head and feet is significant in South Africa, which USA exporters clearly want to utilise. The concern from South Africa regarding imports from USA at such low prices which undercuts prices in South Africa resulted in a plea to the World Trade Organisation (WTO) in 2001 to authorise South Africa to impose anti-dumping duties on USA imports of bone-in chicken. Without delving into too many details, USA contends that South Africa protects its domestic poultry sector on a very questionable basis, in the way they measure these costs. As a result of the anti-dumping status of USA bone-in chicken

imports it attracts a standard 37% duty and on top of that, a special duty of R9.80 per kilogram (Nauman, 2015).

Fast track to 2015 and the ongoing tensions on USA chicken imports into South Africa has been escalated by hardened stances from both interest groups in each country. With South Africa's AGOA inclusion for the next term in review, strong interests in Congress have sought to resolve the dispute on the trade of chicken, threatening to exclude South Africa from renewal of AGOA benefits. Senators Johnny Isakson (Georgia) and Chris Coons (Delaware), representing States with strong agricultural interests (including chicken farming), were driving USA interests (Nauman, 2015). Negotiations, led by Ambassador Faizel Ismail from the South African side, have resulted in South Africa allowing an annual quota of 65 000 tons of bone-in chicken to be exempted from the anti-dumping measures currently in place. The settlement was reached in June 2015 and will only be administered if South Africa remains an AGOA beneficiary (ARC, 2015). This arrangement and various other matters were discussed and resolved in a meeting in Paris in June 2015. These matters include a Trade Protocol to ensure poultry exports from areas in USA free from avian influenza are permitted, the lifting of a ban on boned beef which had Bovine Spongiform Encephalopathy (BSE) and technical advances in ensuring the safe trade of pork without three specific diseases (Davies, 2016).

In what has followed since the Paris agreement, several outstanding issues have been highlighted by USA. The first came in a letter to President Zuma from the two Senators on 11 September 2015 which highlighted a lack of progress in administrating the quota on chicken imports, the current ban on USA chicken imports due to avian influenza and a failure to give any export certification for final adoption of the agreement. On the basis of such lack of progress, President Obama officially notified the South African government that he intends to suspend duty-free access for agricultural products under AGOA and gave the country 60 days to eliminate the remaining barriers to trade of USA poultry, beef and pork. In response to this, the South African Minister of Trade and Industry, Rob Davies, announced on 6 January 2016 that all remaining health issues to the imports of USA meat were resolved and that he expected South Africa to regain all AGOA preferences. However, President Obama subsequently made a proclamation on 11 January 2016 in which he gave South Africa until 15 March 2016 to comply with the existing trade barriers or lose the country's tariff preferences under AGOA for all agricultural products (Vollgraaff & Mokhema, 2016). It appears that USA's latest position is that until they will only reinstate the full arrangements under AGOA when the first USA meats enter the South African market.

Conclusion

This chapter has provided important information regarding the current complexities of the AGOA negotiation between USA and South Africa. It is important given the prevailing economic conditions in South Africa that trade with USA, in particular for agricultural goods, are not impeded. The challenge that confronts key role players in South Africa is to navigate through the complex political and economic processes that will determine whether or not the country remains an AGOA beneficiary for the next term.

This chapter sets the scene for the next chapters which further discuss and analyse the importance of AGOA on agricultural trade with USA and to measure the economic impact in the possible scenario where South Africa loses preferential tariff preferences under AGOA.

2

South Africa's Agricultural Trade with the United States of America, 1990-2014

Author: ***Andrew Partridge***

Introduction

This report provides a brief synopsis of South Africa's trade with USA. The report is in response to South Africa's eligibility being questioned under AGOA, a programme under which South Africa has benefited from preferential access into USA for the export of certain products since 2000. It begins by looking at general trends from 1990 to 2014 before focusing on agricultural trade and focusing in on key agricultural exports from South Africa to USA and imports into South Africa from USA.

General Trade Trends

South Africa's trade with USA has been increasing significantly since the 1990's. Figure 2.1 below shows the value of South Africa's exports to, and imports from USA from 1990 to 2014, along with bars showing the resulting trade balance for each year, all in real 2014 South African Rand prices[1]. Generally exports to USA have moved with imports from USA, with the consequence being a consistently small trade balance. However the trade balance has exhibited an upward trend since the 1990s, when it was mostly negative, towards the late 2000's onwards where it is generally positive, despite falling to very close to zero in recent years. In 2014 South African exports to USA totalled approximately R68 billion, compared to R71 billion imports from USA and resulting in a trade deficit of approximately R4 billion.

Whilst there was evidence of significant increases in exports from South Africa to USA following the signing of AGOA in 2000, this upward trend was already in motion before AGOA, as evident from the significant increase in exports from South Africa to USA which took place between 1990 and 2000. However, it has only been since the signing of AGOA in 2000 that South Africa has been able to achieve a positive trade balance with USA. Between 2000 and 2014 South Africa had a positive trade balance with USA for ten out of the fifteen years.

[1] Nominal prices converted to real prices using the International Monetary Fund's annual average consumer price indices: (IMF, 2015)

A key contributor to the growth in trade from South Africa to USA leading up to 2000 was the removal of sanctions under the Comprehensive Apartheid Act of 1986, which prior to the end of apartheid in 1994 prohibited "loans to, investments in, and certain other activities with respect to, South Africa, and for other purposes" (US Congress, 1986, p. 1). The Act, passed only after the United States Senate overrode a veto by the Regan Administration, was the culmination of pressure from civil society and international organisations such as the United Nations (UN), and looked to pressure the South African government into ending apartheid through numerous measures and sanctions including the prohibition of certain key imports from South Africa into USA, as well as prohibiting the exporting of certain key products from USA to South Africa (Miljak, 1988; Levy, 1999).

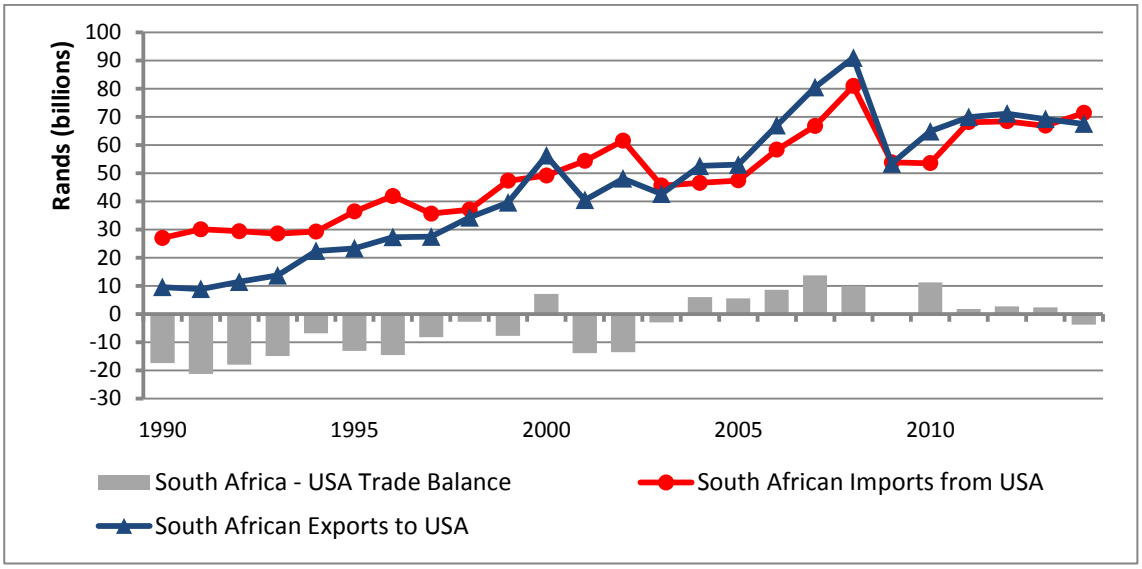

Figure 2.1: Real Trade Flows between South Africa and USA (constant 2014 prices), 1990-2014
Data Source: (Quantec, 2015)

After AGOA was signed in 2000, there was an initial drop in exports from South Africa to USA, but there was then a sharp increase between 2003 and 2008 in both exports to and imports from USA. The impact of the global recession is evident from the sharp drop in trade between South Africa and USA between 2008 and 2009. For the first years after 2009 there are signs of recovery, from 2009 to 2014 exports from South Africa to USA grew at an average rate of 5% per annum, imports into South Africa from USA have grown at an average annual growth rate of 6% over the same period. Going back to the pre-AGOA period, between 1990 and 2000 exports from South Africa to USA increased at an average annual rate of 19%, then between 2000 and 2014 average growth slowed to 1% per annum. Imports from USA increased at 6% per annum between 1990 and 2000, then at 3% per annum to 2014.

Figure 2.2 shows the main products, in terms of value, exported from South Africa to USA in 2014. Products of iron and steel (HS72-83); vehicles, aircraft and vessels (HS86-89); and precious metals (HS71); together made up 61% of the R68 billion worth of exports from South Africa to USA. The main contributor to iron and steel exports in 2014 was ferro-alloys (HS7202, 47%), with significant exports

also of aluminium plates, sheets and strips (HS7606, 13%); and pig iron and spiegeleisen (HS7201, 10%). Most exports under "vehicles, aircraft and vessels" was made up of motor cars (HS8703, 89%), whilst "precious minerals" consisted mainly of exports of platinum (HS7110, 85%). Within the R11 billion (17%) of "other exports" are included significant flows of agricultural and agri processing (hereafter referred to simply as "agricultural") products. Specifically R1.3 billion (12%) prepared foodstuffs (HS16-24), R1.2 billion (11%) fruit and vegetables (HS06-14) and R0.4 billion (3%) meat and live animals (HS01-05).

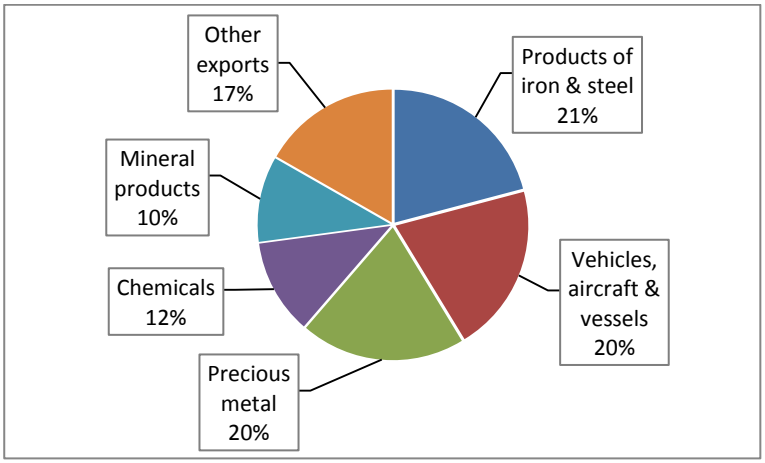

Figure 2.2: Main Exports from South Africa to USA, 2014
Data Source: (Quantec, 2015)

Figure 2.3 shows the main products in terms of value imported into South Africa from USA in 2014. Machinery (HS84-85) made up almost a third of all imports from USA, together with vehicles, aircraft and vessels (HS86-89) making up 54% of the total. Within the R13 billion (19%) of "other exports" are included R1.3 billion (10%) prepared foodstuffs (HS16-24), R0.9 billion (7%) fruit and vegetables (HS06-14) and R0.4 billion (3%) meat and live animals (HS01-05). Thus at these broad levels of product groupings there appear to be very similar trade happening in both directions between South Africa and USA, particularly with regards to agricultural products.

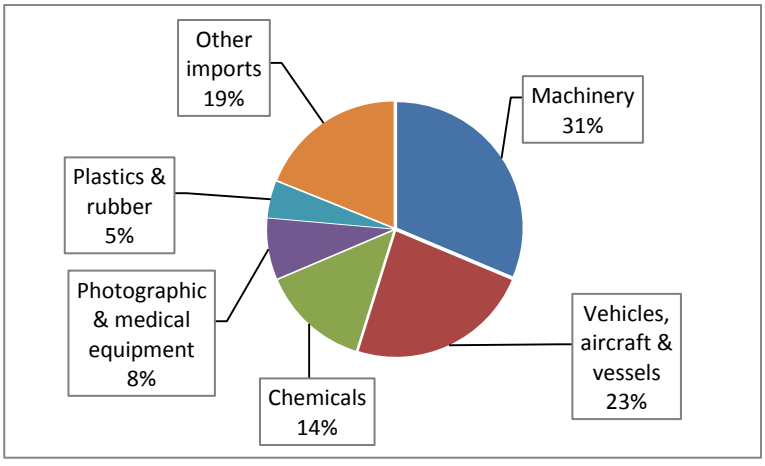

Figure 2.3: Main Imports into South Africa from USA, 2014
Data Source: (Quantec, 2015)

USA is an important export market for South Africa, making up 7% of the value of total exports in 2014. This can be seen in Figure 2.4 which shows South Africa's exports to USA as a percentage of total exports, as well as South Africa's imports from USA as a percentage of total imports. Whilst the share of exports from South Africa going to USA rose significantly between 1990 and 2000, the share has fallen since the signing of AGOA in 2000. In particular the share fell significantly from 2007 to 2014 as South Africa needed to seek out alternative export markets after growth in demand in historically more traditional markets, such as USA and the European Union, has slowed down. For example, between 2008 and 2011 real imports into USA from the rest of the world fell on average by more than 8% per annum (ITC, 2015). Whilst there was a clear rise observed in USA imports into South Africa between 1990 and 2014 (see Figure 2.1), the USA share in South Africa's market has fallen from almost 12% in 1990 to below 7% in 2014.

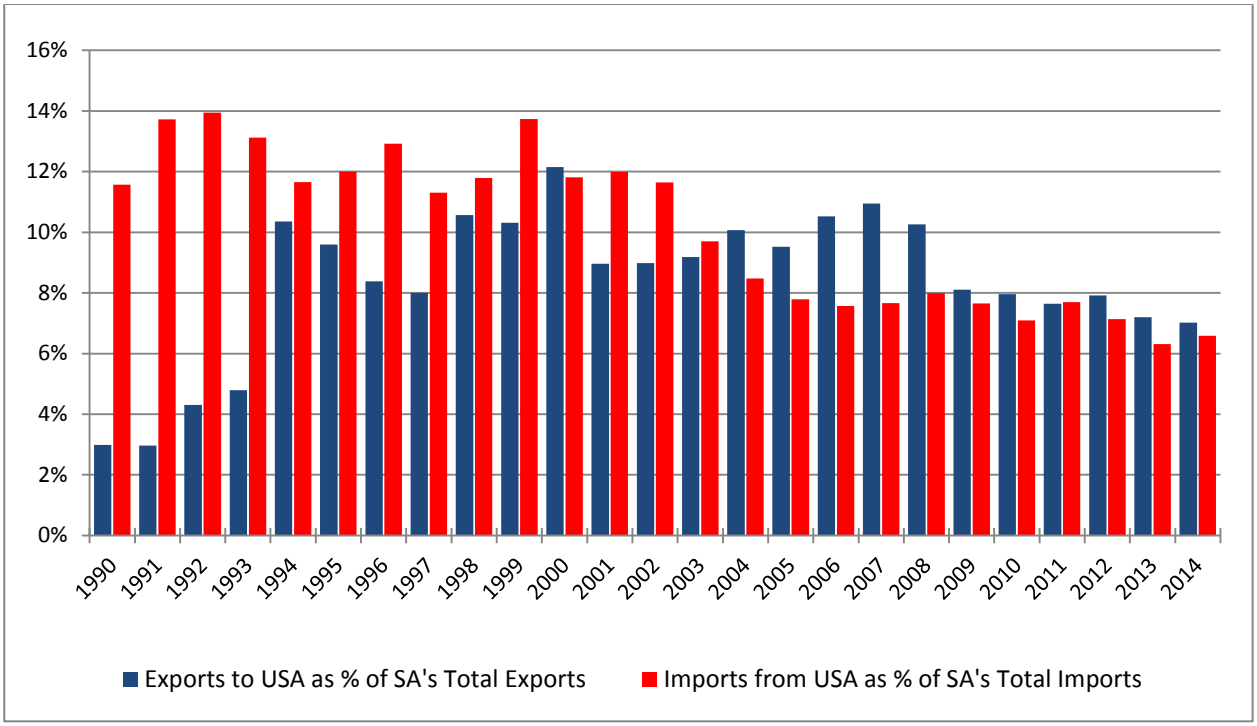

Figure 2.4: South Africa's Trade with USA in relation to Total Trade, 1990-2014
Data Source: (Quantec, 2015)

Whilst South African exports to USA and South African imports from USA are of similar magnitudes (Figure 2.1), due to USA's substantially higher total trade flows South Africa is less significant to USA as a trading partner than USA is to South Africa. This is illustrated in Figure 2.5 which shows USA exports to South Africa as a percentage of USA's total exports and USA imports from South Africa as a percentage of USA's total imports. Between 2001 and 2014 exports to South Africa made up only between 0.36% and 0.50% of USA's total exports. Similarly imports from South Africa made up only between 0.35% and 0.47% of USA's total imports over the same period.

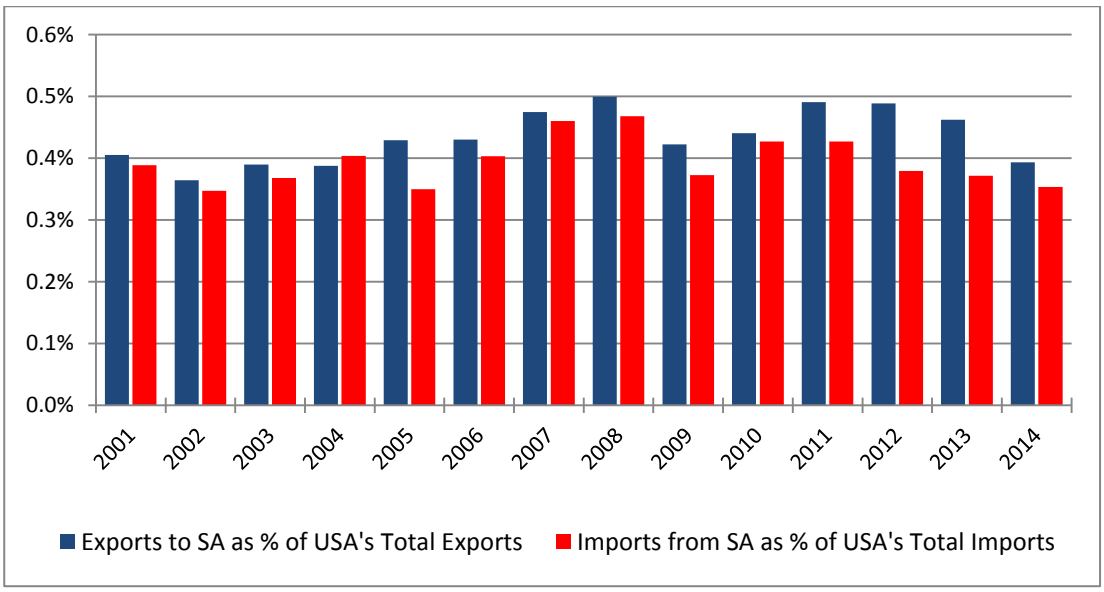

Figure 2.5: USA's Trade with South Africa in relation to Total Trade, 2001-2014
Data Source: (ITC, 2015)

Despite clear differences from a relative importance point of view, trade between South Africa and USA is a balanced relationship. The USA provides a significant market for South African exporters, in turn South Africa provides demand for USA imports which has grown with exports for both the period following the gradual lifting of sanctions and also as South Africa has benefited from preferential access under AGOS since 2000.

Agricultural Trade between South Africa and USA

Agricultural trade during the period under which South Africa has been able to trade under AGOA, 2000-2014, has remained relatively stable in real terms. This is illustrated in Figure 2.6 which shows South Africa's exports to and imports from USA, as well as the resulting trade balance, for all agricultural products (HS01-24; 51-53) in real 2014 Rand values. In the early 1990s there was a substantial trade deficit, however with the removal of the trade barriers set out in the Comprehensive Apartheid Act of 1986 came a steady rise in agricultural exports from South Africa to USA between the mid 1990's and 2000. Whilst there are clear advantages to AGOA, agricultural exports in real terms under AGOA have not grown much; in fact both agricultural exports from South Africa to USA and imports into South Africa from USA remained relatively flat between 2000 and 2014. In 2014 agricultural exports from South Africa to USA totalled R2.95 billion, agricultural imports into South Africa from USA totalled R2.74 billion, resulting in an agricultural trade surplus of R0.21 billion.

Looking at average annual growth rates, between 1990 and 2000 agricultural exports from South Africa to USA increased at an average rate of 35% per annum in real terms (the "lifting of sanctions

effect"). Between 2000 and 2014 annual growth was only 2% (the "AGOA effect"). Imports into South Africa from USA grew at a real annual rate of 5% between 1990 and 2000, slowing to 1% per annum between 2000 and 2014. The exceptionally fast growth in exports between 1990 and 2000 led to a convergence between agricultural exports from South Africa to USA and agricultural imports into South Africa from USA. This convergence deteriorated the agricultural trade deficit present in the early 1990's and the similar growth in both flows between 2000 and 2014 meant a trade balance which fluctuated around zero.

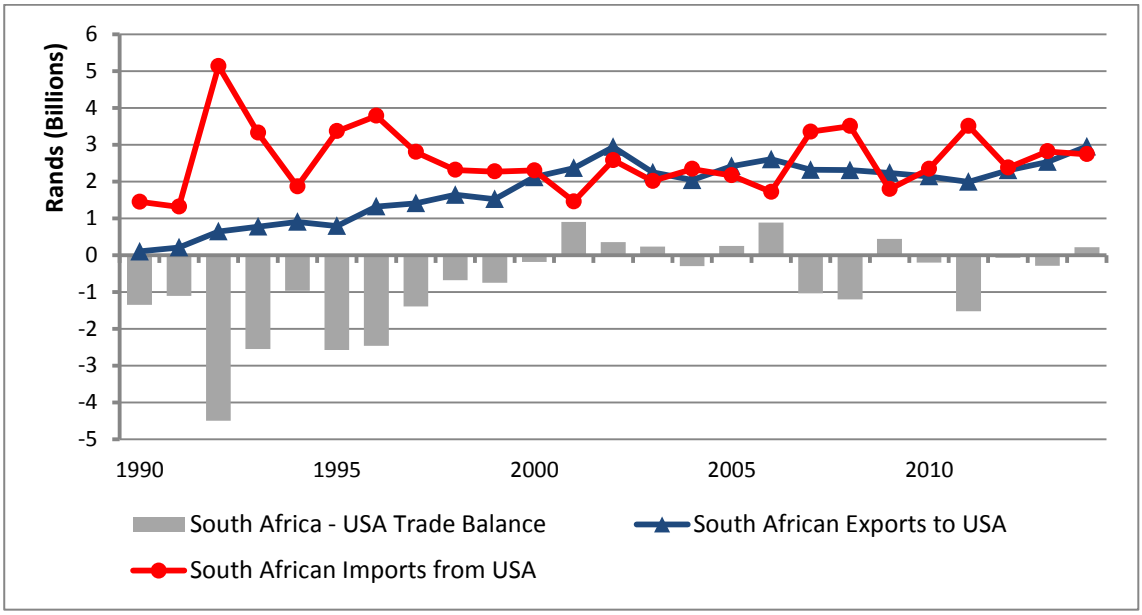

Figure 2.6: Real Agricultural Trade Flows between South Africa and USA (constant 2014 prices), 1990-2014

Data Source: (Quantec, 2015)

Under broad agricultural groupings[2], shown in Figure 2.7, the biggest contribution to agricultural exports from South Africa to USA over the period under which AGOA has been active has been from prepared foodstuffs, making up 44% of the total in 2014. Over this period, however, there was rapid growth in exports of fruit and vegetables which also increased relative to total exports from a share of 28% in 2000 to 42% in 2014. Exports of meat and live animals exhibited an initial sharp increase after 2000 but then began to fall after 2002 until only recently showing signs of recovery.

Imports of fruit and vegetables from USA into South Africa have been extremely volatile between 1990 and 2014. This is illustrated in Figure 2.8 which breaks down agricultural imports into South Africa from USA using broad product classifications as was done in Figure 2.7. The high volatility resulted in particularly high imports of fruit and vegetables from USA in the early 1990's. So much so that the y axis in Figure 2.8 had to be cut off in order to make the other lines more visible due to imports valuing R4.5 billion, R2.8 billion and R2.4 billion in real 2014 prices in 1992, 1993 and 1995 respectively. Imports into South Africa of prepared foodstuffs have been rising steadily from the

[2] See the next sub-section, "Agricultural Products Exported from South Africa to USA", for a breakdown of the specific products

early 1900's until present times. For the past 3 years (2012, 2013 and 2014), prepared foodstuffs was the biggest contributor to agricultural imports into South Africa from USA, making up 49% of the total in 2014. Fruit and vegetable imports were 34% of total agricultural imports for the same year.

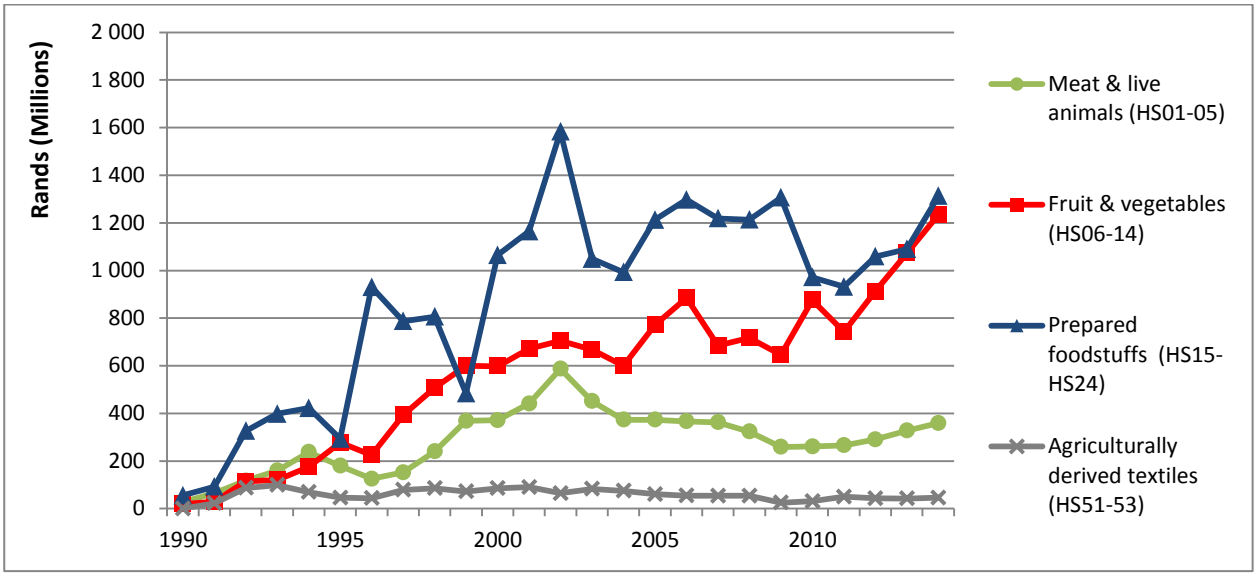

Figure 2.7: Real Agricultural Exports from South Africa to USA by Broad Product Groups (constant 2014 prices), 1990-2014

Data Source: (Quantec, 2015)

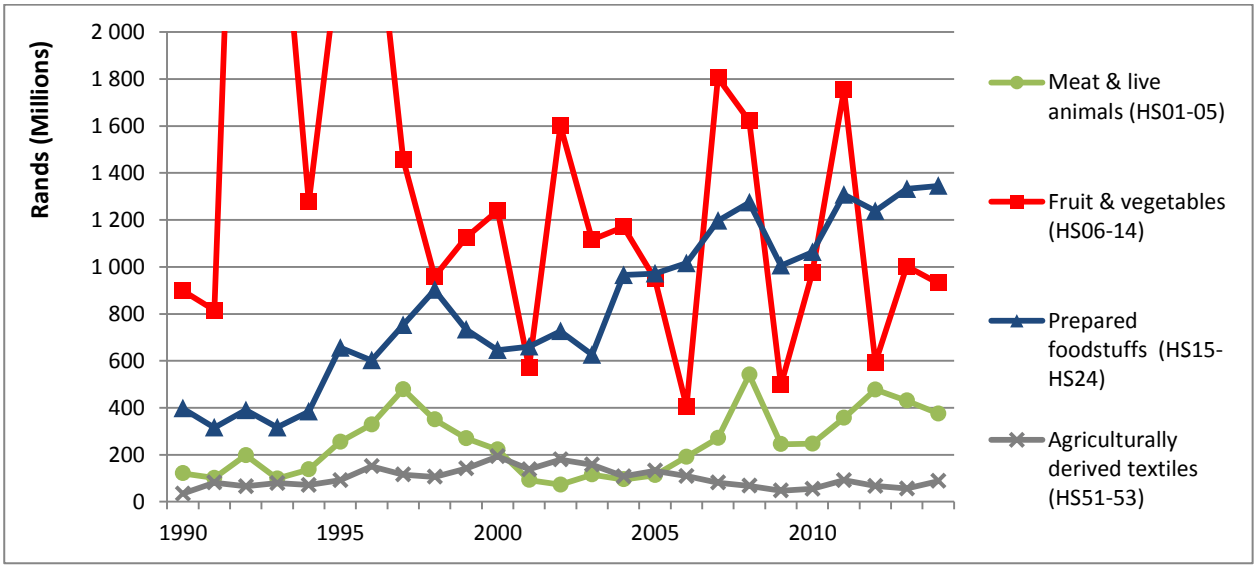

Figure 2.8: Real Agricultural Imports* into South Africa from USA by Broad Product Groups (constant 2014 prices), 1990-2014

note: The y-axis is cut off at R2 billion to make the other series more visible after fruit and vegetable imports from USA rose to R4.5 billion, R2.8 billion and R2.4 billion in real 2014 prices in 1992, 1993 and 1995 respectively

Data Source: (Quantec, 2015)

To gain a better understanding of agricultural trade between South Africa and USA, the next two sections look at specific agricultural products traded, beginning with South Africa exports and then moving on to South Africa imports from USA.

Agricultural Products Exported from South Africa to USA

Looking deeper at the product level reveals some strong shifts in the composition of agricultural exports from South Africa to USA. First between 1990 and 2000 following the gradual lifting of economic sanctions that had been put into place in an attempt to apply pressure to help end the rule of South Africa's apartheid government which was in rule prior to 1994 (Miljak, 1988; Levy, 1999). Then also following this between 2000 and 2014, when certain products were able to qualify for preferential trade access into USA through AGOA. Table 2.1 breaks South Africa's 2014 agricultural exports down at the HS 2-digit level, including the share in the total for each group for 1990, 2000 and 2014, as well as the average annual growth between each year and over the entire 24 year period.

In 1990, only 1% of South Africa's agricultural exports to USA were fruit and nuts (HS 08). By 2000 this had risen to 19.9%, by 2014 it was 32.5%. This was mainly made up of 2 specific products. Shelled macadamia nuts (HS080262) to the USA in 2014 totalled R436 million, making up a significant 15% of total agricultural exports. The other product was oranges (HS080510), where exports reached R304 million, 10% of total agricultural exports. Growth in exports of fruits and nuts was extremely high between 1990 and 2000, growing at approximately 83% per annum. It is expected to find such high growth rates for certain products over this period due to a very low base due to the economic sanctions already discussed in this paper. Between 2000 and 2014 there was significant growth in exports of fruit and nuts, the main two products in this regard, shelled macadamia nuts and oranges, grew at average annual rates of 11%[3] and 15% in real terms respectively.

Beverages (HS22) experienced growth in a similar manner to fruits and nuts. The main beverage exported from South Africa and USA is non-sparkling wine in containers of two litres or less (HS220421), in 2014 accounting for R405 million worth of exports to contribute 14% to total agricultural exports from South Africa to USA. Real growth in wine exports to the USA between 2000 and 2014 was 8%, higher than average growth experienced by all products classified as "beverages, spirits and vinegar" (HS22).

The poor real growth in exports of fish and crustaceans (HS03) between 2000 and 2014 masks impressive growth in exports to the USA of sea crawfish (HS 030611). Exports of sea crawfish made up only 4% of South Africa's exports of fish and crustaceans in 2000. Since then exports grew at 22% in real value terms to reach R224 million in 2014, 68% of the country's total fish and crustacean exports to USA and 8% of total agricultural exports. The poor growth for all fish and crustaceans comes mainly from a decline in exports of frozen fish fillets, making up 51% of sea and crustacean exports in 2000 but since declined until 2011 where after it was not exported at all.

[3] For the dataset used, there was no distinction between shelled and unshelled macadamia nuts for 2000, thus total macadamia nut exports are used. If the same is done for 2014 (i.e. take the sum of HS 080262 and HS 080261), the growth rate increases to 12%

Table 2.1: South African Agricultural Exports to USA, Ordered at the HS02 level by Share in 2014

Product (HS2)	Value (Rand)	Share in Agricultural Exports			Real Annual Growth		
	2014	1990	2000	2014	1990 - 2000	2000 - 2014	1990 - 2014
H08: Fruit and nuts	960 988 567	1.0%	19.9%	32.5%	82.9%	6.1%	33.1%
H22: Beverages, spirits and vinegar	612 096 860	0.7%	15.8%	20.7%	84.6%	4.4%	32.4%
H03: Fish and crustaceans	330 216 635	10.4%	15.3%	11.2%	40.8%	0.1%	15.4%
H17: Sugars and sugar confectionery	280 700 056	48.4%	14.6%	9.5%	20.1%	-0.7%	7.5%
H20: Prepared vegetables, fruit and nuts	269 649 602	0.1%	18.0%	9.1%	121.7%	-2.4%	37.4%
H12: Oil seeds and oleaginous fruits	171 715 250	0.0%	4.4%	5.8%	128.1%	4.4%	44.6%
H21: Miscellaneous edible preparations	137 606 375	0.3%	0.2%	4.7%	32.4%	26.4%	28.9%
H09: Coffee, tea, mate and spices	57 366 436	0.0%	0.6%	1.9%	-	11.4%	-
H51: Wool, fine or coarse animal hair	43 718 303	0.0%	3.6%	1.5%	116.3%	-3.9%	34.8%
H06: Live trees and other plants	29 198 312	16.6%	2.7%	1.0%	12.8%	-4.6%	2.3%
H05: Products of animal origin	19 744 985	10.9%	1.8%	0.7%	12.8%	-4.4%	2.4%
H01: Live animals	9 343 990	5.3%	0.2%	0.3%	-0.4%	4.2%	2.3%
H15: Animal and vegetable fats	8 980 474	3.5%	0.1%	0.3%	-1.4%	7.9%	3.9%
H10: Cereals	7 433 419	0.0%	0.1%	0.3%	-	13.4%	-
H07: Edible vegetables and certain roots and tubers	2 905 351	0.9%	0.1%	0.1%	11.6%	0.4%	5.0%
H11: Wheat, malt and other milled grains	2 800 102	0.0%	0.1%	0.1%	-	-0.7%	-
H18: Cocoa and cocoa preparations	2 087 152	0.0%	0.0%	0.1%	-	5.4%	-
H13: Resins and vegetable saps	1 674 543	0.0%	0.2%	0.1%	-	-4.8%	-
H19: Prepared cereals and pastry	1 483 957	0.0%	0.1%	0.1%	-	-1.2%	-
H53: Vegetable textile fibres	1 140 546	0.0%	0.0%	0.0%	-	-	-
H52: Cotton	1 030 781	0.0%	0.4%	0.0%	125.4%	-14.6%	27.9%
H24: Tobacco and manufactured tobacco substitutes	335 504	0.9%	0.7%	0.0%	31.6%	-23.5%	-4.1%
H16: Prepared meat and fish	166 661	0.0%	0.7%	0.0%	-	-27.3%	-
H04: Dairy produce	87 795	0.0%	0.2%	0.0%	74.0%	-25.3%	6.3%
H23: Residues and waste from the food industries	48 454	0.0%	0.0%	0.0%	33.6%	-2.2%	11.3%
H02: Meat and edible meat offal	4 978	0.0%	0.0%	0.0%	-	-10.0%	-
H14: Vegetable plaiting materials	0	0.8%	0.2%	0.0%	16.1%	-100%	-100%

Data Source: (Quantec, 2015)

Exports of sugar and sugar confectionary declined in real terms since the inception of AGOA, however it still remains an important export to USA. This product group consists almost entirely (95% in 2014) of cane sugar, of which R266 million was exported in 2014, making up 9% of total agricultural exports.

There was also a real decline in exports of prepared vegetables, fruit and nuts between 2000 and 2014 after very rapid growth between 1990 and 2000. Fruit juice exports are important products in this group, particularly citrus juice, which grew at 36% per annum in real terms between 2000 and 2014 to reach R96 million in 2014, and apple juice, which fell in real terms by 12% per annum between 2000 and 2014, but still saw R25 million exports in 2014 and together with citrus juice contributed 4% to total agricultural exports. Also canned pears (HS 200840) and canned peaches (HS 200870) together contributed 2% (R51 million) towards total agricultural exports in 2014. Then vegetables prepared in vinegar or acetic (HS 200190) exhibited an average annual increase of 32% per annum between 2000 and 2014 to reach exports of R52 million, 2% of total agricultural exports for 2014.

Asides from the major changes already discussed, there were significant changes in some less significant industries between 1990 and 2014. There was strong growth in exports of oil seeds and oleaginous fruits, particularly from 1990 - 2000 albeit from a very low base. There was also strong performance in both periods reviewed in terms of exports under HS21, "miscellaneous edible preparations", which consists mainly of mixed condiments and seasonings; and ice cream. From 2000 – 2014, the period during which AGOA has been active, there was significant export growth under HS09, "Coffee, tea, and spices" (mainly black peppercorns) and HS10, "Cereals" (mainly miscellaneous unmilled cereals).

With regards to the growth in exports of black peppercorns (HS090411), there is evidence to suggest this is due to re-exports. Specifically the last ten years have seen, in addition to the rise in black peppercorn exports to USA, a sharp rise in South African imports of black peppercorns, particularly from Vietnam. In 2014 the top five import origins for black peppercorns, in order, were Vietnam, Singapore, Malaysia, India and Brazil. Since 2004 imports from these countries grew in real terms at annual rates of 32%, 11%, 8%, 23% and 40% respectively. USA is not the only destination market which has experienced substantial growth in terms of South African black peppercorn exports suggesting this phenomenon is not just a result of producers in other countries trying to benefit from AGOA. The top five export destinations for black peppercorns in 2014, in order, were USA, UK, Australia, Japan and New Zealand. Since 2004[4] exports to these countries grew in real terms at annual rates of 36%, 128%, 49%, 192% and 102% respectively.

Exports of wool (HS51) grew extremely fast between 1990, but fell significantly in absolute and relative terms under the AGOA period. It is also worth noting the large decline in importance of exports to USA of live trees and other plants (HS06); and products of animal origin (HS05), which were both important exports for South Africa to USA in 1990 and grew significantly from 1990 to 2000, albeit slower than total agricultural exports. Products of animal origin includes human hair, animal hair/bristles, animal organs, feather and bird skin products, animal bones, animal horns,

[4] For Japan and New Zealand exports were 0 in 2004 so 9 year annual growth rates were taken from 2005 instead

ivory, antlers, hooves, coral, shells and natural sponges of animal origin, amongst other products. In 1990 South African exports to USA under this category were mainly (87%) of skins and other parts of birds (other than feathers for stuffing). Exports of these products declined rapidly in both absolute and relative terms, to only make 19% of the group in 2014. In 2014 most (55%) exports to USA under this classification were instead bones and horn-cores.

Agricultural Products Imported into South Africa from USA

Agricultural imports into South Africa from USA at the HS 2-digit level are shown in Table 2.2. The biggest import category at this level in 2014 fell under "Miscellaneous edible preparations" (HS21) which totalled R466 million. The majority of these imports were classified as unspecified edible food preparations (HS210690), with imports totalling R305 million in 2014, 11% of all agricultural imports from USA. This is not a recent data anomaly, back in 2000 this category accounted for 9% of agricultural imports.

South African imports from USA under "beverages, spirits and vinegar" (HS22) totalled R357 million in 2014. The main import under this category was whiskey (HS 220830) with imports of R227 million in 2014. This was 8% of agricultural imports from USA in 2014 after impressive growth of 14% per annum in real terms from 2000 when the share was less than 2%. Imports of fruits and nuts (HS02) also exhibited impressive performance between 2000 and 2014, growing at 14% per annum to improve its share in agricultural imports from 2% to 10%. The main imported product in 2014 under HS02, "fruit and nuts", was shelled almonds (HS080212) with imports of R199 million in 2014. This made up 7% of all agricultural imports, an increase from 1% in 2000 after growth averaging 15% per annum over the fourteen year period.

Cereals were a major import from USA in 1990 and 2000, making up 48% and 41% of agricultural imports for each year respectively. Between 2000 and 2014 imports dropped sharply. The biggest contributors to the decline were substantial declines in imports of maize and unmilled rice. Maize (HS100590) imports fell at an average rate of 34% per annum in real terms between 2000 and 2014, with the total share in agricultural imports into South Africa from USA falling from 11% in 2000 to almost 0% in 2014. There was, however, real growth in imports of maize seed (HS100510) in line with agricultural import growth to maintain a share of approximately 4%. Milled rice (HS100630) imports fell at 22% per annum in real terms between 2000 and 2014, with the total share in agricultural imports into South Africa from USA falling from 16% in 2000 to 0.4% in 2014. The major cereal import into South Africa from USA in 2014 was wheat and meslin (HS100199), totalling R141 million. This equalled 5% of total agricultural imports from USA, down from 7% in 2000 after imports declined in real terms by 1% per annum over the 14 year period.

Table 2.2: South African Agricultural Imports from USA, Ordered at the HS02 level by Share in 2014

Product (HS2)	Value (Rand)	Share in Agricultural Exports			Real Annual Growth		
	2014	1990	2000	2014	1990 - 2000	2000 - 2014	1990 - 2014
H21: Miscellaneous edible preparations	466 245 256	3.8%	10.7%	17.0%	16.0%	4.7%	9.2%
H22: Beverages, spirits and vinegar	356 502 761	0.9%	3.0%	13.0%	18.3%	12.5%	14.9%
H10: Cereals	331 694 757	47.5%	41.1%	12.1%	3.2%	-7.2%	-3.0%
H08: Fruit and nuts	262 847 523	2.1%	1.9%	9.6%	3.8%	13.7%	9.5%
H12: Oil seeds and oleaginous fruits	176 340 799	7.8%	6.9%	6.4%	3.5%	0.8%	1.9%
H05: Products of animal origin	155 883 839	3.5%	1.7%	5.7%	-2.4%	10.3%	4.8%
H23: Residues and waste from the food industries	148 048 471	0.6%	4.9%	5.4%	29.1%	2.0%	12.5%
H17: Sugars and sugar confectionery	124 955 586	1.8%	0.8%	4.6%	-3.2%	14.4%	6.7%
H07: Edible vegetables and certain roots and tubers	115 938 119	2.1%	2.9%	4.2%	7.9%	4.0%	5.6%
H20: Prepared vegetables, fruit and nuts	103 071 551	0.1%	1.0%	3.8%	31.4%	10.9%	19.1%
H04: Dairy produce	67 339 797	1.4%	0.2%	2.5%	-12.7%	20.3%	5.3%
H01: Live animals	61 956 668	1.0%	0.4%	2.3%	-4.4%	14.7%	6.3%
H02: Meat and edible meat offal	58 285 458	1.9%	6.5%	2.1%	18.1%	-6.5%	3.1%
H51: Wool, fine or coarse animal hair	52 763 568	0.1%	4.4%	1.9%	63.0%	-4.6%	19.3%
H19: Prepared cereals and pastry	47 784 540	0.4%	0.7%	1.7%	9.2%	8.5%	8.8%
H15: Animal and vegetable fats	44 700 957	9.3%	2.1%	1.6%	-9.9%	-0.4%	-4.5%
H52: Cotton	31 885 079	2.2%	3.9%	1.2%	11.0%	-7.2%	0.0%
H03: Fish and crustaceans	31 179 095	0.6%	0.8%	1.1%	8.6%	3.7%	5.7%
H18: Cocoa and cocoa preparations	28 351 480	0.0%	0.3%	1.0%	58.8%	10.3%	28.4%
H13: Resins and vegetable saps	28 251 426	0.4%	0.7%	1.0%	11.8%	3.7%	7.0%
H16: Prepared meat and fish	15 101 919	0.0%	0.4%	0.6%	46.7%	3.1%	19.4%
H11: Wheat, malt and other milled grains	11 439 071	1.7%	0.0%	0.4%	-29.9%	21.9%	-3.2%
H24: Tobacco and manufactured tobacco substitutes	10 348 363	10.4%	4.2%	0.4%	-4.4%	-14.7%	-10.6%
H53: Vegetable textile fibres	3 439 828	0.1%	0.0%	0.1%	-5.9%	11.6%	4.0%
H09: Coffee, tea, mate and spices	3 278 516	0.4%	0.2%	0.1%	-0.9%	-2.5%	-1.9%
H06: Live trees and other plants	609 870	0.0%	0.0%	0.0%	1.4%	3.5%	2.7%
H14: Vegetable plaiting materials	439 236	0.0%	0.1%	0.0%	26.7%	-11.0%	3.1%

Data Source: (Quantec, 2015)

There was impressive import growth from 2000 to 2014, albeit from a low base, in products of animal origin (HS02); sugars and confectionary (HS17); prepared vegetables, fruit and nuts (HS20); dairy produce (HS04); and live animals (HS01). There were serious declines over the same period for meat and edible offal (HS02); wool (HS51); cotton (HS52); and tobacco and manufactured tobacco substitutes (HS24).

One of the key factors which led to the revision of South Africa's eligibility criteria under AGOA was the restrictions imposed by South Africa on certain meat imports from USA, particularly poultry but also beef and pork. One of the key restrictions in question has been high anti-dumping duties imposed by South Africa on USA poultry imports since the early 2000's. These duties in particular relate to bone-in chicken pieces which USA only has a very small domestic market compared to other parts of the chicken and hence producers are willing to sell at a low price to markets such as South Africa where there is strong demand. Concerns have also been raised in relation to certain sanitary and phytosanitary measures imposed on meat imports from USA into South Africa, justified through concerns over diseases such as avian flu (poultry), mad cow disease (beef) and porcine reproductive and respiratory syndrome (pork). These measures have been criticised as being unnecessary and used to unfairly restrict trade flows (Naumann, 2015).

There was a sharp increase in real imports of meat products (HS02) from USA into South Africa, shown in Figure 2.9, between 1993 and 1997, growing at approximately 115% per annum. After 1997 imports fell to only just above the 1993 amount by 2001. This sharp decline in meat imports is mainly a result of the anti-dumping duty on bone-in chicken the WTO granted to South Africa in 2001 (Naumann, 2015). Between 2001 and 2012 there was an overall gradual increase in meat imports before dropping off in the subsequent two years up to 2014.

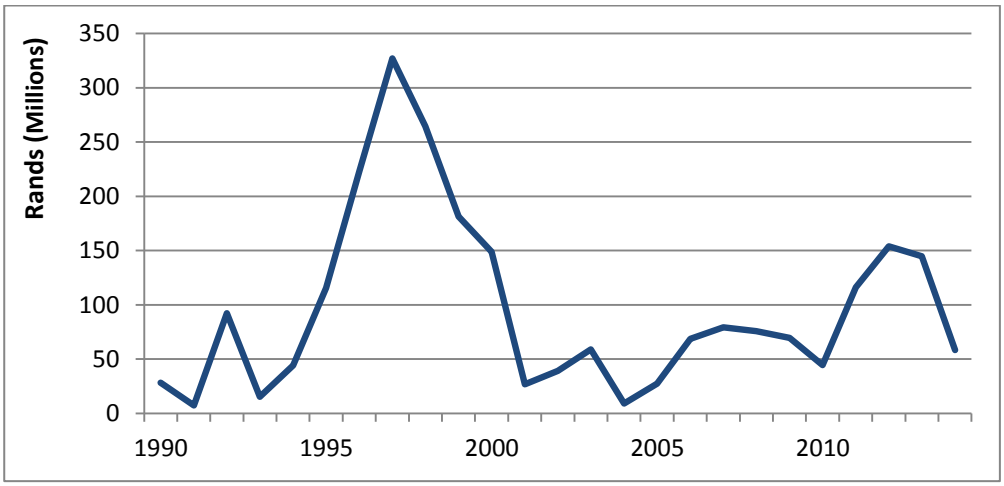

Figure 2.9: Total Real Imports of Meat Products into South Africa from USA (constant 2014 prices), 1990-2014

Data Source: (Quantec, 2015)

The biggest meat import from USA into South Africa has been poultry (HS0207 + HS0209.9), making up 94% of real imports of meat products between 1990 and 2014 (Quantec, 2015). Figure 2.10 below shows real imports of poultry from USA, with the main 2 poultry imports, frozen chicken cuts (HS020714) and frozen turkey cuts (HS020727), highlighted. The dominance is evident by the fact that the overall poultry curve in Figure 2.10 is almost identical to the overall meat import curve shown above in Figure 2.9. The main import has been frozen chicken cuts which showed

particularly strong import performance in the late 1990's and more recently in the early 2010's. Interestingly there has been very strong import growth of frozen turkey cuts in recent years. This either points to a surprisingly high quantity of turkey imports from USA, even exceeding that of cut chicken imports for most of the post-2000 years, or otherwise this would seem to suggest that other products are being imported into South Africa as turkey. For example chicken could potentially be being imported as turkey in order to avoid more stringent trade regulations imposed on chicken imports.

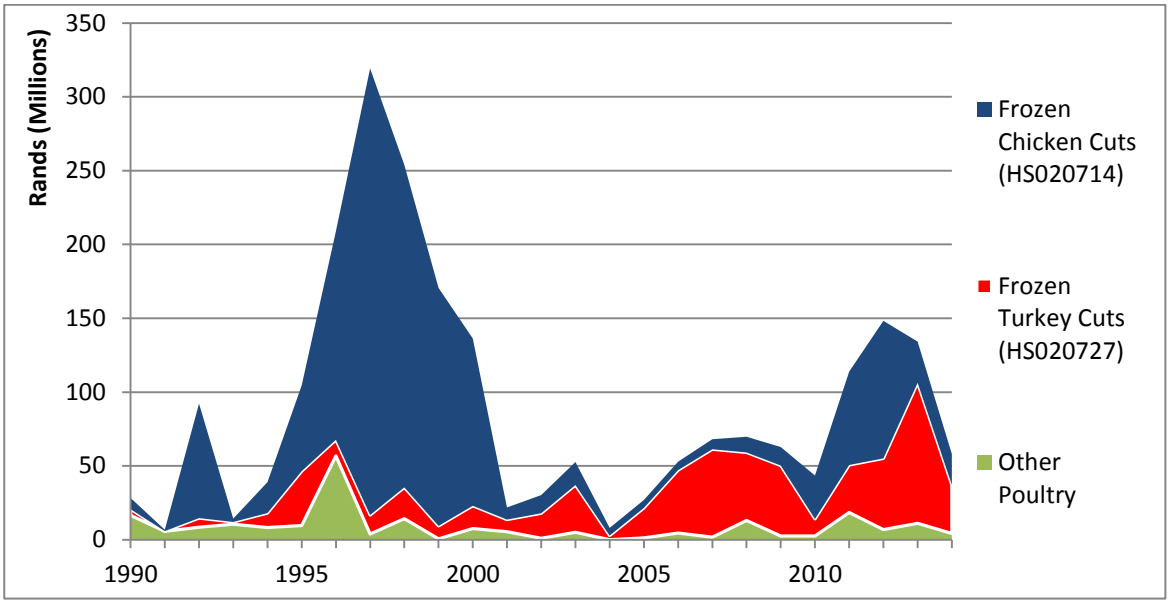

Figure 2.10: Real Imports of Poultry (HS0207 + HS0209.9) into South Africa from USA (constant 2014 prices), 1990-2014

Data Source: (Quantec, 2015)

Looking at the other meat imports, Figure 2.11 shows real imports of non-poultry meat products from South Africa into USA between 1990 and 2014. From 1994 to around 2003 beef (HS0201 + HS0202 + HS0206.1 + HS0206.2 + HS0210.2) was the main non-poultry meat import, almost entirely made up of edible offal from bovine animals (HS0206.2). Since 2004 South African real beef imports from USA have remained very low and non-poultry meat imports have been mainly in the form of pork imports (HS0203 + HS0206.3 + HS0206.4 + HS0209.0 + HS0209.1 + HS0210.1), mainly frozen cuts of swine (HS0203.2).

Clearly from the analysis, there have been significant meat imports into South Africa from USA since 1990, particularly poultry although a significant portion of this has been classified as frozen turkey cuts in recent years. Trade has also been very volatile with steep ups and downs, showing the effect of measures put in place by South Africa to protect consumers and producers from potentially very damaging diseases and other health risks.

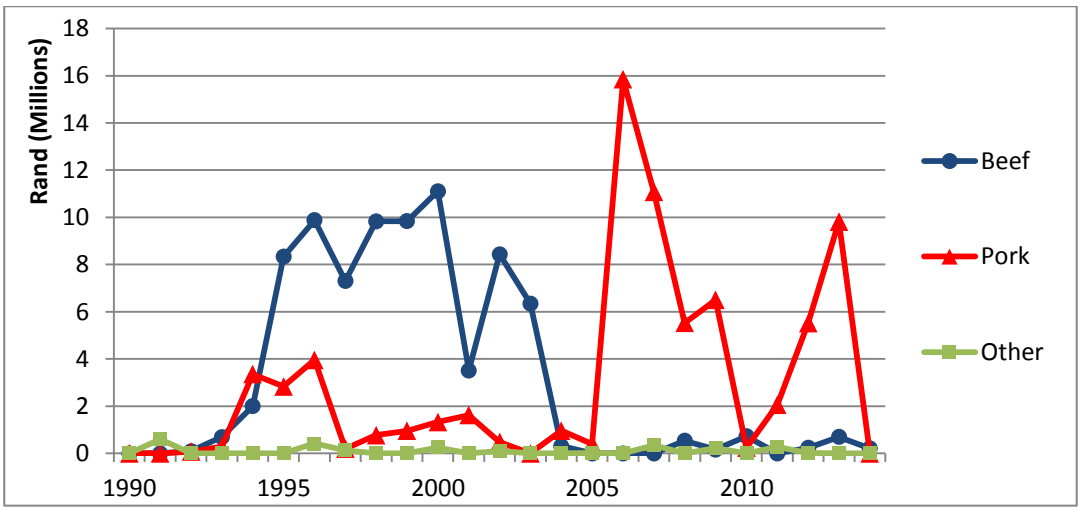

Figure 2.11: Real Imports of (Non-Poultry) Meat into South Africa from USA (constant 2014 prices), 1990-2014

Data Source: (Quantec, 2015)

Conclusion

This synopsis has attempted to give an overall picture of agricultural trade between South Africa and USA. Overall trade between the two countries has increased significantly in real terms in recent years. However, agricultural trade has remained relatively stagnant, particularly between 2000 and 2014, the period under which AGOA has been active. This stagnation masks significant movements at the product level as there have been significant increases in the trade in certain products between the two countries, and significant declines in the trade in others. Whilst this dynamic is evident in both exports to, and imports from USA, it is more pronounced in exports from South Africa to USA. The trends at the product level highlighted in this report have significant implications for policy decisions surrounding AGOA and generally for future trade with USA.

3

Tariff Preference Analysis: Measuring the cost of losing AGOA benefits

Author: ***Louw Pienaar***

Introduction

This section of the report is focussed on analysing the preferential tariff regimes in order to calculate the economic impacts if South Africa is excluded from the tariff benefits under AGOA. To do this, it is essential to understand the trade policy relating to Preferential Trade Agreements (PTAs) and the specific conditions for trade established by the WTO as stipulated by the Marrakech agreement signed by member states in 1994. This will be followed up by analysing the relative importance of AGOA compared to other PTAs under which agricultural goods enter USA. Finally, the focus will shift towards South African - USA trade and the tariffs applied to agricultural products entering the USA market.

In order to determine the impact of potential exclusion from AGOA, or if USA chooses to annul the current preferential tariffs on agricultural goods only, one needs to analyse the different tariff schemes currently in place. To do this, it is imperative that the analysis that will follow be done at a sufficient level of detail in order to match agricultural trade flows to their respective national tariff lines (HS 8-digit). This analysis will therefore unpack the different preferential tariff schemes under which South Africa is exporting agricultural products to USA and will seek to determine the direct monetary cost of losing AGOA benefits. This is the specific cost that South African businesses will be burdened by having to pay additional tariffs on exported agricultural products. Finally, the attention will turn towards the losses on competitiveness which accrue due to South Africa facing relatively higher tariff compared with other suppliers to the USA market. This will enable identification of the main competitors and the tariffs they face, relative to South Africa.

Preferential Tariff Schemes

In the past 15 years trade utilising various PTAs have seen exceptional growth which is expected to continue going forward (Low, 2014). To understand the consequences of being excluded from AGOA, it is necessary to understand how preferential tariff are administered under the extended

General Agreement on Tariffs and Trade (GATT), as signed under the 1994 Marrakesh agreement established by the WTO. As member states, South Africa and USA have agreed to the Most Favoured Nation (MFN) principle in Article 1 of the GATT agreement. This principle governs the treatment between member countries in terms of tariffs and customs duties that it can administer. In effect, member countries are required to accord the MFN tariff and regulatory treatment given to all other member countries as all should be treated equally (WTO, 2015a). The MFN-tariff can therefore be seen as a ceiling at which member countries are hedged into by trade law. However, under the GATT, members have also agreed to relax certain MFN provisions and are allowed to grant preferential tariff treatment to beneficiary countries. Such exceptions are allowed to support development in developing countries, for regional Free Trade Agreements (FTAs) and to establish custom unions (WTO, 2011). Thus, in principle, the outcome of these PTAs is that the actual applied tariffs are often lower for specific eligible products listed in a given PTA compared to the MFN-tariff. Vast amounts of trade between countries enter at zero tariff rates. In the case of being excluded from the tariff preferences under the AGOA, and in the absence of any new effective trade agreements between South Africa and USA, South Africa will be forced to pay the higher MFN-tariff that is placed on the specific products as governed by the WTO.

To analyse these PTAs the analysis will be done by using import trade information from the United States International Trade Commission (USITC) as these specifically correspond to HS-8 tariff codes. The need to use this data is justified by the fact that each importing country uses its own coding mechanism beyond the HS-6 level which is not universally applied. This data also disaggregates trade flows based on the specific PTA under which products enter USA (USITC, 2015). These agreements are shown in Figure 3.1, which subdivides the total agricultural imports by their respective PTAs under which it enters USA.

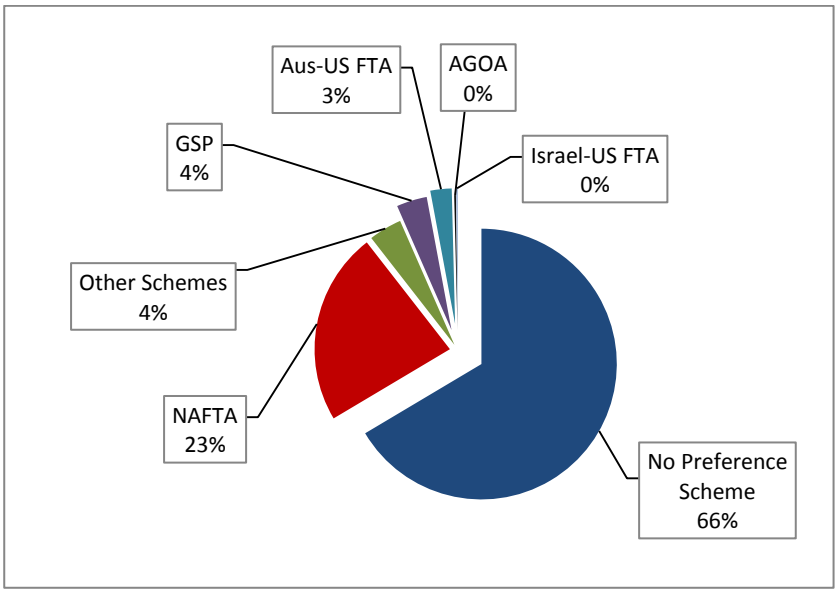

Figure 3.1: USA Agricultural Imports by Preferential Tariff Schemes in 2014

Data Source: (USITC, 2015)

In total, USA agricultural imports in 2014 were valued at R1.5 trillion, the majority (66%) of which enters the USA market under no specific tariff preferences. The North American Free Trade Agreement (NAFTA) is currently the biggest preferential tariff scheme whereby 23% of all agricultural imports enter USA. NAFTA is a PTA between USA, Canada and Mexico which allows for preferential treatment on trade, including various agricultural products. All other PTA's make up another 4% of total imports, while the Generalised System of Preferences (GSP) make up another 4% of the total. The GSP provides preferential duty-free treatment for more than 3 500 products from a wide range of designated beneficiary countries and has been in place since 1976 (USTR, 2013). Another significant PTA is the FTA between Australia and USA accounting for 3% of all agricultural imports.

AGOA makes up a very small fraction (0.2%) of total agricultural imports into USA. In 2014, this amounted to agricultural imports with a value of R3 billion (USITC, 2015). The question that might arise from this reality is whether AGOA has made a significant impact on opening market access for agricultural goods to USA. Figure 3.2 elaborates on this by showing USA agricultural imports from African countries under the various PTAs that exist under USA trade policy. Again, the vast amount of goods enter with no special tariff advantages even though imports have grown substantially in real terms from R12.1 billion in 1997 to more than R28.9 billion in 2014 (USITC, 2015). This translates into a 5.2% annual increase in agricultural imports from African countries during this period. It is clear that the introduction of AGOA in 2000 did have an immediate impact on imports, even though it still makes up only a small percentage of total African exports to USA. Evidence of this is given by the line in Figure 3.2 which shows that AGOA as a percentage of total USA agricultural imports have mostly stagnated at a meagre growth rate, fluctuating between 1.8% and 2.2% for most of the past decade.

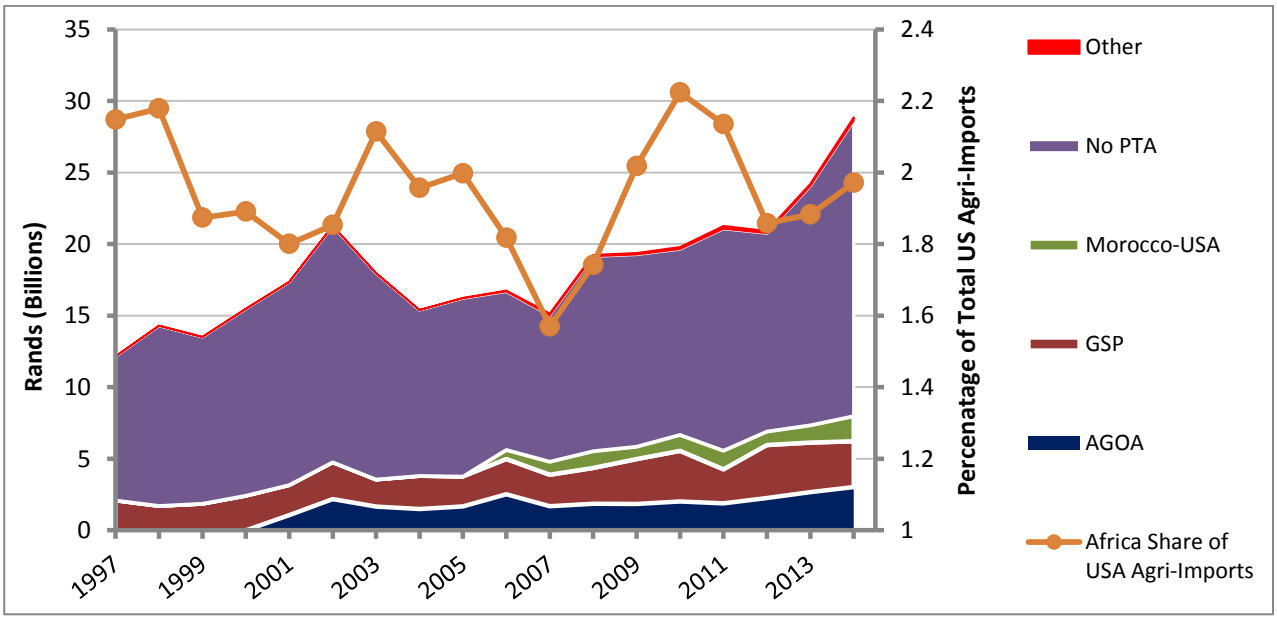

Figure 3.2: Real USA Agricultural Imports from Africa According to PTA, 1997-2014

Data Source: (USITC, 2015)

Despite the low relative importance of AGOA in terms of total USA imports, it still remains a very important agreement between South Africa and USA. This is clearly seen in Table 3.1 which gives the specific PTA's that are currently utilised for agricultural products originating from South Africa. Based on aggregations in terms of the different product eligibility criteria, South Africa exports enter USA market either utilising AGOA, the GSP, or alternatively under no tariff preferences. Important to note is that of the total 2 113 imported agricultural products that enter USA, South Africa only exported 264 of these products to USA. Of these, 44 of the 661 eligible product lines under AGOA were utilised, while only 57 of the 559 GSP-eligible products were utilised in 2014 (USITC, 2015). This gives some indication that under both the GSP and AGOA schemes there is much underutilised tariff preferences available to South Africa than is currently being exercised .

Table 3.1: Tariff Preference Scheme Summary and Product Eligibility

Category	Number of Products Traded: 2014	Number of Eligible Products: 2014	Value of Exports, 2014 (Billion Rand)	Percentage of Total Trade (%)
Total Agricultural Imports into USA	2 133	2 419	1 463	100
RSA Agricultural Exports to USA	264	2 419	3.3	100
AGOA Utilised	44	661	1.9	56
GSP Utilised	57	559	0.5	16
No preference Utilised	163	1 214	0.9	28

Data Source: (USITC, 2015)

Table 3.1 also gives the breakdown of the value of South African agricultural exports to USA by tariff scheme category. USA imported agricultural products with a value of R1.3 trillion, of which only R3.3 billion (0.23%) came from South Africa. However, even though it is a small fraction in terms of total USA imports, it still contributes significantly to much needed foreign revenue to the South African economy. Under AGOA, more than 56% of South African agricultural exports enter the USA market, whilst only 16% enter under the GSP specification. All other exports enter under no tariff advantages which were valued at R929 million in 2014 (USITC, 2015). Thus, AGOA remains a very important trade agreement which has facilitated increased exports to USA since its inception in 2000.

To get a better sense of how South Africa has benefited from the different tariff schemes over time, Figure 3.3 shows the real value of exports from 1997 to 2014 (constant 2014 Rand values). In 1997, the majority of agricultural exports did not benefit from any tariff preference, as indicated in green on top, while a small amount of products were traded under the GSP given in red (USITC, 2015). Since 2000, when AGOA came into effect, the majority of agricultural exports were no longer traded at MFN tariff levels as these started to benefit from the zero tariff rates. This resulted in an expansion of agricultural exports to a peak of R3.6 billion in 2002. After an initial drop directly after 2002, agricultural exports to USA were relatively flat until 2011, after which exports again expanded in all categories (USITC, 2015).

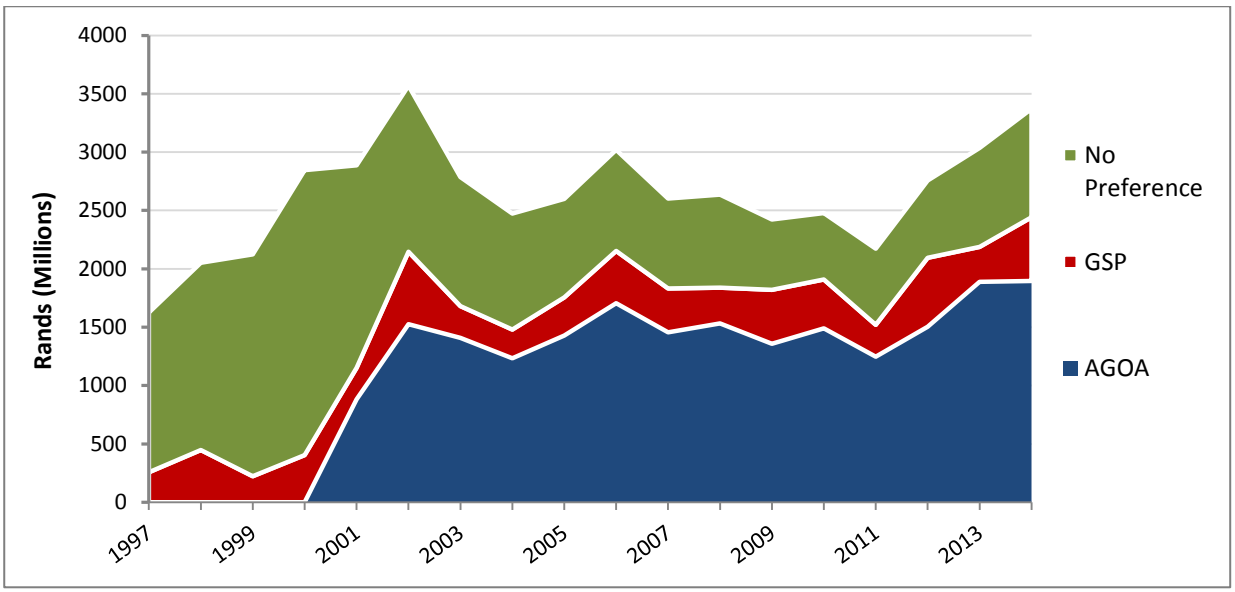

Figure 3.3: Real Agricultural Exports from South Africa to USA by PTA, 1997-2014

Data Source: (USITC, 2015)

The Impact of Losing AGOA Tariff Preferences

Measuring the impact of losing AGOA trade benefits requires an analysis at the HS-8 level because countries administer tariffs and customs duties as the products enter that market. To do this it is necessary to assign detailed tariff information to each product using various data sources (WTO, 2015b; USITC, 2015; ITC, 2015). In this process it was required to assign both the MFN-tariff rates and the applied tariff rates currenly enforced on South African agricultural produce. As things stand, in the event of South Africa losing its tariff preferences under AGOA, it will immediately revert back to paying the full MFN tariff rates as both countries are bound the WTO regulations.

Table 3.2 shows South African agricultural products' export performances to USA under AGOA together with the associated tariff information, followed by the calculation of the total cost if the MFN tariffs were applied. According to the USITC (2015), oranges were the main imported product from South Africa to enter USA under AGOA at a value of R447 million in 2014. Wine (bottled) was in second place with a value of R359 million. Shelled macadamia nuts were in third with R345 million (USITC, 2015). Together these three products made up 60.7% of all AGOA exports from South Africa to USA. This highlights an important feature of AGOA benefits to South Africa, a concentration of a small number of products that utilise these tariff preferences on a large scale. It is partcularly these industries that will be heavilly affected with a tariff increase of 1.52% of oranges, 0.88% of wine and 0.4% for macadamia nut in the event of an AGOA exit. In the light of the strong export growth of these products in the USA market, particularly since 2011, the expected direct additional costs of R11 million per annum based on 2014 export values, plus inflation, will certainly hamper and threaten business opportunities going forward.

Table 3.2: South African Agricultural Exports and Tariff Rates to USA under AGOA

HS Code	Product	Export Value, 2011 (R)	Export Value, 2014 (R)	Real Annual Export Value Growth Rate, 2011-2014 (%)	MFN Tariff (%)	Current Applied Tariff (%)	Total Tariff Cost under MFN rates (R)
08051000	Oranges	327 184 960	446 674 752	10.93	1.52	0	6 789 456
22042150	Wine (< 2L containers)	238 275 792	359 356 608	14.68	0.88	0	3 162 338
08026200	Macadamia nuts (shelled)	170 273 600	345 583 936	26.61	0.4	0	1 382 336
22071060	Undenatured ethyl (alcohol of 80%)	146 188 528	183 882 336	7.95	2.5	0	4 597 058
08052000	Mandarins & Clementines	46 760 372	102 816 168	30.04	1.51	0	1 552 524
21050050	Edible ice (except ice cream)	62 018 280	63 521 124	0.80	17	0	10 798 591
20093160	Citrus juice of any single citrus	50 362 932	62 993 140	7.74	8.43	0	5 310 322
20059950	Pimientos, prepared or preserved	36 277 152	56 413 928	15.86	8.1	0	4 569 528
08029098	Nuts (nes, shelled)	34 272 152	52 821 004	15.51	0.35	0	184 874
08062010	Raisins (from dried seedless grapes)	17 183 344	50 447 516	43.19	0.91	0	459 072
20093960	Citrus juice (Other: Brix > 20)	32 113 414	44 556 008	11.53	8.36	0	3 724 882
20084000	Pears (prepared or preserved, nes)	1 443 769	31 515 676	179.48	15.3	0	4 821 898
22042960	Wine (< 14% vol alcohol, > 4L containers)	25 364 532	17 408 068	-11.79	11.04	0	1 921 851
20099040	Mixtures of fruit juices, concentrate	13 647 260	16 921 064	7.43	4.16	0	703 916
08054040	Grapefruit	744 056	9 185 942	131.12	1.92	0	176 370
08083040	Pears (entered July - March)	0	7 372 456	-	0.27	0	19 906
20079965	Fruit pastes and purees (nes)	373 215	6 589 803	160.40	10	0	658 980
10089001	Cereals nes (including wild rice)	0	5 537 026	-	1.1	0	60 907
08054080	Grapefruit (entered Nov - July)	509 238	4 596 119	108.20	2.52	0	115 822
20091100	Orange juice (frozen)	1 447 332	4 496 502	45.92	13.21	0	593 988
08043040	Pineapples (not reduced in size)	2 597 552	3 320 438	8.53	1.65	0	54 787
08061020	Grapes (February 15 - March 31)	624 461	2 813 020	65.15	0.17	0	4 782
08134090	Fruit dried (headings 0801 to 0806)	2 778 949	2 486 289	-3.64	2.5	0	62 157

HS Code	Product	Export Value, 2011 (R)	Export Value, 2014 (R)	Annual Export Value Growth Rate, 2011-2014 (%)	MFN Tariff (%)	Current Applied Tariff (%)	Total Tariff Cost under MFN rates (R)
08134040	Peaches (dried)	1 229 818	1 998 199	17.56	2.81	0	56 149
10082900	Millet (other than seed)	0	1 318 603	-	0.24	0	3 165
07095101	Mushrooms (genus Agaricus)	756 637	1 236 687	17.79	20.53	0	253 892
22042940	Wine (> 14% vol alcohol, between 2L and 4L)	0	1 181 295	-	2.54	0	30 005
08043060	Pineapples (reduced in size)	227 039	1 021 076	65.06	0.19	0	1 940
22042920	Wine (< 14% vol alcohol, between 2L and 4L)	3 818 498	894 512	-38.35	3.05	0	27 283
20049085	Vegetables and mixtures (nes, prepared or preserved)	1 646 696	624 931	-27.60	11.2	0	69 992
07095990	Mushrooms (other genus Agaricus)	807 519	604 528	-9.20	20.79	0	125 681
08135000	Mixtures of nuts or dried (fruits of Chapter 8)	44 773	569 257	133.40	14	0	79 696
08062020	Raisins (made from other than seedless grapes)	1 518 677	516 458	-30.20	1.28	0	6 611
18062099	Chocolate and preps with cocoa (nes)	411 457	467 122	4.32	8.5	0	39 705
07123920	Dried mushrooms (other than genus Agaricus)	0	439 458	-	2.75	0	12 085
20089905	Apples (prepared or preserved, nes)	0	387 116	-	0.31	0	1 200
22042980	Grape wine (over 14% vol alcohol, > 4L containers)	0	260 031	-	9.34	0	24 287
09109907	Bay leaves (other than crude)	114 466	251 967	30.08	3.2	0	8 063
20083070	Grapefruit (prepared or preserved, nes)	0	235 775	-	0.6	0	1 415
17021100	Lactose and syrup (Weight 99% lactose)	0	204 866	-	6.4	0	13 111
08044000	Avocados	0	200 558	-	6.37	0	12 776
20083040	Oranges (prepared or preserved, nes)	0	132 674	-	0.42	0	557
06031100	Roses (fresh cut)	0	31 907	-	6.8	0	2 170
	Total	**1 221 016 468**	**1 895 979 774**	**-**	**-**	**-**	**52 665 730**

Data Source (ITC, 2015), (USITC, 2015)*, (WTO, 2015b)*

In total, if MFN rates were applied to all of the 44 products exported in 2014 under AGOA, it will cost the agricultural sector R53 million in additional tarif expenditures. Losing AGOA benefits will impact different industries and products depending on both the percentage increase between zero and MFN-tariffs, the number products inplicated in a particular industry and the level of exports of that specific product. For instance, products such as citrus juice (8.4%), canned pimientos (8.1%), other citrus juice (8.4%), bulk wine (11%) and mushrooms (20%) have very high MFN tariff rates and this will significantly impact business prospects in the USA market (USITC, 2015). Any of the products with tariff rates in this range will struggle to cope with such a big change from zero and could ultimately lead to losing entire markets as these export markets become unprofitable in the short term. For instance, mushrooms exports to USA in 2014 were valued at R1.8 million and if MFN rates were applied, will cost R379 573 in additional expenditure as a result of a 20.5% tariff.

There are also various fruit categories included under AGOA which will cause the industry to accrue heavy additional costs. This includes products such as mandarins, nuts, raisins, grapefruit, pears and table grapes amongst others. In total, the fruit and nuts industry will have to pay more than R10 million in additional tariffs based on 2014 export values annually. Another signifant impact of losing AGOA benefits rests on the fact that many of the products exported have entered USA for the first time between 2011 and 2014 and much resources and investment have ensured improved market access conditions. These products include canned fruit (apples, grapefruit and oranges), other wine, avocados and fresh cut roses (USITC, 2015).

Finally, the impact of losing AGOA benefits also translates into a more constrained environment for the exports of the agri processing sector which is one of the sectors highlighted to drive job creation and economic growth in the Western Cape province. Many processed products are implicated under AGOA as indicated in Table 3.2 which, toghether with the spillovers from less demand on the primary exports to USA, will undoubtedly influence the ability of the sector to contribute to economic growth in the Western Cape.

Relative Tariff Rates and Export Competitiveness

This section will continue to look at the impact of South Africa's potential exclusion from AGOA, but will now focus on the impact in terms of the relative competitiveness losses as a result of the higher tariffs. This is in comparison to South Africa's main competitors in the USA market for the top exported agricultural products. A common measure used to analyse the relative position of countries with regards to the tariff they face comes in the form of measuring the Relative Preferential Tariff (RPT) (Nicita, 2011). In practice, if South Africa moves to the higher MFN-tariffs without AGOA, other supplying countries might continue to benefit from preferential tariffs. The relative disadvantage South Africa will face will depends both on the value of exports by

competitors and on the specific preferential tariff under which that particular product enters the market. Thus, RPT is measured by calculating the weighted average of a tariff on all other suppliers in the USA market, excluding South Africa. This will indicate more broadly to what extent a shift towards the MFN-tariff for South Africa will be different to what the majority of all the remaining exports enter the market and thus, the average rate all other suppliers face.

Table 3.3 gives the results from the analysis at the HS-6 level in order to be comparable between countries. Starting with oranges, South African exports valued at R447 million make up 32% of total imports of oranges into USA. This makes South Africa the 2nd biggest supplier in this particular market, behind Chile which will continue to face a zero tariff rate as they benefit from the existing US-Chile FTA which has been in place since 2004 (Kotschwar, 2009). The average tariff faced by all competitors is 0.04% compared to the significantly higher rate of 1.52% that South Africa will have to pay without AGOA. Thus, main competitors such as Chile, Mexico and Australia may have opportunities to expand exports as exporting oranges from South Africa becomes relatively more expensive.

Table 3.3: Top AGOA Products and Tariff Analysis for Competitors

HS	Code	RSA Exports to USA, 2014 (R millions)	USA World Imports, 2014 (R millions)	RSA Market Share in USA (%)	Relative Preferential Tariff face by Competitors (%)	MFN Applied to South Africa (%)	Main Competitors
080510	Oranges	447	1 401	31.88	0.04	1.52	Chile Mexico Australia
220421	Wine (<2L)	359	44 831	0.80	1.43	0.88	Italy France Australia
080262	Macadamias	346	1 227	28.16	0.02	0.40	Kenya Australia Guatemala
200931	Single Citrus Juice	63	573	11.00	1.30	8.43	Mexico Italy Peru
200599	Canned Vegetables	56	4 615	1.22	2.67	8.10	Peru China Mexico
080620	Dried Grapes	51	294	17.34	0.27	0.91	Chile China Mexico

Data Source: (ITC, 2015), (USITC, 2015)

Good quality wine (bottled), the second biggest exported product under AGOA, faces a significantly different trade environment to oranges. The wine market in USA is characterised by more than 61 other supplying countries and South Africa currently has only 0.8% of the market share. Furthermore, the average tariff faced by the majority of these suppliers (1.4%) is at a level still higher than what South Africa will face without AGOA benefits (0.9%). In all likelihood South African exporters already struggle to compete in this highly competitive USA market for wine under zero tariff rates, which will become even more burdensome if the MFN rate of 0.9% is applied. This will certainly dampen growth prospects in the future in the light of already high cost associated with transport, logistics and product protocols.

South Africa, with 28% market share, is the 2nd biggest supplier of shelled macadamia nuts to USA, behind only Kenya. Of concern in the event of losing AGOA benefits for this product is that the top four competitors all face zero rates because of PTAs, while South Africa will be taxed by 0.4% on the value of their exports. Australia was the supplier that grew the fastest in the USA market with 41% annual growth since 2012, while South Africa did see strong growth of 28% per annum over the same period. With such strong growth it is expected that South Africa will remain a main supplier to USA, but would be negatively influenced by the higher tariffs going forward.

Looking at agri processed products, such as single citrus juice and canned vegetables, South African exports to USA made up 11% and 1.2% of total imports into USA respectively. These processed products will face significantly higher tariff rates compared to competitors if MFN rates are to be introduced. This will lead to citrus juice facing a tariff of 8.4%, while canned vegetables will face an 8.1% tariff. These rates are significantly higher than the 1.3% and 2.7% faced by competitors in the same market. The main competitors for these two products were Mexico, Italy, Peru, China and Mexico.

Finally, dried grapes from South Africa currently holds 17% of the USA market and is the 2nd biggest supplier behind Chile, which currently holds more than 51% of the market share. South Africa will face the MFN tariff rate of 0.91% on dried grapes, which will certainly dampen export growth in a market where Chile already dominates and faces a tariff of zero. Other competitors worth mentioning are China, Mexico and Australia, while the total weighted average that all competitors face is 0.27% which is significantly lower than the rates South Africa will face with no tariff preferences.

Conclusion

This chapter has set out to measure the direct monetary impact in the event of South Africa losing its preferential tariff preferences under AGOA. The analysis did so mainly in two ways. First, using

detailed tariff-level information, trade flows into USA were given and disaggregated between the different preferential tariff schemes under which agricultural goods enter USA. It is clear that agricultural imports from African countries under AGOA made up a very small proportion of total agricultural import to USA, with the majority of imports entering USA under no tariff preference. NAFTA was the most utilised tariff scheme with 26%, followed by the USA-Australia FTA (3%) and the GSP (2%). Focussing then solely on South African agricultural exports, the importance of AGOA remains significant as 56% of total agricultural exports to USA enter on zero tariff levels under AGOA. The value of agricultural exports eligible under AGOA was approximately R1.9 billion in 2014 and has grown steadily since 2011.

The results also shows that if AGOA benefits were removed, South Africa will have to pay additional tariff costs of R52.6 million per annum, based on 2014 trade flows and prices, as the country moves from zero-rates to MFN levels set out by the WTO. It is clear that a loss of AGOA benefits would particularly directly hit South African oranges, wine and nuts exports as these were the main exported agricultural products going into USA under AGOA. Some industries will be affected greater than others based on the specific tariff levels applied to them and on how many products in a specific industry will lose its eligibility. The fruit industry for instance has many products under AGOA and exclusion would cost the industry approximately R10 million on exported goods per annum.

Apart from measuring the monetary cost of additional import tariffs, this chapter also indicates the levels of tariffs faced by South Africa in relation to competitors in highly competitive international markets. The analysis has shown the relative preferential tariffs rates that competitors face compared to the MFN level South Africa would face without AGOA. On average, South Africa will face significantly higher rates which will ultimately put increased pressure on profit margins, whilst the strongest suppliers such as Chile and Australia will continue to face zero-rates. Other notable competitors in these markets are Mexico, Italy, Peru and China.

4

Economy-Wide Impacts of South Africa Losing its AGOA Status on Agricultural Products

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Introduction

In the previous chapters, South Africa's recent trade history was assessed and the impact of the potential exclusion from AGOA was identified. In this final chapter, the economy-wide impacts of losing AGOA benefits in terms of agricultural exports are estimated using a static computable general equilibrium (CGE) model. This is important as in addition to the direct impacts of the loss of preferential access, there are indirect impacts as the increased transaction costs of South Africa's exports to USA affect prices and supply of intermediate inputs domestically, causing ripple effects throughout the economy.

Very important to note here is that the analysis looks at the economy wide impacts of the additional tariffs faced on agricultural goods (HS01-HS24) as a result of the loss of preferential access to the USA market under AGOA. As such, the analysis does not account for the impact of the additional tariffs which may be faced in other industries, such as motor vehicles and iron and steel products, which up to now have received significant duty free access to USA under AGOA (Naumann, 2015).

Methodology

The model used in this study was based on a model developed by Lofgren, Robinson and Harris (2002) at the International Food Policy Research Institute (IFPRI). This model was adapted and applied to a 2009 Social Accounting Matrix (SAM) for South Africa (Davies & Thurlow, 2011).

In the SAM used, there is a separation of the activities in the economy and the commodities that these activities produce. This allows one activity to produce several different commodities and for one commodity to be produced from several different activities (Thurlow & van Seventer, 2002). The SAM has a total of 49 different activities, producing 85 different commodity groups. Labour is

separated into four levels of skills and combined with capital as the factors of production. Other flows occur to households, government, institutions and the rest of the world.

The additional tariffs which would result as a result of AGOA exclusion were calculated in the previous chapter. To convert the tariffs faced in USA at the HS8 digit level to effective global tariffs for the SAM commodity groups, the tariff values calculated in Chapter 3 are divided by the corresponding value of South African global exports for that commodity.

Of the 85 commodity groups provided in the model SAM, 17 are broadly classified as agricultural. These were matched against the 24 different commodity codes classified as agricultural products at the HS-2 digit level (HS01-24). In order to allow for alignment of the 2 classifications it was necessary to merge two of the SAM groups together on three occasions[5] for the calculation of additional tariff rates. This meant that in the end there were 14 agricultural commodity groups listed below with corresponding HS codes:

- Forestry (HS06)
- Fisheries (HS03)
- Meat (HS02)
- Fruit & vegetables (HS07; HS08)
- Oils & fats (HS15)
- Dairy (HS04)
- Grain milling (HS11)
- Starches (HS10)
- Animal feeds (HS23)
- Bakery (HS23)
- Sugar and confectionary products (HS17; HS18)
- Beverages & tobacco (HS22; HS24)
- Other food preparations (HS16; HS19; HS20; HS21)
- Other agriculture (HS01; HS05; HS09; HS12; HS13; HS14)

Of these fourteen agricultural product groups, only seven would be affected by the loss of South Africa's AGOA benefits. These seven product groups are listed in Table 4.1, along with South Africa's total world exports of the product group in 2014, as provided by the International Trade Centre (ITC, 2015). The additional tariffs calculated in table three are summed for the relevant commodity groups, and the new additional tariff rate is then calculated as the value of additional tariffs as a percentage of the total value of world trade.

[5] Mergers: "fish" and "fisheries" merged to "fisheries"; "sugar" and "confectionary products" were merged into "sugar and confectionary"; "pastas" and "other foods" were merged into "other food preparations"

Table 4.1: Calculation of Additional Tariff Rates on Agricultural Products

Forestry and plants	*(HS06)*	
2014 Total Exports		739 854 000
Additional Tariffs:		2 170
New Additional Tariff %		***0.0003%***
Fruit and vegetables	*(HS07 + HS08)*	
2014 Total Exports		32 614 092 000
Additional Tariffs:		11 350 916
New Additional Tariff %		***0.0348%***
Other Agriculture	*(HS01 + HS05 + HS09 + HS12 + HS13 + HS14)*	
2014 Total Exports		4 019 181 000
Additional Tariffs:		8 063
New Additional Tariff %		***0.0002%***
Starches	*(HS10)*	
2014 Total Exports		8 709 296 000
Additional Tariffs:		64 072
New Additional Tariff %		***0.0007%***
Sugar and confectionary	*(HS17 + HS18)*	
2014 Total Exports		6 437 627 000
Additional Tariffs:		52 816
New Additional Tariff %		***0.0008%***
Other food preparations	*(HS16 + HS19 + HS20 + HS21)*	
2014 Total Exports		18 119 816 000
Additional Tariffs:		31 255 269
New Additional Tariff %		***0.1725%***
Beverages & tobacco	*(HS22 + HS24)*	
2014 Total Exports		17 954 235 000
Additional Tariffs:		9 762 822
New Additional Tariff %		***0.0544%***

Source: (ITC, 2015) and own calculations

The shock of South Africa losing its AGOA benefits is modelled as an increase in export taxes by the new additional tariff percentage points for each commodity group as calculated in Table 4.1. In doing so the assumption is made that South Africa's trade structure remains consistent. In reality the increased cost of the tariff into the US market may persuade South African producers to search out new markets elsewhere in the world. If producers are successful in this regard, this would represent a movement back towards the current status quo. The CGE model results thus represent the extreme results, any diversion of trade towards markets which will favour South Africa producers will minimise these impacts.

In order to allow for CGE closure, the following assumptions were made:

- The Consumer Price Index (CPI) was fixed, allowing for a flexible Domestic Producer Price Index (PPI). This was done under the assumption that in international markets the tariff cost burden will fall on those producers that export these products, with the tariff eroding their prices rather than being passed onto consumers.
- Investment is savings-driven (neo-classical). The economy's marginal propensity to save remains constant and investment adjusts to maintain equality between investment and savings.
- The exchange rate is flexible to allow for the impact on the exchange rate to be assessed. To allow this flexibility foreign savings are fixed.
- All other direct tax rates are held constant, and government savings is allowed to adjust.
- Capital was assumed to be fully employed and assigned to a specific activity.
- Highly skilled labour (workers with a tertiary education) was assumed to be fully employed and mobile. For all other labour it was assumed that there is unemployment and that labour is mobile between sectors. This assumption stems from South Africa's high unemployment rate with regards to unskilled workers and shortage in the supply of highly skilled workers (DL, 2012).

Results

Table 4.2 provides the percentage change in the key macro-economic variables as a result of the additional tariffs faced in the US market. The shock results in a 0.0009% drop in nominal Gross Domestic Product (GDP). This may seem very small but considering South Africa's GDP forecast for 2016 is R4 327 billion (IMF, 2015), this is a loss of over R40 million. Additionally a recent update release by the International Monetary Fund (IMF) has indicated that economic growth forecasts for South Africa have been overestimated (IMF, 2016), signifying increased pressure on the South African economy going forward. Approximately 0.0002% of the 0.0009% decline is due to price changes, meaning the drop in real GDP is 0.0007%.

Table 4.2: Changes in Key Macro-Economic Variables

	% Change
GDP: Nominal	-0.0009%
GDP: Real	-0.0007%
Exchange Rate	0.0082%
Domestic Producer Price Index (PPI)	-0.0487%
Wages: Highly Skilled workers	-0.0777%

Source: CGE calculations

The shock also results in upward pressure on the exchange rate and downward pressure on the prices producers receive for their produce resulting from the need to pay the additional tariffs whilst still supplying the market at the market price. Wages remain unchanged for most labour classifications as the high levels of unemployment mean that labour adjusts in accordance with the change in labour requirements. However the wages of highly skilled labour declines in response to the tariff.

Figure 4.1 shows the changes in household income resulting from the shock, by household income decile. The top decile is split into five sub-deciles (9.1 - 9.5) to account for the large degree of inequality within this income decile. The actual percentage changes are small, ranging between approximately 0.1% and 0.17% with the change differing slightly based on household income levels. The hardest hit households are the lower-middle income households (deciles 3 – 5). The least affected are the high income households, particularly the top 2% of income earning households (decile 9.5).

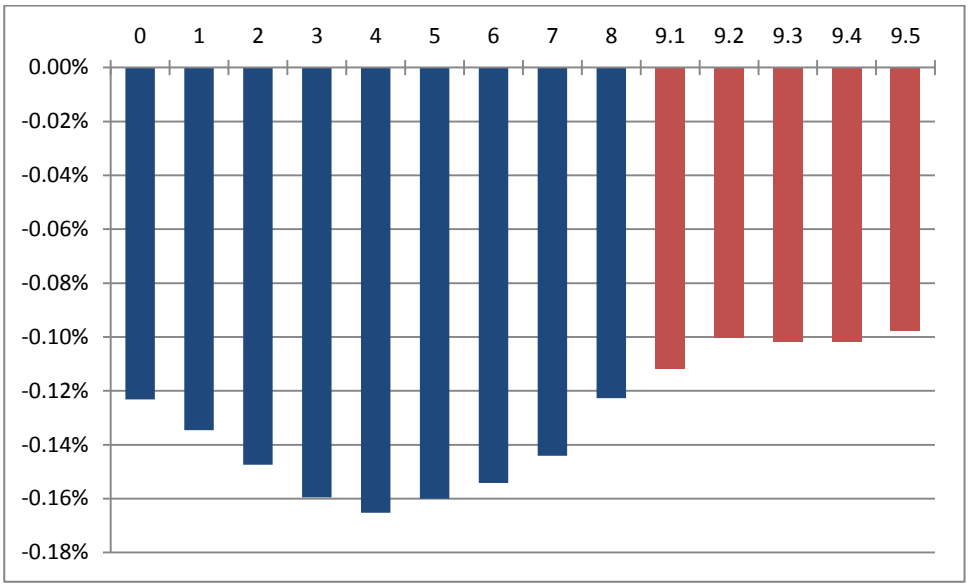

Figure 4.1: Change in Household Income by Income Decile

Source: CGE calculations

In terms of the value of output, there are two pressures resulting from the additional tariffs faced. Firstly there is a decrease in the price producers receive for affected produce in order to pay the required tariff and still meet demand in the USA market. Secondly, as commodities become less profitable following the effective price decrease resources are shifted away from production of that commodity in favour of other uses.

Table 4.3 shows the 20 of the 85 commodity groups experiencing the largest proportional decline in the value of output as a result of South Africa's loss of AGOA benefits. The most affected

commodity is food preparations, experiencing the largest price drop and the largest drop in output. Fruit and vegetables are also hard hit along with beverages and tobacco and pastas.

An interesting observation from Table 4.3 is the significant drop in non-agricultural commodities such as glass products, plastics and paper products. This is due to the strong link between these commodities and agri processing. The large drop in food preparations and beverages and tobacco means there is less demand for packaging and storage materials such as glass, plastic and paper. Similarly key inputs into agricultural production, fertilizers and pesticides, animal feeds and water distribution feature further down the list.

Table 4.3: Commodities with the Largest Decline in Value of Output

	Percentage Change		
	Price	**Output Levels**	**Value of Output**
Food preparations	-0.0071%	-0.0232%	-0.0303%
Fruit & vegetables	-0.0028%	-0.0100%	-0.0128%
Beverages & tobacco	-0.0013%	-0.0093%	-0.0107%
Pastas	-0.0018%	-0.0075%	-0.0093%
Fisheries	-0.0013%	-0.0020%	-0.0033%
Other agriculture	-0.0010%	-0.0019%	-0.0029%
Glass products	-0.0005%	-0.0023%	-0.0029%
Sugar	-0.0001%	-0.0022%	-0.0022%
Grain milling	0.0000%	-0.0019%	-0.0019%
Plastics	-0.0005%	-0.0014%	-0.0019%
Forestry	-0.0010%	-0.0009%	-0.0018%
Dairy	0.0000%	-0.0019%	-0.0018%
Paper products	-0.0007%	-0.0011%	-0.0017%
Oils & fats	0.0000%	-0.0018%	-0.0017%
Wood products	-0.0006%	-0.0011%	-0.0017%
Fertilizers & pesticides	-0.0007%	-0.0010%	-0.0017%
Animal feeds	0.0000%	-0.0017%	-0.0017%
Water distribution	-0.0008%	-0.0008%	-0.0017%
e	-0.0006%	-0.0011%	-0.0016%
Starches	0.0001%	-0.0016%	-0.0015%

Source: CGE calculations

In terms of industry impacts, Figure 4.2 shows the change for the agricultural industry, food processing and beverages and tobacco. The change in output is shown in the first (left hand side) bar for each industry. Whilst primary agriculture drops, the key secondary agri processing industries experience a greater decline, particularly beverages and tobacco. Output is made up of intermediate inputs used in production, and the value added in production. The change in these two components is shown in the next two bars for each industry. In each case the value of intermediate consumption falls but by proportionately a lesser degree to the fall in output. The result in each case is a significant decline in the value added in each industry, meaning a drop in

profitability and the contribution of these industries towards national economic performance. Value added as a percentage of total output falls by 0.0007% for primary agriculture, 0.0006% for food processing and a significantly larger drop of 0.0038% for beverages and tobacco.

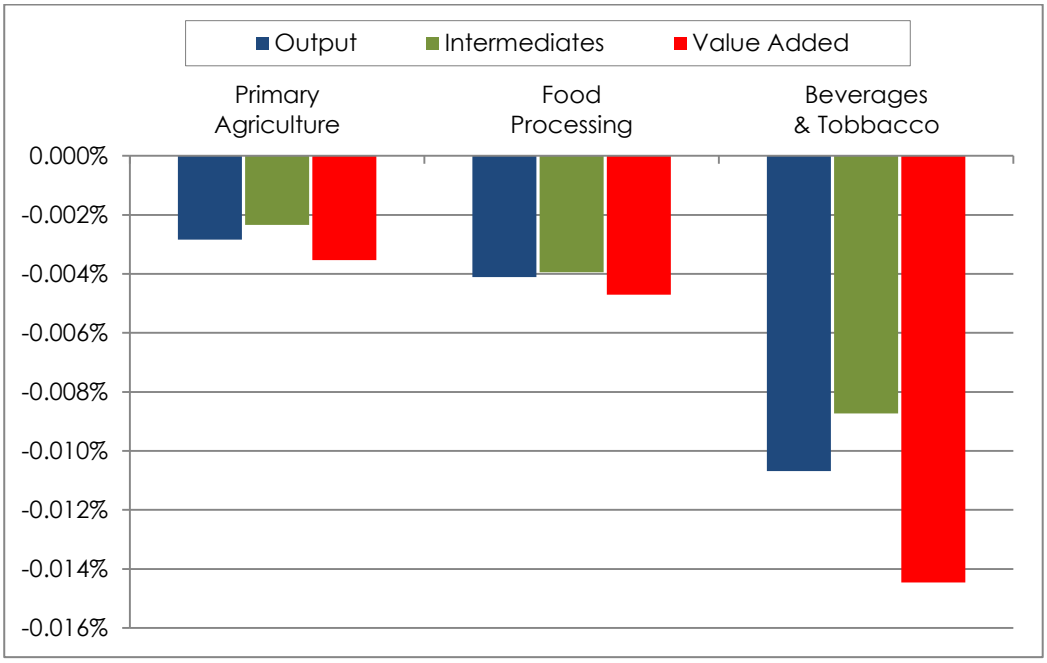

Figure 4.2: Change in the Value of Output, Intermediates and Value Added for Key Sectors

Source: CGE calculations

Reviewing the applied tariffs calculated in Table 4.1, it may seem surprising for beverages and tobacco to be hit so hard considering the tariff applied on food preparations is significantly higher. This comes about due to the change in focus to the industry level and the different degree of diversification in terms of output between the different industries. The commodity group "beverages and tobacco", to which an additional tariff of 0.0544% was applied, is the main output from the beverages and tobacco industry, accounting for approximately 95% of output. Conversely the commodity "other food preparations", to which an additional tariff of 0.1725% was applied, makes up only 5% of the output from the food processing industry. Even the biggest output from the food processing industry, grain milling, only makes up 21% of output. Thus the beverages and tobacco industry is hit particularly hard because it is a highly concentrated industry producing mainly one commodity group which faces a significant additional tariff. On the other hand food processing output is more evenly shared between several different commodity groups, some of which face high additional tariffs and others are completely unaffected thus diluting the direct impact of the loss of AGOA benefits.

The degree of change directing from the shock at the economy-wide level do appear small in percentage terms. However, projections done in 2015 by the Bureau for Food and Agricultural Policy (BFAP) conclude:

> *"The fundamental macro-economic drivers therefore dictate that food demand over the next decade will in general not increase at the same rate as the past ten years. This will have a trickledown effect throughout the food system right to the farmer, where profit margins will be tighter and the environment will become more competitive"*
> (BFAP, 2015, p. 8)

This expected deterioration of agricultural profit margins was projected before the full implications of the 2015/2016 drought had been realised. The impact of the drought is expected to be an even tighter squeeze on profits at the farm level (BFAP, 2016). Thus with already constrained profit margins and increasingly competitive environment even a small decline could be devastating to some producers.

Conclusion

This chapter models a scenario where South Africa faces higher tariffs for agricultural exports to USA due to the loss of AGOA benefits, utilising a static CGE model. Agricultural exports to USA affected by AGOA are significant, but small in comparison to South Africa's total world exports. As a result the changes in economic outcome variables tended to be small in magnitude. However, as the analysis is at the level of the economy, a very small percentage change can signify a significant shift for certain producers and individuals. It should also be noted that the analysis sought to isolate the impact of the loss of AGOA benefits on agricultural products only. If South Africa's AGOA benefits were removed in their entirety there would be other indirect impacts on the agricultural sector resulting from the direct impact on other non-agricultural products.

It should be cause for concern that the result of AGOA exclusion in terms of agricultural products is likely to be a decline in GDP, upward pressure on the Rand exchange rate, downward pressure on producer prices and a decline in the wages of highly skilled workers. Additionally, the product level analysis revealed that the impacts will not just affect primary agriculture and agri processing (HS01-24), but will also impact significantly on other industries relating to the packaging of these products and important inputs into agricultural production. At the industry level, the beverages and tobacco industry is expected to be particularly hard, with a significantly larger drop in output and in the share of output being made up of value added by producers. This essential shrinking of profit margins is a concern in an environment where margins are already expected to be under pressure due to macro-economic drivers and the implications of the 2015/2016 drought.

5

Policy Recommendations

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- The current negotiations toward solving the dispute on meat imports should bear in mind that South Africa needs to strike a fine balance between protecting local industries and making certain concessions for the greater good of other sectors in the agricultural economy which are dependent on AGOA benefits. That said, the analysis has shown that the impact of losing AGOA tariff preferences, under the worst-case scenario where no new markets can be found for affected products, is negative but is not substantial. The impact of conceding to USA demands, particularly in terms of opening up South African markets to USA poultry and other meat products, needs more investigating in terms of what it will mean for South African producers, and even more importantly the health and safety implications for South Africa's citizens. South Africa's meat industry may offer a smaller contribution to the South African economy than more AGOA-dependent industries such as certain fruit and beverage industries. However, smaller industries should not be crippled, or South Africa's citizens put at health and safety risk, to avoid a small potential squeeze on the margins of more important industries.

- It is important that South Africa continue to search for new markets for agricultural exports. Whilst traditional export markets such as USA and the European Union remain important, increased costs in these markets, such as would be experienced with a loss of South Africa's AGOA benefits, and increasingly stringent standards and regulations faced, mean that producers need new markets to send their produce to. The CGE analysis in this paper assumed that the structure of South Africa's trade remains as is, however if new markets can be found then the negative impacts of the loss of AGOA benefits can be reduced and even removed. In particular South Africa should look to new markets in Sub-Saharan Africa where South Africa benefits from a distance advantage and regional trade agreements, and where impressive economic growth has led to growing markets for an increasing range of agricultural products. East Asia also presents promising opportunities, with extremely large populations, coupled with many rapidly growing, or recently developed economies, means a massive demand for agricultural products.

- Important South African policy documents published in recent years have highlighted agri processing as a key opportunity for South Africa on its development path. These documents include, amongst others, the Industrial Policy Action Plan, the New Growth Path and the National Development Plan (DAFF, 2012). This analysis has shown that the loss of AGOA benefits will overall impact on agri processing more so than primary agricultural production. This should not be seen as a reason to stop pursuing agri processing projects as it has been show that, in addition to supporting primary agricultural production, agri processing development can have significant development benefits to an economy (da Silva, et al., 2009). Key initiatives in this regard need to continue moving forward, such as "Project Khulisa", which looks to achieve accelerated growth and employment in the Western Cape through targeting 3 key sectors which includes agri-processing (WCG, 2014). However, it is a call for more research around agri processing development in South Africa, to make sure industries are targeted which will have the greatest benefit for the economy whilst considering current resource constraints. An Agri Processing Index has been developed at the Western Cape Department of Agriculture to rank agri processing products on their potential in terms of production performance, employment, the domestic market, the global market and trade barriers (Partridge & Pienaar, 2015). Such research needs to be taken further and scrutinised before making investments in agricultural value chains in South Africa in order to achieve the greatest marginal gains in terms of economic growth and employment.

- The economic modelling conducted in this study revealed that it is not just producers directly linked to agricultural value chains who will suffer as a result of The loss of AGOA benefits, but also auxiliary industries such as glass, plastic and paper. In order to continue growing South Africa's strength and presence in agricultural value chains, it will be important to also support these auxiliary industries and prevent additional cost strain being placed on agri processing producers.

- As shown in this report, the added tariff costs which would result from a loss of South Africa's AGOA membership, whilst small could prove significant given the difficult economic environment already anticipated for agricultural production in South Africa. This increased tariff cost is essentially a transaction cost in getting products to international markets. As such, stakeholders in agricultural value chains should continually look for ways to reduce transaction costs domestically. Once a value chain approach is taken, a change in transaction costs at one point can have ripple effects throughout various agricultural value chains, meaning a small change can have a much larger net effect.

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