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EU-SA FTA: The Possible Effects on Southern African Agriculture

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In a world that seems to be moving steadily towards the dismantling of tariffs and towards trade relations as envisaged by the World Trade Organisation (WTO), tariff rationalisations are still not universally accepted as the only way to economic prosperity. Especially for developing countries, it remains an issue of debate as to whether or not protection is still needed from the advanced economies. Studies by the Industrial Development Corporation (IDC) have shown that tariff dismantling could lead to positive economic growth in South Africa. Although South Africa remains ahead of GATT obligations on the breaking down of protectionist walls, however, it remains sceptical about entering into agreements that would enforce tariff reductions. At the moment tariffs can still be used as a policy instrument - being raised and lowered as fluctuations in the market are perceived.

South Africa is currently negotiating a Free Trade Agreement (FTA) with the European Union (EU). Progress has, however, been painstakingly slow. The EU approached South Africa in the early days of the transition to democracy, but now South Africa's second democratic elections seem closer than a full bilateral trade agreement with the EU. The importance of the trade agreement can not be overstressed: the EU is our biggest trading partner and any deal with the EU will have a definite impact on trade relations. Of South Africa's R115,5 million exports 47% is destined for European markets and 30.6% of South Africa's R126.1 million imports originate in the EU.

Although theoretically it would seem that the end of tariff protection is inevitable in South Africa, negotiators are not speeding up the process. The reason often cited in the media, is the by now infamous 39% exclusion of South Africa agricultural exports to the EU from the European mandate, handed to South Africa in March 1996. This Update examines the negotiations surrounding the FTA with Europe. Are the agricultural exclusions such a threat to South African producers, or are there other reasons behind the delays in progress?

1. History of the Negotiations

Initially, when Europe approached South Africa to come to the negotiating table, South Africa sought an agreement as close as possible to the Lomé Convention which governs relations between the EU and the 70 African Caribbean and Pacific (ACP) countries. Acknowledging the developing, and in some cases the less-developed status of these countries, Europe grants the ACP preferential access to its markets and also provides them with developmental aid. This preferential access is extended to agriculture, although some quotas are placed on sensitive European products. Due to South Africa's relative strength in comparison to the ACP countries and even to some of the junior European members only partial access to the Convention was offered. For the areas not governed by Lomé, an FTA was proposed. In drawing up the mandate for its negotiators, the European Union however excluded 39% of South Africa's agricultural exports from the negotiations. The tariff rationalisation of these products is thus not even open to discussion.

Currently 80% of South Africa's exports enter the European market duty free. By contrast only 44% of European products enter the South African markets without paying a tariff. South Africa is bound by GATT obligations to reduce tariffs on 54% of EU exports by the year 2000 and Europe is obliged to let 83% of South African products enter its markets duty free. According to WTO rules 'substantially all' trade has to be included in an FTA, which is most often interpreted as comprising more than 90% of traded products. Under an FTA, therefore, the EU would need to eliminate duties on only 7% of currently traded goods, while South Africa would need to eliminate duties on 36% of currently traded goods in order to reach the 90% target set by the WTO rules. Although the EU is proposing the exclusion of 39% of agricultural products, this amounts to only about 4% of total trade, which would allow the FTA to remain WTO compatible.

The European Commission's current proposal for the agricultural sector envisages the elimination of duties on 95% of all EU agricultural exports to South Africa within 10 years, whilst allowing the elimination of duties on only around 55% of South African agricultural exports to the EU. The EU is thus envisaging an asymmetrical liberalisation process in the agricultural sector, with South Africa liberalising far more, although relatively more slowly, than the EU.

2. The Common Agricultural Policy

Apart from excluding sensitive products from the FTA, European agricultural products are also protected by the Community's Common Agricultural Policy (CAP). The CAP has come under some serious criticism by various countries and also by its own members. Although currently still tolerated by the WTO, it is often criticised for its incompatibility with WTO standards, and also for its effect on developing countries. The policy, formulated in the 1950s and in full operation since 1969, aims at uplifting farmers in Europe to a status equal to industrial workers, protecting them from an increasingly competitive world market. The initial objectives of the CAP were laid down in the Treaty of Rome. They included five aims:

1. to raise agricultural productivity;
2. to ensure a fair standard of living for the agricultural community;
3. to stabilise markets;
4. to assure availability of supplies; and
5. to ensure that supplies reached consumers at reasonable prices.

Arguably the policy has failed in many areas, but its main failure has been in the region of 'reasonable prices'. Most products on the European market can be bought at a much lower price on the world market. However, European consumers are forced to pay higher prices in order to sustain the living standard and viability of the farmer.

The CAP fixes prices of agricultural products at a certain threshold beneath which European prices are not allowed to fall. The EC Farm Fund buys up all the supplies once the price falls to this level. According to the agricultural policy, it is obliged to buy everything of standard that is offered. By contrast, world prices are fixed in the relatively free global market. Without the CAP, European farmers would have to compete with these prices. However, European farmers remain unaffected as they sell at the prices set by the Community. In return, the EU sells the supplies it bought from the farmers, at a loss, at the world price.

It follows that the price fixed by the Community also raises the import tariff on products from outside of the EU. Although foreign producers generally export at a much lower price, the fixed European price ensures that importers cannot undercut Community suppliers. Some EU products have for some years been twice as costly as world products.

Third World countries are especially hard hit by the CAP. The policy has had adverse global effects on poorer countries, whose farmers find themselves in an even more vulnerable position than their European counterparts. Third World farmers are not able to develop their exports significantly due to the unfair European competition. Even though many of these countries receive preferential access to the EU market through the Lomé Convention, they remain incapable of competing in products that still need development.

New GATT rules oblige the European Union to dismantle the Common Agricultural Policy by some 30%. However, due to pressure from agricultural lobbies within the EU, cuts made to agricultural aid have been replaced by social subsidies. This effectively means that no real cuts in aid are felt by the European farmer. Farmers building blockades in the streets of Paris show just how remarkably strong the agricultural lobby still is in European politics: the list of exclusions is a direct result of the power it wields.

3. The Way in Which the CAP and the Exclusions Could Affect South Africa

On the face of it, the 39% exclusion of South African agricultural exports does not present a huge problem. It is a fact that South Africa holds a comparative advantage over the EU in these products, but in order to make a larger profit, any exporter would like to see zero tariffs on every exported product. The existing tariffs have not, and will not, prevent entry into the market as reasonable profits are still to be made.

The principle of protectionism, however, forms the nub of the problem. The EU is by far the stronger party in the negotiations. Its true commitment to the development of the Southern African region is doubted when such a large number of South Africa's primary exports are excluded even from discussion. The EU is perceived as selfishly protecting its own sensitive products without giving much thought to its relative strength or the vast number of subsidies which support these products. If South Africa should adopt a similar attitude and draw up a list of its sensitive products, it could well end up by excluding a large amount of European agricultural exports. If South Africa were to follow the precedent set by the European Union it would be impossible to reach a WTO compatible agreement.

There are some advantages in the present form of the proposed FTA with the EU, principally in the export sector, but the CAP reduces even these. Fears do exist that as soon as European products enter the South African market duty free, domestic production will no longer be able to compete. Turkey provides a good example: after concluding an FTA with the EU, its agricultural sector was swamped by subsidised European products and today Turkish agriculture finds itself in a very precarious position. South Africa could travel down the same road.

The red meat industry provides a striking illustration of the possible effects of the proposed FTA on South African agriculture. Some of its products are excluded from the FTA negotiations, meaning that no preferential access to the EU red meat market will be gained. Currently South Africa is a net importer of red meat, as it can only supply approximately 90% of its red meat consumption. It is expected that within the next two decades South Africa will increasingly struggle to supply its population with red meat. The population is expected to expand much faster than red meat production. A relative increase in wealth could also result in a consumer trend away from white meat to red meat. South Africa will therefore increasingly have to import red meat, especially low quality meat, from exporting countries. Ideally these imports should come from our neighbours, as this would increase regional co-operation and development.

Studies done by the Red Meat Producers' Organisation (RPO), however, suggest that the European Union could export red meat to South Africa at under R6.00/kg, well below local production prices. Each kilogram will be supported by at least R6.00 in EU export subsidies. The current tariff of 40% on red meat imports may not even be enough to protect local producers. Under the FTA, the European Union expects South African tariffs to be lowered, even below the 40% threshold, which could result in serious problems for local and neighbouring producers.

Recent reports also show that European exporters may be abusing the new found access to the South African market. Exports to South Africa of subsidised EU beef shot up from 7 000 ton in 1993 to 47 000 ton in 1996 and even larger numbers can be expected as soon as an FTA is implemented. This massive increase in cheap beef exports should however be seen as dumping and not as the natural result of tariff rationalisation. The WTO provides measures with which countries can deal with dumping. These measures are currently being discussed at the EU-SA negotiating table. If implemented within the legal framework of the WTO, the FTA should not have as unfair results as currently experienced in the meat sector.

4. SADC SACU and Agriculture

Whilst contemplating the effects of the proposed FTA on the South African agricultural sector, the negotiators have to consider the effects its neighbours are likely to suffer. The agricultural sector is of great importance to the members of the Southern African Development Community (SADC), as primary exports still dominate their trade with third countries. The arrival of duty free European agricultural products in South Africa will therefore pose a serious threat to SADC exports to South Africa. European exporters are greatly subsidised by the EU's CAP and SADC countries can not even hope to compete with them.

Studies have shown that the South African Customs Union (SACU), comprising South Africa, Botswana, Namibia, Swaziland and Lesotho, will most probably be the worst hit by a SA-EU FTA. Not only will they be losing fiscal revenue due to the abandoning of tariffs, but their agricultural sectors could be crippled by European products. A Free Trade Agreement with South Africa effectively means a FTA with SACU: the arrival of duty free products in South Africa will result in the circulation of duty free products in the BLNS countries.

Like many of our neighbours, Namibia has made great progress in its agricultural sector. This progress is now threatened by the imminent FTA between South African and the EU. At present the majority of Namibian livestock and beef products are destined for the South African market. Not only is the South African market important to this sector, but red meat provides the backbone of Namibian commercial agriculture. The commercial farming sector would probably respond to lower beef prices arising from increased competition from subsidised, duty free EU beef, by expanding the scale of their operations and cutting back on employment. In the communal farming sector, the growth currently experienced in communal cattle herding could be undermined. This would result in the loss of cash income for communal area households which have sought to enter the national market economy and equally prevent other farmers from becoming economically competitive.

The Southern African Meat Producers Liaison Committee (SAMPLC), with representatives from South Africa, Botswana, Lesotho, Namibia, Zambia and Zimbabwe, has been established to look into the threat posed by the European Union's red meat exports. During a meeting held in February, SAMPLC pointed to the lack of coherence in European policy: whilst supporting the northern Namibian cattle marketing scheme, the EU intends exporting subsidised beef that would undermine this very project. Losses incurred by subsidised imports far exceed possible gains from EU development assistance transfers.

5. Conclusion

Within agriculture a broad programme of tariff rationalisation could have positive results, but in the case of the currently proposed FTA with the EU, this seems most unlikely. Subsidised imports from the EU will pose a serious threat, not only to the South African red meat market, but to the entire Southern African agricultural sector. The only way in which an FTA could become beneficial to Southern African agriculture, will be in the reduction in CAP subsidies. The EU insists that this possibility is not even open for discussion. By definition an FTA should be reciprocal and traded products should be unsubsidised. However, the 39% exclusion and the Common Agricultural Policy undermine the very principle of the FTA.

Arguably agriculture only represents 10% of South Africa's total trade and it should therefore not undermine the negotiations in pursuit of 0% tariffs for agriculture. However, South Africa is essentially a developing country and primary products are of great importance to rural development. As already stated, some benefits do await South Africa in a FTA, but assuring the best possible deal for the agricultural sector is of great importance to a large number of South and Southern African farmers.

Suggested readings

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