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SOUTH AFRICA AND THE EUROPEAN UNION: BETWEEN LOMÉ AND BILATERALISM

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The recent visit by European Union Commissioner João De Deus Pinheiro to South Africa represents a first but important incremental step on the path to a firm agreement between this country and the European Union (EU) which will have a decisive effect on the future development of South Africa and Southern Africa. Before examining the pros and cons of the proposed package and its impact on the region, it is important to set the stage on which the drama will be played out. South Africa has undergone a series of dramatic changes in the 1990s, re-emerging as one of the world's youngest democracies. One of the key aspects has been the need to face the numerous challenges to its emergence from isolation on re-entering the international market.

The European Union has offered a multi-level trade and development package to South Africa to reinforce belated trade ties. This is of particular value as the 'extent to which the EU dominates trade between South Africa and the rest of the world remains little appreciated in South Africa'.¹ The EU package provides a framework for Pretoria to select a broad agreement with the EU for focusing on the reconstruction and development of South and Southern Africa.

To understand clearly where the EU proposal fits into the current discussion, one must look to South Africa's options in the high stakes game of international trade. Essentially South Africa, prior to the EU's proposal, had two courses open in negotiating with its biggest trading partner. The first was for accession to the Lomé system, and the second was to find a mix within the existing Global

System of Preferences (GSP) and the General Agreement on Tariffs and Trade (GATT) tariff system. The South African Department of Trade and Industry supported the Lomé alternative - as will be shown a risky and somewhat unrealistic, but potentially rewarding approach.

The strength of the Lomé system is that it offers the African, Caribbean and Pacific (ACP) states preferential trade treatment as well as development funds. Fundamentally, 'ACP exporters are granted unrestricted and duty-free access to the EC market in industrial goods, including coal, steel, and textiles and clothing'.²

While this might be outwardly beneficial for South Africa it should be weighed against the prevailing mood in the European Union over the Lomé protocols. 'Africa's development failures and its reduced strategic importance to Europe are eroding, in most EC capitals as well as in Brussels, the credibility of much of the previous economic justification for a special co-operative relationship with Africa'.³ The size of the problems is indicated by the squabbling between the EU member states over the future of the European Development Funds (EDF) allocated to Lomé. Britain and Germany do not wish to augment their funding because of the constraints of their own national fiscal targets for European Monetary Union. With the addition of Finland, Sweden and Austria, the eighth EDF should reach ECU14.3 billion, but is currently forecast to reach only ECU12 billion. This raises questions about the future of the whole Lomé system of preferences. Lomé 'must be renewed in 2000. But European hearts have been

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hardened by a shortage of cash, competing priorities and "donor fatigue".⁴

Pretoria has viewed accession along three lines: trade preferences, aid support and regional integration. In terms of trade, Lomé offered guaranteed access - admittedly only until the year 2000 - for exports at the lowest levels of tariffs available to any products entering the EU. In addition, rules of cumulation meant that South Africa could benefit from being a regional producer, supplier and assembler of goods from the surrounding region which would be treated as originating from an ACP state. South Africa was willing to forgo access to the EDF, except in so far as being given the right to tender for development projects funded by Lomé. This was because of the ECU125 million allocated to South Africa by the European Parliament's South African programme for reconstruction and development in the EU's budget. Finally, and of critical importance to the newly elected ANC government, was the desire to shape a new regional role for South Africa. It seemed 'that those who were inclined to full Lomé membership for South Africa were more influenced by the political considerations of solidarity with Third World neighbours than the business of trade'.⁵

Pretoria's preference to push for the off-the-shelf package of Lomé presented a series of special difficulties that would eventually rule this option out, and led the EU to counter with a multi-track approach. Indeed, the very nature and size of the South African economy makes it unlikely that full accession to Lomé would be attainable. For instance, its GDP of US\$120 billion is roughly two to three times the size of the next ACP state. Additionally, 'South Africa's exports to the EU are the equivalent of more than 50% of the exports of all 70 ACP countries combined'.⁷ As such, the ACP states would find it very difficult to countenance the addition of a state that to them represents success, wealth and a serious threat to their welfare through trade diversion within the Lomé system of preferences. To them, South Africa is a giant that could devastate their fragile economies by flooding their export markets. Furthermore, because of this same GDP factor, it is very unlikely that the EU would add a state to the ACP that has a GDP greater than four of its own members: Finland at US\$104.3 billion, Greece at US\$86 billion, Portugal's US\$68.6 billion and the Republic of Ireland with US\$53.3 billion.

Also, South African accession would hardly be countenanced under the existing World Trade Organisation (WTO) rules. For its inclusion in Lomé, South Africa's status as a 'developing

nation' would have to be established when GATT has already classified South Africa as a 'developed nation'. Finally the trade impact in Europe of a South Africa in Lomé would be of major concern to certain EU members. The size and competitiveness of South Africa, particularly in relation to agricultural products *vis-à-vis* France, Spain and Italy, combined with the WTO restrictions, mitigates against South African acceptance. These states would almost certainly attempt to thwart South African intentions. The rotating presidency of the Council of Ministers moves from France to Spain on the 1 June 1995, and then to Italy in January 1996. All three nations are renowned for their protectionist policies and led by a Spanish presidency, may use their position to influence the South African trade debate in order to deny South Africa access to special EU trade preferences.

With this in mind, the EU has seized the opportunity to devise an entirely new framework for regional development in Southern Africa. The EU Commission has formulated a unique two-tier proposal for South Africa-EU trade relations, with one section negotiating a new trade arrangement and the other covering South Africa's development needs through accession to key provisions of the Lomé system. The Commission wishes to negotiate a bilateral trade agreement that would give South Africa unparalleled access to the US\$7.5 billion European market. 'The deal would be initially asymmetrical, giving South Africa immediate access to the European market, while South Africa's own tariff barriers would be phased down over up to 15 years in the case of sensitive products'.⁸ South Africa through the negotiation process would be able to safeguard some of its more fragile industries, while still exposing them to competition. The deal envisaged by the Commission also allows the necessary flexibility to provide preferences for products that the country may export in the future.⁹

Such a bilateral deal holds both negative and positive consequences for South Africa. South African trade and industry may suffer if it is not able to extract concessions from the EU, avoiding the exclusion of sensitive sectors from a trade agreement. Here the WTO works in South Africa's favour by ruling against exclusion within a trade deal. This is especially important concerning the Common Agricultural Policy (CAP). Unfortunately it also means that South Africa may have to make concessions to the EU which may be potentially *damaging to the current structures of employment in key industries as they are put under pressure to become more competitive.*

The EU's offer also suffers from the fact that, in contrast to Lomé, 'it may be expected to be the slowest to negotiate because it would be a one-off, tailor-made agreement, in which each provision would have to be negotiated from scratch'.¹⁰ South Africa can little afford a long and drawn out process when its future stability rests upon immediate economic and social progress. The EU, if one takes a cynical view, may use South Africa's need for a speedy deal to extract concessions which ultimately give it unfair advantages in the trading relationship.

It appears that the EU's motive in stimulating the South African economy is in part directed towards it becoming an engine of region growth. The EU Commissioner himself has said that 'he hopes South Africa will do for Africa what Japan has done for Asia - become a beacon of hope and dynamism which will set the continent alight'.¹¹

The regional context, however, raises a number of questions about the impact of the EU's proposal on the states in the region. It has been argued that a trade agreement like the one proposed, 'would decimate the Southern African Customs Union (SACU) countries' share of the South African market'.¹² The EU has correspondingly tried to reassure the region by committing itself to a course of action minimising damage to the region. Specifically, there is some evidence of this EU commitment in the second part of the package. This can only be evaluated once the EU has elaborated its proposal.

The second part of the EU proposal covers South African access to certain aspects of the Lomé agreement that will strengthen regional ties and foster the development of intra-regional dialogue. South Africa will be able to tender for EDF-funded projects in ACP countries, and will benefit under regional rules of cumulation available under the Lomé system. These rules are extremely important both for the EU and the surrounding states, as they offer great potential for trade creation by involving regional ACP states in any export-generated growth of the South African economy. The EU's aims appear to be aimed at avoiding 'erecting artificial barriers between the Southern African states and, indeed ... if at all possible adopt an arrangement that encourages trade between them'.¹³ Additionally, the EU proposal removes the hurdles WTO rules pose by accounting for both the disproportionate size of the South African economy as well as the developing nature of certain sectors of society.

South Africa, having accepted the EU proposal as a starting point, must now focus on the process of

negotiation. However, the country comes to the bargaining table with a very strong case to back up its own demands, because the EU is committed to a process of regional rebuilding. South Africa must work, however, to stress the importance of the asymmetrical time frame as well as the need for speedy resolution. Yet South Africa's weakness could be in its relative inexperience at the international negotiating table, particularly with regard to the decision-making process in the European Union. South Africa will have to work hard to build a business, labour and government coalition that will secure the interests of South African society and to acquire the skills of negotiation within the EU legislative process.

The path of EU legislation can be complex and protracted [see explanatory note], with input from interest lobbies which often leave a watered-down final product. But firmness in its negotiations with the Commission, the Council of Ministers and the European Parliament should produce a deal favourable to South Africa. There is often a large 'discrepancy between lofty objectives and security of access to the Community market' and South Africa should heed the lessons of the East European states in their experiences with the European Union, whose agreements have been less than satisfactory in practice.

The development of formal trade relations with the EU are extremely important for South Africa - both for the immediate and the longer term. A beneficial arrangement for South Africa is an absolute top priority and will assist South African society to put the country's best interests first and so ensure a healthy and prosperous future for South Africa and the Southern African region as a whole.

Endnotes

Robin Birchall writes in his personal capacity.

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EXPLANATORY NOTE:

The EU negotiating mechanisms will determine the outcome of negotiations between the EU and South Africa, warranting an explanation of the procedural method. The Commission has proposed a policy which will give it the mandate to negotiate with South Africa. The Council of Ministers, the highest decision-making body in the EU, will vote to accept this proposal either on the 29 May (postponed to 12 June) or before the end of the French presidency in June. The Council will, in all likelihood, vote to accept the Commission's proposal and the Commission will then exercise its mandate to negotiate a deal with South Africa. However, the presidency of the Council, currently under the French and due to pass to Spain on 30 June, can use its powers to block change or modify the Commission's proposal. It must be remembered that the past and future holders of the presidency make up the Troika in order to facilitate a smooth transition. Presently the Troika is France and Spain. Once the deal is negotiated it must be returned to Council for ratification. At this point the European Parliament must be consulted by the Council and has the power to block the entire proposal. Assuming that the proposal is accepted, the Council then must ratify the treaty at a plenary session, after which it becomes European law as a regulation binding upon the member states.

STATEMENT OF PURPOSE

The South African Institute of International Affairs is an independent organisation which aims to promote a wider and more informed understanding of international issues among South Africans.

It seeks also to educate, inform and facilitate contact between people concerned with South Africa's place in an interdependent world, and to contribute to the public debate on foreign policy.