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THE EUROPEAN UNION AND SOUTH AFRICA: REACHING AGREEMENT?

by

Talitha Bertelsmann



THE SOUTH AFRICAN
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PREFACE

South Africa's ongoing negotiations with the European Union for a Trade, Development and Co-operation Agreement have evoked immense interest, not only in Europe and Southern Africa, but also further afield, and at a level unprecedented for any other trade liberalisation accord which the Union has concluded with a third country. These talks are indeed seen as a reliable indication of the direction the imminent Lomé re-negotiations will follow, a process which will radically restructure the EU's relations with the developing world.

It has long been recognised that an SA/EU Agreement, which adequately addressed South Africa's developmental needs, would be an invaluable succour in underpinning our country's young democracy and fostering economic growth, thus enabling South Africa to assume the role the world expects from it, at the forefront of an African Renaissance. An accord sensitive to the needs of, and its impact on, the Southern African Development Community, would also be an important tool in bolstering regional integration in our sub-continent.

The developed world welcomed South Africa's transition to democracy and re-emergence from isolation with pledges of support aimed at redressing the damage caused to the South African economy by apartheid. In offering improved market access for South African products, through its proposal for a free trade arrangement, the European Union's pledge went further than that of any other entity, evidence of the EU's acute awareness of South Africa's economic and social objectives.

As an SA/EU Agreement would inevitably entail several important implications for the economies of third countries, the negotiation process from the start attracted considerable interest, especially in those countries concerned about any negative externalities. South Africa's prominence in international economic, social and political multilateral fora, also accentuated the importance of its relationship with the Union.

Within South Africa and the European Union, the extensive scope and considerable impact an Agreement would have, naturally lead to wide-ranging debate on the merits and feasibility of the endeavour, not only within Government, but also involving civil society, business and labour. The negotiations have indeed constituted a foreign policy priority for South Africa for a number of years, spearheaded by Deputy President Thabo Mbeki's personal involvement in the process. The South African Government from the outset involved the country's business and labour constituencies, through fora such as NEDLAC, as well as the Agricultural Trade Forum, in its deliberations, whilst the South African Parliament has also closely monitored the talks.

South Africa has further taken the utmost care in ensuring that its SADC partners, and especially the SACU countries, are kept abreast of all developments and that their concerns are fed into the negotiations. In Europe, the prospect of an Agreement also lead to extensive consultations, not only in and between the various EU institutions, but also in the Union's Member States, involving government, industry and civil society.

Both in South Africa and Europe, these consultations are ongoing and continue to influence the negotiations. The inputs by independent think-tanks and institutions, such as the SAIIA, have been a precious source of support. It is also important that the evolution of the process be accurately recorded. The account given in this report is an excellent example of such documentation. The paper sketches the negotiations against the background of the wider historical as well as multilateral institutional perspective, and develops the link between South Africa and the rest of the developing world, specifically the ACP, as an essential element of the negotiations.

It is also fitting that Ms Bertelsmann's report touches on EU developments in general. It is very important that the South African public's interest in the European Union be stimulated. The EU will be one of the major players in a new world order in a century to be characterised and dominated by globalisation and inter-regional relations. The EU Member States' pooling of sovereignty in their own national interest, also offers many interesting pointers for SADC's own regional integration efforts. These are crucial times for European integration, the deepening and widening of which is continuing unabated. Enlargement to the East is no longer only looming on the distant horizon but indeed fast approaching, whilst Economic and Monetary Union will soon be a reality. Cornerstones of EU co-operation, such as the Common Agricultural Policy, are also being revised. All these developments will impact on South Africa's relations with the EU, our foremost trade and tourism partner. It is therefore vital that South Africans take note of and understand 'the Brussels process'.

The private sector, through initiatives such as Standard Bank's much appreciated funding of this paper, has an indispensable and vital role to play in support of Government's endeavours in pursuit of our nation's best interest. The continued interest and support of this important constituency will be a most valuable asset during the concluding phase of the SA/EU negotiations.

Elias Links
South African Ambassador to the European Union

1. INTRODUCTION

1.1 The Standard Bank European Union Research Fellowship

As a result of historical links formed during the colonial period, the European Union (EU) has for many years been the largest market entity trading with South Africa. During these years, the United Kingdom, one of the EU's member countries, has become South Africa's biggest trading partner; with trade between these two countries established under colonial rule, it continued to blossom during the apartheid years. Most other European countries enforced sanctions against South Africa and consequently erected high tariff walls against South African products. After South Africa's transition to democracy, the 15 European Union countries decided that a better deal should be worked out for South Africa in order to facilitate change and development within the country during its transition period. Informal talks on a long-term agreement had already been initiated in 1994, but by the end of 1997 no deal had been reached.

The South African Institute of International Affairs (SAIIA) responded to the perceived need for research into the protracted nature of the negotiations and the failure to reach substantial agreement, as well as what the impact of such an agreement would be on South Africa and its neighbours in the Southern African Development Community (SADC). The Standard Bank European Union Research Fellowship was initiated by SAIIA in January 1997, funded by the Standard Bank of South Africa. This report flows out of the research done so far.

1.2 The European Union and South Africa: The Road to Co-operation

The EU is the world's largest trading entity today, accounting for almost one fifth of world trade (19.9% of world exports and 19.4% of world imports). It is estimated that between 10 and 12 million EU jobs are dependent on its exports. The liberalisation of markets across the globe, and the markets of its major trading partners are consequently of great concern to the EU. Embarking on a progressive opening of its own markets, the EU is constantly encouraging other markets to do the same. The EU plays an important role within the World Trade Organisation (WTO), which aims at the universal liberalisation of markets.

The EU is the most advanced and successful attempt at regional integration in the world today. Its foundations lie in the European Coal and Steel Community, established in 1957 and, ever since, the Community has moved even further along the road of integration. Binding European countries into an organisation

that encourages mutual interdependence is seen not only as a means to economic prosperity, but also as an assurance of lasting peace on the European continent. Having experienced the benefits of a strong regional bloc for itself, the EU is constantly encouraging the formation of other regional groupings in developing areas.

In an attempt to assist the progress of developing and least-developed countries, the EU established the Lomé Convention. Seventy developing countries in Africa, the Caribbean and the Pacific benefit from this Convention, mainly through aid but also through trade with the developed world. Lomé countries benefit from non-reciprocal, preferential access to the EU, and some members also benefit from protocols that further increase the preferential treatment on certain agricultural products.

South Africa's evolving relationship with the EU should, therefore, also be seen in the light of the priority accorded by Europe to the liberalisation of world trade, its firm belief in the advantages of regional integration and its established advocacy of development through active participation on the world market.

Undoubtedly some contradictions do exist within aspects of these EU policies. The Common Agricultural Policy (CAP) stands out as one of the greatest obstacles to the free and fair trade in agricultural products on the world market. The policy, formulated during the 1950s, aims at uplifting the European farmer to a status equal to that of an industrial worker, paying subsidies and fixing prices at unnaturally high levels. The policy prevents free and fair entry into the European market and provides unfair subsidised competition.

Formalising South Africa's relations with the EU would have been easier had South Africa enjoyed a similar economic profile to those of its neighbours. Although South Africa has many features of a developing economy, it also shows remarkable strength in certain sectors. Had this not been the case, South Africa would have been able to join the Lomé Convention as its 71st member. However, the EU fears South Africa's strength and competitive edge on some of its sensitive products and therefore proposed a Free Trade Agreement - an agreement this country has had considerable problems in accepting.

It is within this context that South Africa has begun to negotiate an agreement with the EU. South Africa has already embarked on an ambitious schedule of tariff liberalisation, remaining ahead of its GATT obligations. South Africa is, furthermore, participating within the Southern African Development Community (SADC) and it has placed the region as a priority on its agenda. It is encouraging its neighbours to enter into a free trade area in which it is willing to liberalise faster and to a greater degree than its neighbours.

There seems, therefore, to be a great deal of common ground between the EU and South Africa in the realms of trade, regional integration and development assistance, but major obstacles still block the road to a substantive agreement on trade between the two parties. This report examines the reasons for, and the validity of, these obstacles and also suggests ways to overcome them.

The report begins with a brief history of the two parties' relationship and the situation prior to the time that formal negotiations were initiated. It will then go on to look at the EU's trading relationship with the world, and the origins of South Africa's commitment to the Southern African region. The main focus of the report will be a detailed discussion of the negotiations, looking at the progress that has been made and the reason for the delay in reaching a final agreement. It will examine the problems currently being experienced by both parties, and conclude with brief policy suggestions for future negotiations.

2. BACKGROUND

2.1 Past EU-SA Relations

After the devastation of the Second World War, following 40 million deaths and economic collapse which brought Europe to its knees, surviving democratic leaders, parliamentarians, academics and thinkers came together to seek the salvation of Europe by unifying France and Germany in a body which would encourage first economic and then (it was hoped) political interdependence. The key ideas underlying the building of modern Europe were outlined in the Schuman Declaration of 1950:¹

Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which will first create *de facto* solidarity. The coming together of the nations of Europe requires the elimination of the age-old opposition of France and Germany.

The pooling of coal and steel production should immediately provide for the setting up of common foundations for economic development as a first step in the federation of Europe, and will change the destinies of those regions which have long been devoted to the manufacture of munitions of war, of which they have been the most constant victims.

In this spirit, the European Coal and Steel Community (ECSC) was established in 1957 with six initial members: France, Germany, Italy, and the Benelux countries. Since then the Community has expanded and deepened, and is moving ever closer towards a federalist state (although, arguably this is not the ultimate goal of all the members of the current EU structure). It has moved from a coal and steel community to communal trade structures and has recently, since signing the Maastricht Treaty, committed itself to a common foreign and security policy.

With signature of the latter in 1993, the European Community became the EU and abandoned its long-standing system of European Political Co-operation (EPC) by adopting the concept of a Common Foreign and Security Policy (CFSP). The first five 'joint actions' of the Union's CFSP were identified as the promotion of peace and stability in Europe, the Middle East and the former Yugoslavia; support for the Russian parliamentary election; and notably also support for the democratisation process in South Africa.

¹ Luff P, *A Brilliant Conspiracy?* London: The Greycoat Press, 1996.

2.1.1 The EEC's Relationship with the Apartheid Government

Previously, relations between South Africa and the then European Economic Community (EEC) had been hampered by sanctions against apartheid South Africa and the country's virtual isolation.² In the years prior to South Africa's transition to democracy, the EEC played a leading role in trying to reverse apartheid. It developed a comprehensive strategy towards ending the apartheid policy in South Africa: including not only sanctions, but sporting isolation and the suspension of full diplomatic ties with the pariah state, as well as support for the so-called Front-Line States (South Africa's neighbouring countries). The EEC attempted to reduce Southern Africa's dependence on South Africa and actively encouraged and subsidised the former SADCC (Southern African Development Co-ordination Conference).³ To a lesser extent, the Lomé Convention - to which all the SADCC members were signatory - was also used to strengthen South Africa's neighbours against the country's destabilisation policies. This attempt was, however, hampered by the structure of the EPC, which made collective decision-making cumbersome.

The new CFSP is an attempt to address these and other weaknesses of the EPC, including the 'potentially immobilising effect of consensus decision-making, the reliance on Community instruments for an intergovernmental procedure, and the reactive nature of past policy'.⁴ To a certain extent, apartheid South Africa demonstrated through the years the inadequacies and poor implementation of the past EPC policies; the new democratic government of South Africa provided an opportunity to test the new CFSP of the EU. This may explain why, without being classed as an economic or strategic imperative, South Africa was elevated to one of the first five 'joint actions' of the EU. More interestingly, this also signalled the EU's keen desire to become a recognised international actor as a regional organisation. As Martin Holland explains: 'South Africa was of both topical and of international importance: politically, the Union could not ignore becoming involved. "Joint action" was appropriate, justified and demanded.'

² Bainbridge T & A Teasdale, *The Penguin Guide to the European Union*. London: Penguin Books, 1997. Strictly speaking, the European Economic Community now embraces all three communities, that is, the EEC, the ECSC, and the European Atomic Energy Community (EAEC). Since the entry into force of the Maastricht Treaty in November 1993, the European Community has become a component part of the European Union, and legally there remains a difference between the two. However, for general purposes 'the European Union' or 'the Union' is used to refer to what used to be known as the European Community.

³ SADCC members: Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Today SADC includes the previous SADCC countries plus Namibia, South Africa, Mauritius, the Seychelles and the Democratic Republic of the Congo.

⁴ Holland M, *Plus ça change ...? The European Joint Action and South Africa*. Brussels: Centre for European Policy Studies No. 57, p.4, 1994.

In addition, although the South African situation was extremely volatile, the chances of a 'joint action' success in South Africa were most likely then.⁵ South Africa had embarked on an apparently irreversible road towards democratisation. Although violence was condemned, it was also not completely unexpected in a country that was experiencing such a dynamic process of change. It was felt that the incidence of violence was minimal within the broader concept of complete political reversal in South Africa.

2.1.2 The European Union's Relationship with the 'New' South Africa

The Union's 'joint action' towards South Africa was initially divided into three phases, as outlined in a Commission Paper of 29 September 1993:

The Paper proposed a distinction between actions to be taken in three phases: once legislation for a Transitional Executive Council (TEC) was in place; once a TEC was established; and after the elections of 27 April 1994.⁶

During these phases all sanctions were finally removed; aid was increased dramatically; support for the electoral process was given; and support to remove the remaining restrictions on South Africa in the World Bank and the IMF programmes was pledged. Several days before the April 1994 elections, the Union announced in the Luxembourg Declaration,⁷ that its General System of Preferences (GSP) was to be granted to South Africa. (The Luxembourg Declaration has often been referred to as the basis of the negotiations between South Africa and the EU. It refers to political, economic and possible trade aspects of a future relationship.)

During the second phase of the 'joint action', which started in December 1994, the Commission was empowered to open discussions with the TEC on the shape of a new bilateral trade and economic framework. However, the policy made it clear that South Africa should not expect any special privileges, but must realise that whatever agreement was concluded would have to be compatible with obligations under GATT and existing third country and regional agreements.⁸

This was later translated into an offer which envisaged South Africa as a partial

⁵ According to the Presidency conclusions of October 1993, joint action towards South Africa would include the economic and social foundations of this transition.

⁶ *Ibid.* Plus ça change ...

⁷ 18/19 April 1994, Press Release: 6294/94.

⁸ *Op.cit.* Plus ça change ...

and Pacific countries, all former colonies of the members of the EU. Most of these countries are in Africa. Lomé evolved out of the earlier Yaoundé Conventions. Founded in February 1975, the Lomé Convention has grown from an initial 46 member states into a 70 state-strong instrument of North-South co-operation. Apart from receiving development aid from the EU, the member states also enjoy preferential access to the EU markets. The Convention makes special provisions for the ACP countries in two areas, namely trade and financial co-operation. Under its trade provisions, it offers unrestricted, non-reciprocal, and duty-free access for industrial products (including coal, steel, textiles, clothing); duty reductions; and quantitative access for agricultural products. Under its financial co-operation clauses, Lomé provides for massive aid packages: currently Lomé offers more aid than all other states put together. Aid is channelled through the European Development Fund (EDF) and the European Investment Bank (EIB).¹³

GSP: The EU offers a General System of Preferences to a number of developing countries. GSP is a system developed within UNCTAD to encourage the expansion of manufactured and semi-manufactured exports from developing countries by making such goods more competitive in developed country markets through tariff preferences. Each industrialised nation determines its own system of preferences, specifying the goods that would benefit from preferential treatment. The reason why GSP ranks so low on the pyramid is that it is not a negotiated deal, that is, preferences can be withdrawn by Europe unilaterally, leaving the recipient facing a closed European market.

MFN: The Most Favoured Nation principle was developed within the General Agreement on Tariffs and Trade (GATT) after the second World War. With the establishment of the WTO, MFN has become a 'WTO principle'. According to this principle, any member-state of the WTO is assured that its goods will enter the markets of all WTO members at rates of duty no less favourable than those applied to similar products of any other country. The MFN principle is designed to accelerate the pace of tariff reductions and trade growth throughout the world, as well as to avoid the creation of new preferential trade blocs protected by discriminatory tariff barriers.¹⁴ MFN status ranks low on the pyramid as a large number of countries have become members of the WTO in the last couple of years: membership thus simply ensures MFN treatment and does not allow for any preferential treatment.

At the moment South Africa ranks very low on the pyramid, having access only

¹³ Mayer M & L Kritzing-Van Niekerk, 'Towards a South African Position on the Lomé Convention'. Paper presented at DBSA, 1997.

¹⁴ Walters R & D Blake, *The Politics of Global Economic Relations*. New Jersey: Prentice Hall, 1992.

to the Union's General System of Preferences. As discussed earlier, South Africa had become a priority issue for the EU after the signing of Maastricht and the establishment of the CFSP. It would, therefore, have been only natural to move South Africa higher up on the pyramid. Obviously South Africa could never become part of the EU, but it could fit into the next-best slot of a Free Trade Area.

South Africa has, however, had some difficulties in accepting the responsibilities that accompany free trade. It would, therefore be useful to look at how other countries have dealt with establishing Free Trade Areas with the EU.

*2.2.1 The Israeli Example*¹⁵

Israel probably has one of the most fascinating political histories of all the states in the world arena today. Palestine had for centuries been occupied by Arabs and formed part of the Turkish Ottoman Empire during the 16th century. The area, however, fell into British hands during the first World War. The British Foreign Minister, Arthur Balfour, subsequently declared support for a Jewish home in the Palestine territory. Immigration to the area was initiated on a quota basis. With the end of the British mandate over Palestine in 1948, the Jews declared the State of Israel. Immigration was subsequently encouraged on a large scale. Among the problems suffered by Israel was non-recognition by other countries. Another was military attacks by its Arab neighbours, which culminated in the occupation of the Straits of Tiran in 1967, effectively isolating Israel from any maritime contact. This isolation encouraged the Israelis to follow a policy of self-sufficiency.

Israel, however, has enjoyed substantial US and European aid and support, which counterbalanced its immediate isolation in its own neighbourhood to a certain extent. Flowing out of its long-standing support to the region, the EC resolved to formalise economic relations with Israel and offered the state a FTA in 1974.

Although the real effects of a FTA on an individual country are difficult to determine, it is useful to look at a country similar to South Africa, which has enjoyed a FTA with Europe for a number of years. Israel was one of the first countries, geographically distant from Europe, to negotiate a Free Trade Agreement with the EU. Despite a number of hiccups, its economy seems to be going from strength to strength. Prior to signing a FTA with the EU, Israel

¹⁵ The sub-section was researched and co-written by Julie M Egan, a visiting intern at the SAIIA from Michigan State University.

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had been classified as a developing country. Recently though, it has been re-classified as a developed economy by the World Bank. Some reasons for this can be found in Israel's external relations. As the Europa Yearbook puts it: 'Vibrant foreign trade has made a substantial contribution to economic growth, helped by Israel's Free Trade Agreements with the USA and the EU.'

Israel provides a useful comparison within the South African context, due to a number of similarities between the two countries:

- Both Israel and South Africa have small economies in comparison to the 15 member strong EU, although South Africa's economy is relatively larger than Israel's.
- The EU is an important trading partner for both countries.
- Both countries were subjected to political and economic isolation for a number of years.
- The two countries have a history of Import Substitution Industrialisation (ISI) policies.
- The international community played a large role in the political and economic transitions in both countries. Israel received generous aid from European countries following the Second World War; similarly South Africa benefits from large amounts of EU development aid for its Reconstruction and Development Programme (RDP).
- Both countries have similar climates and therefore produce similar agricultural commodities: citrus fruits, floral plants and fruit juices. Agricultural development and production is limited in both instances by lack of water, and not land.

Although the effects of a FTA vary according to the country involved and the specifics of its economy, South Africa could at least look towards Israel to learn from some of its experiences. When considering similarities between the two countries, it should be remembered that Israel negotiated a FTA with Europe under vastly different world circumstances to those of today, including:

- the world wide economic shocks of the 1970s;
- the absence of a WTO;
- large amounts of US aid; and
- the political and economic upheaval caused by the Arab-Israeli conflicts and the Persian Gulf War.

South Africa is currently experiencing substantial problems within the

negotiation process, due to the EU's CAP.¹⁶ Apart from subsidising and protecting its own products through the CAP, the EU further proposes the exclusion of 39% of South African agricultural products from the FTA. South Africa, in return, argues that if the EU is serious about free trade, *all* products should be included in the deal. The EU, however, remains adamant that it is proposing the best possible agricultural deal for South Africa. In all previous trade negotiations, the EU has proposed a positive list of agricultural products, in contrast to the negative list now included in the South African mandate. In other words, whereas previously all agricultural products were *a priori* excluded from the deal apart from the few products listed, all agricultural products will be included in the South African deal, except for the listed products in this case. This means that South Africa will in future be able to export products which it is not currently exporting, without first returning to the negotiating table.

If we examine Israel's position, having accepted a FTA including a positive list of agricultural products, we see that Israel has not been disadvantaged to too great an extent. During the 1970s, the Israeli government promoted a policy of agricultural self-sufficiency. Israel attempted to grow all needed food-stuffs in anticipation of international isolation. Arguably, government intervention caused an inefficient allocation of resources, diverting needed funds away from the industrial sector, and creating an economic incentive to produce in agriculture rather than in industry. Policies changed in the 1970s, which shifted the focus towards industry and away from agriculture. By 1995, the agricultural sector had shrunk to only 4.5% of GDP and was employing only 3% of the labour force. Government, however, retains a strong hand in guiding policy. Israel's main agricultural export is citrus fruit. In 1995, Israel exported 346,549 tons of citrus fruit, an increase of 46% from 1994. Most of this fruit went to the EU, as did around 90% of Israel's production of floral plants.

Potentially the most important lesson for South Africa is that, in spite of the CAP, Israel has managed to increase its agricultural exports into the European market. Israel looked for additional markets, negotiating a FTA with the United States in the mid 1980s, thus opening up another major market for Israeli agricultural products. Also, the movement away from agriculture towards industry and manufacturing over time could prove to be beneficial for South Africa just as it was for Israel. This should be remembered in the light of South Africa's inability to expand agriculturally due to water shortages.

Movement away from ISI did bring about more efficient production in Israel. Simplistically seen, more efficient productive and financial sectors fuel economic growth, economic growth creates stability, and stability decreases risk

¹⁶ See 3.2.1.

factors and provides an incentive for Foreign Direct Investment (FDI).

In the end, when South Africa looks at the Israeli example, it must keep in mind that although there are similarities, the two countries also differ tremendously in other aspects:

- South Africa has a relatively low level of human development and a high level of income inequality and poverty. Each year the United Nations calculates a Human Development Index (HDI) equating 1.0 to perfect inequality and 0.0 to perfect equality. South Africa received an HDI rating of 0.65. By contrast, Israel ranked just below the United States in 1975.
- Tariff liberalisation is becoming the norm rather than the exception in the world economy. All indications are that the trend in the international political economy will be continued tariff reductions. It seems, therefore, that the choice is not whether to reduce tariffs with the EU, but when. Israel liberalised under much less pressure from the world community to do so than is currently evident.
- An important difference between Israel and South Africa is the per capita level of education. (In this respect, South Africa differs too from the 'Asian Tiger' countries, who have recently joined Israel in acquiring 'developed country' status.)

Many factors influence a country's economic well-being and it should, therefore, be remembered that South Africa should look at the Israeli example without expecting to find any direct answers. It is, however, interesting to note that Israel benefited from the FTA with Europe in the following ways:

- through increased trade with the EU;
- through moving away from agriculture towards a more developed industrial base;
- through an increasingly efficient industry; and finally
- through its current sustained economic growth and recent classification as a 'developed' country by the World Bank.

2.2.2 The Mercosur Example

For many years, Latin America was considered a backwater of the world economy, but in recent years the region has shown some remarkable economic developments. Throughout the region a dramatic strategy of moving away from ISI towards neo-liberal market policies was embarked upon. One of the results

of this policy was the emergence of Mercosur. In 1991 Argentina, Brazil, Paraguay and Uruguay formed the 'Common Market of the South' by signing the Treaty of Asuncion, establishing a free trading zone between the countries. In 1994 Mercosur entered its second phase of integration, moving into a customs union and applying a common external tariff (CET) averaging 14%.¹⁷ Mercosur, however, still lacks agreement on the free movement of services, government procurement and intellectual property rights. Nevertheless, it has rapidly become the world's fourth-largest market entity, after NAFTA (the North American Free Trade Area), the EU and Japan.

Like South Africa, Mercosur's principal trading partner is the EU. Around one third of Mercosur's trade goes to Europe and, as in South Africa, the EU is the principal source of foreign direct investment. Mercosur enjoys the additional benefit of including amongst its members some of the EU's most important markets in Latin America. However, Latin America as a whole has never featured as a priority on the EU's trade agenda with the world. In fact, aid to the Latin American states was not mentioned at all in the Treaty of Rome in 1957. For years the region enjoyed no financial nor technical support, nor any tariff preference for its EEC-destined exports. Community policy changed only in 1976, when an EEC programme of financial and technical co-operation for Latin America was set up. Eventually GSP was also granted to the area, although not all countries received the same preference. There is an important lesson to be learnt here for South Africa: GSP is granted and changed as the EU sees fit, keeping its own interests at heart. It is not the most beneficial trading arrangement the EU offers.

In 1994 the idea of a Mercosur-EU accord was raised for the first time. At the time the United States was looking southward, considering the expansion of NAFTA to include the Latin American countries. This raised considerable concerns within Europe as to their access into the rapidly developing markets of Mercosur. In December 1995, the countries of Mercosur and the EU signed the Framework Treaty of Inter-regional Co-operation. This agreement had two complementary objectives: first, to institutionalise a regular political dialogue through periodic meetings of presidents, and through the creation of a Co-operation Council at the ministerial level and a mixed commission; and second, to establish the goal of negotiating a free-trade zone between Mercosur and the EU within a period of ten years.¹⁸

¹⁷ It is, however, an imperfect customs union, as a number of products have been temporarily excluded. These include cars and sugar and groups of products considered sensitive by each member: at present 950 for Uruguay, 427 for Paraguay, 221 for Argentina and 29 for Brazil. It is envisaged that these products will be cut down to zero by the year 2000.

¹⁸ Bousaz R, *Mercosur Economic Agenda in Integration and Trade*.

During the first meeting of the Mixed Commission, held in June 1996, provisional rules of procedure were approved, along with similar rules and guidelines for the Sub-commission of Trade. A co-operation agreement was signed in December of 1996 which is intended to pave the way for an eventual free trade accord between Mercosur and the EU. This agreement is due to be signed only by 2001. This effectively means that free trade between the EU and Mercosur will become a reality only well into the 21st century. A decline in the levels of urgency felt about reaching an agreement with Mercosur was evident between 1994 and 1996, partially due to the US's slow movement on the Free Trade Across the Americas (FTAA), but also due to internal Mercosur problems. Although Europe is still interested in tariff liberalisation between the two parties, negotiations will probably run more smoothly once the EU's CAP has been reformed. In addition, Mercosur itself does not seem to be particularly eager to reach an agreement, wanting to sort out internal problems first.

The lack of urgency can be explained partially by Mercosur's favourable trading position with the US. Although ideally, strong relationships with both of the two strongest economies in the world should be striven for, Mercosur does not have an immediate need to formalise its relationship with the EU. While foreign investment flows and trade are directed towards Europe, its ties with the US are equally strong. Developing the parallel between Mercosur and South Africa, it has also been argued that South Africa should not have jumped at the chance of negotiating a FTA with Europe, without having negotiated with a less important trading partner first. Both the Israeli and Mercosur examples seem to suggest, then, that South Africa should not focus exclusively on its biggest trading partner, but should also consider alternative partners for trade relations.

NAFTA could be taken as an example. According to trade statistics, South Africa has significantly less trade with NAFTA than with the EU. Negotiating an FTA first with NAFTA could have been used as a testing ground for future trade deals: local and foreign producers would not have been vehemently opposed to the deal, as their main trading interests would not have been affected. After implementation the effects of free trade could have been monitored. NAFTA also does not have a Lomé Convention. The implication of this would have been that a truly unique deal for South Africa could have been worked out without having to take previous deals with the developing world into consideration and without fear of setting a precedent. (The EU cannot give South Africa a preferential trade agreement without considering the other 70 countries of the ACP.) Without the example of a previous agreement with the developing world, South Africa would also not have been tempted to pursue a similar agreement at all costs, but would have concentrated exclusively on a Free Trade agreement. There would have been no SADC problem: NAFTA trade with SADC is minimal, whereas EU-SADC trade is significant to the

developing community. A NAFTA-South African FTA would have been viewed as an insignificant internal South African matter, but with one important result: it would have strengthened South Africa's bargaining position *vis-à-vis* Europe.

2.3 The Changing Global Arena

As illustrated by the Israeli and Mercosur examples, the world has changed dramatically over the last decade. South Africa today has to deal with different issues compared to those faced by Israel in the 1970s. Globalisation, the Internet and dramatic technological advancement need to be kept up with. Trade has increased dramatically, both between states and individuals. Tariff liberalisation has become the order of the day, and the emergence of the WTO is a direct result of this. The conditions have brought to a turning point the Lomé Convention, which has for years regulated relations between the EU and the developing world. The EU is no longer willing to pour enormous amounts of development aid into these countries if they are not responding adequately. In addition, the EU has a host of internal problems of its own, which will dominate the European agenda over the next couple of years, including the expansion of the Union to the east and the further deepening of the EU itself.

2.3.1 *The World Trade Organisation*

The WTO was established on 1 January 1995, by the 128 members of GATT, through a Ministerial Declaration signed in April 1994 in Marrakech, Morocco. It is both an institution to govern international trade and negotiations, and a body of law, which contains and administers a number of legal agreements on how countries should conduct international trade, ranging in its specifics from the Agreement on Agriculture to the Agreement on Import Licensing Procedures.

The WTO also provides rules governing Free Trade Agreements between two parties. Although not very detailed, the rules have been creating some problems within the EU-SA negotiations. (As outlined above, these rules were absent during the Israeli-EU negotiations.)

The origins of the WTO lie in the General Agreement on Tariffs and Trade (GATT), established as the third pillar of the Bretton Woods system, alongside the International Bank for Reconstruction and Development (or the World Bank), and the International Monetary Fund (IMF). According to the 'Havana Charter', GATT was initially supposed to be an international trade organisation, but opposition from the US reduced it to a mere agreement. GATT, initially signed by 23 nations in 1947, became a legally binding codification of rules for the conduct of trade among its member states. Its general goal was to maximise

growth in world trade and the global economy through the reduction on a non-discriminatory basis of trade barriers. Its primary function was to encourage trading nations of the world to adhere to the most-favoured-nation (MFN) principle, which involves a commitment to non-discrimination.¹⁹

The logic behind this was that if barriers to trade, especially tariff barriers, could be removed, less efficient industries would no longer be protected. This in turn would encourage countries that have a comparative advantage in a certain product, to produce the bulk of this product, leaving others to tend to whichever of their own particular products that enjoy a comparative advantage. According to the advocates of free trade, all nations will then be better off: if there are no restrictions, then countries will produce at fullest capacity and there will be more goods available to all.

GATT instituted eight rounds of negotiations during which tariff reductions were discussed. After the first few rounds it was observed that with lower tariffs, non-tariff barriers seemed to rise. During the Kennedy and Tokyo Rounds, these issues were included on the agenda. Not all GATT members signed agreements on technical barriers to trade, import licensing procedures, government procurement and other non-tariff areas of concern. The countries who did sign were mainly within the Organisation for Economic Co-operation and Development (OECD). Although the members of GATT viewed their commitment to the agreement as permanent, implementation of the MFN principle has not always been strict, which led members to feel that a more permanent body with laws and enforcement capabilities was needed. These, among many other issues, were discussed during the Uruguay Round.

The main differences between GATT and the WTO can be summed up in the following way:

- GATT is *ad hoc* and provisional: the agreement was not ratified in members' parliaments, and it contained no provisions for the creation of an organisation. The WTO and its agreements are permanent. The WTO has a sound legal basis, and its members have ratified WTO agreements.
- The WTO has 'members', whereas GATT has contracting partners.
- GATT deals with trade in goods. The WTO covers services and intellectual property rights as well.
- The WTO dispute settlement system is faster and more automatic than the old GATT system.²⁰

¹⁹ Ray JL, *Global Politics*. Boston: Houghton Mifflin Company, 1992, p.251.

²⁰ About the WTO. WTO Website.

Dramatic change in the global environment has necessitated structural changes within GATT. In the same way, the Lomé Convention in its current form is no longer a viable instrument for north-south co-operation or the development of the poorest countries in the world.

2.3.2 The Future of the Lomé Convention

In the 22 years during which Lomé has governed relations between the ACP and the EU, the Lomé countries have had access to a vast number of trade preferences, and quantities of development aid. However, most of these countries have not benefited from these measures to the extent that Europe had hoped: some of the ACP countries remain among the least developed economies in the world. In fact, the ACP trade share of the EU market has declined from 6.7% in 1976 to a mere 2.8% in 1994. Throughout Europe it is increasingly felt that development aid is a waste of money, as past projects have not managed to alleviate poverty or to develop infrastructure. Europe would, therefore, like to restructure the Lomé Convention in such a way that the effects of aid in development and trade show some concrete results. The main reason for wanting to change the Convention is, however, the fact that the Lomé Convention is not WTO compatible, for two main reasons:

- it discriminates between member countries of the WTO, as not everyone is granted the same, non-reciprocal access to the European market; and
- it discriminates between developing countries (LDCs) and least developed countries (LLDCs) in the world; also not all under-developed states form part of the Lomé Convention.

The Convention is currently enjoying a waiver from the WTO, which will expire on 28 February 2000. The renegotiation of Lomé will start in September 1998, which will leave roughly 18 months to secure a new agreement between the EU and the countries of the ACP.

In preparation for these negotiations the EU released a Green Paper in November 1996, which discusses the future possibilities for Lomé. Within the Green Paper, the EU sets out a number of possibilities for the future relationship between the ACP and the EU. Put simply, Europe proposes four options for improvement for the general Convention:

- maintaining the *status quo* with a few adjustments;
- reaching an overall agreement supplemented by bilateral agreements;
- splitting up the Lomé Convention into regional segments; or
- reaching specific agreements for the least developed of the ACP countries.

As to the Convention's agreement on trade arrangements, Europe also proposes four options. The Union feels that all ACP countries have not been able to take advantage of the full range of opportunities offered by the special preferences granted under the Lomé Convention. Europe thus suggests:²¹

- maintaining the *status quo*, supplemented by co-operation activities;
- applying the Community's Generalised System of Preferences (GSP);
- reaching an agreement of uniform reciprocity (after a transitional period to phase in reciprocity to eventually comply with WTO rules); or
- reaching an agreement of differentiated reciprocity.

However, there are several reasons why many of these options are simply not viable, and why only minor adjustments to the current Convention should be considered:

Status Quo

The attraction of the *status quo* lies in the fact that it is a known entity with which, although it has not been a roaring success, all participants are at least familiar. To change the whole structure will result in considerable administrative costs to all the members. The continuation of the Lomé agreement would maintain the contractual nature of the relationship. It would also ensure the best preferences for the ACP group, which would hold onto its political strength and unity and in this way preserve its voice in international debates. The obvious disadvantage of continuing with the Convention is that it requires an annual WTO waiver, and that relationships with other least developed countries remain difficult to initiate. A further message that the ACP group would be sending to the world, if they were to continue their participation in Lomé, is that they still consider themselves to be least developed countries, in need of special preferences and aid from the rich. This image creates problems for countries wishing to attract Foreign Direct Investment (FDI) and boost foreign trade.

Integration into the General System of Preferences

The EU offers GSP to a number of developing countries. The advantage of granting GSP to all the members of Lomé, lies in the fact that a uniform policy towards the entire developing community could be formulated. In other words, it would create a level playing field for all the least developed nations of the

²¹ European Commission, 'Green Paper on Relations between the European Union and the ACP Countries on the Eve of the 21st Century: Challenges and Options for a New Partnership', 1996.

world. The disadvantage lies in the fact that GSP is not a negotiated deal. Preferences can be withdrawn by Europe unilaterally, leaving the ACP with a closed European market. GSP would reduce drastically the preference margin currently being enjoyed by the ACP within Lomé, dismantle the Lomé package permanently and weaken fundamentally the partnership that forms the cornerstone of EU-ACP relations.

Uniform Reciprocity

As an alternative to maintaining the *status quo*, uniform reciprocity would be allowed by the WTO and would create a secure environment for FDI. In contrast to GSP, it would also be able to continue the partnership approach taken within Lomé and would certainly be a negotiated deal from which neither party could back down easily. It would also create a level playing field with the EU's other associates in the developed world. However, there would be no scope for differentiation between states, and the current diverse levels of development of the ACP group therefore renders this proposal unfeasible. If one considers that South Africa, which has a much stronger economy than any ACP member, has difficulties in accepting the proposed FTA on the grounds of the adverse effects that the agreement might have on its economy, it becomes clear that no other ACP country will be able to implement a FTA with Europe.

Differentiated Reciprocity

Differentiated reciprocity would enjoy the same benefits as uniform reciprocity, except that it might not be accepted by the WTO. This kind of differentiation is attractive because each ACP sub-region could negotiate a deal best suited to itself and its level of development. This could also facilitate the integration process between the ACP and other countries on similar levels of development. However, the group would have to sacrifice its ACP unity. Differentiation would create problems for countries which are not part of a sub-region. It is clear that the benefits under differentiated reciprocity will be fewer than under Lomé. The Protocols on Rum, Beef and Bananas would be lost, as well as the CAP preferences. The feasibility of this proposal is also questionable, as South Africa is currently having difficulty negotiating an agreement that virtually amounts to an example of differentiated reciprocity. Once again the negotiating ability of the ACP group remains doubtful.

None of the above suggestions would adequately address the perceived failures of the Convention, and at the same time preserve the positive elements. The most viable option would, therefore, seem to be to continue with the current Lomé structure, as an umbrella organisation, and then develop a menu of trade arrangements within the Convention, from which the participants could choose

the best possible trade arrangement for themselves. This would allow for other developing countries to join the ACP fold. The possibility therefore remains open for SADC to choose an agreement with Europe that would best suit the Community's needs and facilitate the regional integration process.²²

Within the post-Lomé negotiations, the various partners to the negotiations should keep the European timetable of negotiations in mind. The extent to which the Lomé question will remain a priority may be undermined by the EU's expansion to the East and its own internal economic agenda.

2.3.3 Widening and Deepening of the European Union

When the first six European countries came together in the European Coal and Steel Community, they placed Europe on a road which seemingly led to European political and economic integration, in something similar to a federalist state. The process of deeper integration has been very lengthy and in the meantime many European states have requested participation in this highly successful regional organisation.

As we near the end of the century, Europe has embarked on its biggest and most significant projects to date: deeper integration of the European Monetary Union (EMU) and a round of enlargement that will bring in a different set of new members: 'not, as on previous occasions, other more-or-less prosperous West European countries, but the far poorer ex-communist countries of Central and Eastern Europe.'²³

European Monetary Union

Some of the economically stronger member states are preparing for monetary union, set to take off in January 1999. However, several hiccups have occurred in the lead up to the EMU. According to the Maastricht Treaty, countries that would like to join EMU have to meet certain criteria by January 1998. These include:

- Government deficit and debts must be no more than 3% and 60% of GDP respectively;
- Inflation rates and long-term interest rates must be within 1.5% and 2% of the average of the three countries with lowest inflation; and

²² Stevens C, 'Globalisation and Differentiation in EU Development Policy Issue'. Paper presented to Partnership 2000 Reflection Group, 1996.

²³ 'Survey of the European Union', *The Economist*, 31 May 1997.

- Each country's currency must have stayed within the Exchange Rate Mechanism bands for a minimum of two years.

EMU is unimaginable without the participation of Germany and France, yet both of these countries have been experiencing difficulties in meeting these criteria. In addition, the German and French governments are faced with considerable domestic opposition to the desperate steps taken in order to meet the deadline. The big question currently posed is 'What will happen if these two do not meet the criteria?' Will EMU be postponed or will the criteria be relaxed? Both of these options could have serious implications for Europe. First, either would boil down to a breach of the Maastricht Treaty; second, if postponement is preferred, EMU might not become a reality for many years, casting a shadow over European integration; and third, if a relaxation of the criteria is preferred, the quality and stability of the common currency could be threatened.

Europe is likely to press on regardless. The question remains, however, at what cost?

Inclusion of the East

As many as 10 new applications for participation within the EU will be examined within upcoming years. These include Hungary, Poland, the Czech Republic, Slovenia, Slovakia, Estonia, Latvia and Lithuania, Bulgaria and Romania. The first four of this list might join the Union by 2002. There are, however, conflicting views among the current members about which countries should be allowed to join first.

The criteria for joining the EU were, however, agreed at the EU Council meeting in Copenhagen in June 1997. These include:

- Political Criteria: prospective candidates should include among their state structures the rule of law, respect for human rights and democratic institutions.
- Economic Criteria: new members should enjoy a functioning market economy which can compete within the Union.
- Acquis Communautaire:²⁴ new members should show willingness and ability to take on the whole set of legal instruments and programmes of the EU.

²⁴ The phrase 'acquis communautaire' denotes the whole range of principles, policies, laws, practices, obligations and objectives that have been agreed or that have developed within the EU. These include most notably the Treaties in their entirety, all legislation enacted to date, and the judgements of the Court of Justice. Bainbridge, *op. cit.*

The problems that surround the expansion of the Union eastward include the very real problem of Eastern Europe's economic, constitutional and political compatibility with the rest of Europe. Although free trade is already in place with most of the applicants, a number of exclusions and quotas have been imposed on sensitive products, notably sensitive products in the western European agricultural sector.

The EU's CAP will come under severe strain if it is still in place by the time the new members arrive. As the Eastern countries rely heavily on agricultural production, CAP subsidies would drain to the East, placing an increased burden on the Union's dwindling funds. (Currently 50% of the EU's annual budget goes to the CAP.) It has been clear for quite some time that the CAP needs to be dismantled, but now it has become almost a prerequisite for further expansion. In addition, any changes to the policy may create mayhem in western Europe, where farmers will certainly take to the streets, as has so often been the case in Paris.

What Does This All Mean for South Africa?

The European calendar is going to be jam-packed during the next couple of years: between implementing EMU, expanding eastwards, dismantling the CAP and renegotiating the Lomé Convention, little time or money will be left to spare. By now it should be very clear that any more concessions by Europe should not be expected. South Africa needs to finalise the negotiations that have been dragging on for years, and which have recently been described by a European diplomat as 'one of the most troublesome bilateral trade deals ever negotiated.'

3. SA-EU FTA NEGOTIATIONS

3.1 The European Proposal

Throughout the negotiations, the EU has claimed that its negotiating mandate is unchangeable. Any major deviations from that mandate would have to be referred back to the 15 member states, a process that could prove very time-consuming. The negotiations have, therefore, to a large extent been following the lines set by the European mandate.

The structure of the European proposal on a long-term trade and co-operation relationship can most easily be understood if it is seen to be resting on three pillars. They are:

- several agreements on co-operation in a number of specific fields: science and technology, wine and spirits, and fisheries;
- South Africa's partial accession to the Lomé Convention; and
- a Trade and Co-operation agreement to cover all aspects of the relationship not addressed in Lomé.

A more detailed analysis of this proposal follows.

3.1.1 Co-operation Agreements

During South Africa's transition to democracy, the EU provided generous funds for voter education and indeed for the whole election process. After the elections, funds were directed towards the Reconstruction and Development Programme (RDP) and other development projects. Unfortunately, not all of these funds were effectively used, as the Sarafina débâcle proved. On a contractual basis, the two parties signed a co-operation agreement on Science and Technology. Similar agreements on Wine and Spirits, and Fisheries are in the process of being finalised, concerned not with the liberalisation of tariffs, but with quality and standards.

The Agreement on Science and Technology Co-operation

On 5 December 1996, the first mutual co-operation agreement between the two parties was signed. The agreement provides for scientific and technological co-operation between South Africa, the EU and its member states. A joint Science and Technology Co-operation Committee will be established in order to administer the agreement. In South Africa, the Department of Arts, Science and

Technology, in conjunction with the Department of Finance, is responsible for the implementation of the agreement.

Within the Fourth Framework Programme adopted by the European Parliament, South Africa has been classified as a 'developing country', which will enable it to benefit greatly from the provisions of the programme, including:

- visits and exchanges of research workers, engineers and technicians;
- participation by experts in seminars, symposia and workshops;
- scientific networks and training researchers; and
- exchange of information on practices and programmes.

As a 'developing country', the programme encourages South Africa to initially target three areas, namely sustainable management of renewable natural resources, sustainable improvement of agricultural and agro-industrial production, and health.²⁵

3.1.2 Accession to the Lomé Convention

South Africa initially rejected the European proposals of partial Lomé accession and a Free Trade Agreement, as it was intent on pursuing full participation in all the institutions of Lomé. This approach was a contentious one from the start, as South Africa's economic situation is unique. All of the current participants in the Lomé Convention are classified either as 'developing' or as 'least developed' nations. In contrast, South Africa is classified as an 'economy in transition', making it neither developed nor developing. Whereas South Africa is widely perceived to have a dynamic economy which is also the powerhouse of the Southern African region, it exhibits a high degree of duality. The economy displays: a relatively high GDP per capita, but continues to exhibit large inequalities of income; a diversified production base, but one that is still highly dependent on mining (50% of export earnings); an infrastructure base better than any other country in sub-Saharan Africa, but an industrial sector which is uncompetitive in many areas after years of protection; and an acute shortage of skilled labour alongside burgeoning unemployment.²⁶ Although the EU recognised the 'developing' nature of South Africa's economy, it barely considered full participation in Lomé as an option for South Africa, citing the country's economic sophistication in comparison to the economies of other ACP

²⁵ Department of Arts, Culture, Science and Technology. Press release.

²⁶ European Commission. 'Commission launches a New Framework for EU-SA Relations in Port Parole'. Press release, 1995.

countries. It felt that, whereas the developing nature of South Africa should be addressed within a framework of aid, its developed nature should be accommodated in a reciprocal trade agreement.

The European Commission offered additional reasons for rejecting South Africa's bid for full Lomé participation, including:

- The effect it might have on the other ACP countries: in 1995, South Africa's exports to the EU were equivalent to more than a third of total ACP exports and it was felt that South Africa would over shadow other ACP economies.
- The interests of other members of the WTO: other countries, currently on the same level of development as South Africa, could (and would) rightly then demand access to the Lomé Convention as well.
- Protection for vulnerable EU sectors: for the same reasons that 39% of South Africa's agricultural products are currently excluded from the negotiations, the EU feared South African Lomé participation: some South African products may have a comparative advantage and could damage European products if allowed completely tariff-free onto the market.
- The promotion of South Africa's integration in the global economy.²⁷

By contrast, South Africa has argued that only a small percentage of South Africa's current and potential exports to the EU could provide competition to the ACP. South Africa has a very small agricultural export mix, and the EU should therefore have nothing to fear. In a move which seemed at the time to be an effort to sway the EU and to strengthen its claim to 'developing' country status, South Africa strengthened its ties with the Southern African Development Community (SADC), whose other members are all Lomé countries. Pretoria identified the region as its priority, aiming to co-ordinate its own trade policy with those of its neighbours. South Africa also signed a Free Trade Protocol with SADC, which aims at removing tariff barriers in the region within eight years of implementation. Equivalent levels of access into the European market for both South Africa and other SADC states would have facilitated this process. However, the EU remained adamant that only political participation in the Convention would be considered for South Africa.

The negotiations demonstrate that the bargaining position of the EU is strengthened by its numbers: the EU team has repeatedly stated that it cannot

²⁷ European Commission Directorate-General for Development, 'The European Union and South Africa: Building a Framework for Long-Term Co-operation', 1997.

deviate from its negotiating mandate, as the document had been drawn up by the 15 member countries; any deviation would have had to be re-discussed and re-negotiated with all of the members. Although South Africa could not achieve full SADC integration within a couple of months, they had hoped that the Trade Protocol would strengthen their position in a similar way. Whether this was successful remains debatable.

However, due in part to South Africa's persistent request for full Lomé participation, the Lomé negotiations were de-linked from the overall trade and co-operation talks. This de-linking fell outside the European mandate, which created the impression that the mandate might not, after all, be cast in stone. It remained, however, a minor concession by Europe. After de-linking, South Africa's accession was finalised swiftly, despite protest from Spain, which feared that South Africa would abandon the FTA negotiations after having achieved its main goal, Lomé. South Africa's accession to the Lomé Convention was ratified at a joint ACP-EU ministerial conference on 24 April 1997.

South Africa's accession to the Lomé Convention remains effectively a political accession rather than an economic one. The main economic benefit will be the ability to tender for European Development Fund (EDF) projects in all ACP countries, which could have important economic benefits for South Africa and the region as a whole, enabling these countries to tender for contracts worth R45 billion. In addition, South Africa will benefit from the 'Cumulation of Origin' clause. South Africa will further participate in Lomé projects on technical, cultural and social co-operation, regional co-operation, industrial development, and investment promotion and protection. It will not, however, be eligible for non-reciprocal trade benefits, and will receive development aid separately from the Lomé Convention.²⁸ The special protocols on bananas, rum, beef and veal, sugar, and coal and steel products will also not be applicable to South Africa.

The form which South Africa's accession to Lomé eventually took, was exactly as originally proposed within the European mandate, except for the de-linking from the overall talks. The finalisation of the Lomé issue could therefore be seen as a negotiating defeat for South Africa: it gained nothing more than it had been offered. It no longer has a bargaining chip on the table to give up during the forthcoming trade negotiations and, in addition, with its persistent calls for full accession to Lomé, it signalled to the world that it considers itself to be a developing country in need of aid and not a stable country deserving FDI.

²⁸ It is interesting to note that South Africa currently receives more development aid than any of the Lomé countries through the European Programme for Reconstruction and Development. South Africa will be receiving R1,236.75 million in the year 1998/1999.

A further obstacle to South Africa's final participation within Lomé occurred when the South African government indicated that Parliament would refuse to ratify its Lomé accession unless Europe reviews the basis on which South Africa may participate in the 'Cumulation of Origin' clause.

The reason for this additional hitch can be found in South Africa's *ad hoc* participation within the 'Cumulation of Origin' provisions. As members of the Lomé Convention, ACP countries 'can co-produce manufactured goods with specified countries and still benefit from preferential access to the EU market',²⁹ usually paying no import tariffs. With its partial entry into Lomé, South Africa should have become one of these specified countries. However, allowing South Africa to only participate in the 'Cumulation of Origin' on an *ad hoc* basis, would mean that each Lomé product with a South African input would first have to be screened by the EU, allowing Brussels to protect its own sensitive products. It is evident that the member-states of the Southern African Development Community (SADC) could also be affected negatively by this stipulation - they could even lose their existing Lomé preferences due to South Africa's future participation. On the other hand, if South Africa were allowed unrestricted input into Southern African regional products, it could enhance regional integration and productivity, with products and projects potentially being initiated jointly.

Parliament's objection to the *ad hoc* nature of its participation was inevitable, as the principle was never properly outlined. Repeated requests by South Africa for clarification from the EU were never met, and it is only now that Europe will be forced to explain the stipulations. It is important to note that the exact definition of South Africa's participation is closely related to - and dependent on - the outcome of an FTA stipulation on its 'Cumulation of Origin' clauses. The delay in clarification by Europe can, therefore, be explained by the delays in the ongoing FTA negotiations.

It is unfortunate that South Africa could once again be seen as putting a spanner in the works, when Parliament is simply - and justifiably - calling for clarification on an ill-defined clause. However, opposition to the *ad hoc* clause would probably have been more meaningful to the FTA negotiations if it had come from SADC as a whole. SADC passed up an opportunity to clarify the clause at the joint ACP-EU ministerial conference held in April this year, during which South Africa's partial accession was ratified as proposed by the EU.

²⁹ Loxton L, 'SA Upset by Lomé Clause', *The Star*, Business Report, 3 September 1997.

South Africa as a Model for a Future Lomé Dispensation

An important lesson for the other ACP countries flows out of South Africa's partial accession to Lomé. As a political member, it is expected of South Africa to participate fully within the ACP structure, especially in the light of future negotiations on the Lomé Convention. South Africa will be able to assist the ACP significantly within the negotiation process, having had the hands-on experience of negotiating with the EU during its FTA negotiations. In addition, as the chairperson of SADC, South Africa will be leading the Community in establishing its negotiating position. Although South Africa will not be able to sit in on the negotiations surrounding a future trade dispensation, it will be expected to play an active role in determining the future of the general structure of the ACP-EU relationship.

Not only does South Africa's participation within the Lomé Convention provide an important impetus for the ACP countries, it also provides them with some sense of what will be acceptable to the EU regarding a new political framework. The EU sees the need to change Lomé due to its WTO incompatibility (resulting from the exclusivity of the Convention's members and the non-reciprocal nature of the relationship). The ACP has, however, expressed the need to stay together within the ACP fold, in order to retain its grasp on some political power within the world arena. These two opposing opinions could be reconciled by following the South African example: allow other developing and least developed countries into the Lomé fold on a political basis - like South Africa's accession - and establish an independent and possibly unique trading relationship with particular countries, depending on their level of development and their needs. This would then create the further possibility of grading individual, existing ACP countries in differing trade relationships with the EU, without breaking down the political Convention and without needing any further WTO waivers.

3.2 Free Trade Agreement

3.2.1 The South African Reaction to the EU Mandate

The third pillar of the proposed agreement is the Free Trade Agreement. Faizel Ismail, Chief Director of Foreign Trade Relations, has said that the South African negotiators are 'diplomats in the service of development'. This approach lays the foundations for the South African negotiating mandate. The future trade relationship between the EU and South Africa will be the most important aspect of the relationship and will possibly have the most far reaching effects on South and Southern African development. For this reason, South Africa has rejected the European FTA mandate, basing its objections, first, on

the proposed exclusion of 39% of South African agricultural products; second, on the fact that South Africa will have to lower its tariffs far more than the EU; third, on the brevity of the asymmetrical implementation period; and last, on the adverse effects the agreement will have on the Southern African Customs Union (SACU) and on SADC.

After a series of consultations with various sectors in the country, the South African government proposed a Trade and Development (TDA) agreement instead. The proposal focuses on a strategy for sustainable development in South Africa and the region which includes an asymmetrical phasing-in period in both content and time. According to the European interpretation of WTO rules, the South African proposal does not seem WTO compatible. However, the South African government has been arguing that WTO rules are not specific with regard to Free Trade Agreements in general, and also not specific concerning FTAs between a developed and a developing country. It also argues that WTO rules do not stipulate that the percentage of trade has to be the same on either side.

An analysis of the reasons for South Africa's rejection of the European mandate brings into focus South Africa's position regarding the EU and its neighbours:

3.2.2. *The 39% Exclusion of South African Agricultural Products*

The EU'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 approximately 55% of South African agricultural exports to the EU. The EU is thus envisaging an asymmetrical liberalisation process in the agricultural sector. South Africa is expected to liberalise to a greater extent, although more slowly, than the EU.

Apart from excluding sensitive products from the FTA, South Africa's agricultural gains from the proposed agreements are further frustrated by the EU's CAP. The CAP has come under serious criticism by various countries throughout the world - not least by its own members.

The policy, formulated in the 1950s and in full operation since 1969, aims at uplifting farmers in Europe to a status equal to that of industrial workers, and 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:

- to raise agricultural productivity;

- to ensure a fair standard of living for the agricultural community;
- to stabilise markets;
- to assure the availability of supplies; and
- to ensure that supplies reached consumers at reasonable prices.

The policy may be criticised in many aspects, but arguably its main failure has been in establishing 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 increased prices in order to sustain the living standard and commercial viability of the farmer.³⁰

The CAP fixes the prices of agricultural products at a certain threshold beneath which European prices are not allowed to fall. The EU 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 Union. In return, the EU sells the supplies it bought from the farmers, for a loss, at the world price. In a recent article in *The Economist*, the CAP was described as having ‘over the years created beef and mutton mountains, paid farmers not to grow crops, destroyed millions of tons of fruit and vegetables and fostered fraud on a gargantuan scale. It almost wrecked the last round of world trade talks [and] it has gobbled up over half the EU’s entire budget.’³¹

The price fixed by the Union also raises the import tariff on products from outside the EU. Although foreign producers generally export at a much lower price, the fixed European price means that importers cannot undercut Union suppliers. Some EU products have for years been twice as expensive as world products. Although currently still allowed by the WTO, the CAP is often criticised for its incompatibility with WTO standards, and also for its effect on developing countries.

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 unfair European competition. Even though many of these countries receive preferential

³⁰ Harrop J, *Political Economy of Integration in the European Community*. Boston: Edward Elgar Publishing Limited, 1993.

³¹ ‘Europe’s Farm Follies’, *The Economist*, 6 September 1997.

access to the EU market through the Lomé Convention, they remain incapable of competing where products still need development.

New GATT rules oblige the EU to dismantle the CAP by some 30%. However, due to pressure from agricultural lobbies within the EU, cuts made to agricultural aid are 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.

The 39% exclusion of South African agricultural exports is not in itself a huge problem - South Africa enjoys 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. Nonetheless, the existing tariffs have not prevented, and will not prevent, entry into the market, as reasonable profits are still to be made. It is even argued by the EU that South African producers would not benefit from lowered tariffs. Once tariffs are reduced, the exporter will gain in the first year, as he need not pay a tariff and can sell his product at a lowered price, making a greater profit than the previous year. During the second year of lowered tariffs, the consumer on the European market should respond to the lowered price with a higher demand for the product. However, the case with many South African agricultural products is that already they have reached near production capacity due to the limits imposed by water shortages in South Africa. The producer therefore could not increase production in response to increased demand and the net benefit will remain with the exporter. If this argument holds true, then the European negotiators should also realise that there is no need to exclude these products from the negotiations.

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 can be 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 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 all European agricultural exports and it would become impossible to reach a WTO-compatible agreement.

There are some advantages in the present form of the proposed FTA with the EU, although only in the export sector. The 39% exclusion, however, reduces the attraction of exporting gains. Fears 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 being 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 supply only 90% of its red meat consumption. It is also expected that, within the next two decades, South Africa will increasingly struggle to supply its population with red meat. (Population expansion is expected to increase 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 have to import red meat, especially low quality meat, from exporting countries. Ideally, these exports should come from its neighbours, as this would increase regional co-operation and development.

Studies done by the Red Meat Producers' Organisation (RPO), however, show that the EU could export red meat to South Africa at under R6,00/kg, well below local production prices. Each kilogram would be supported by some R16,00 in EU subsidies. The current 40% tariff on red meat imports might not be enough to protect local producers. Under the FTA, the EU expects South African tariffs to be lowered below the 40% threshold, which could result in serious problems for local and neighbouring producers.³²

3.2.3. *Lower European tariffs*

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 meaning more than 90% of traded products. Under an FTA then, 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.

³² De Jager F, 'Oorsese Markte 'n Moontlikheid, Maar Wees Versigtig' in *Red Meat*, 13, 3, February 1997.

It is therefore clear that South Africa will have to lower a greater number of tariffs, despite being the weaker party.

3.2.4 The Short Time Frame

According to WTO rules, a Free Trade Agreement is allowed to contain an asymmetrical adjustment period of 10 years. The period can be extended by another 2 years for products of extreme sensitivity. When the EU negotiated a FTA with Israel, however, the adjustment period was determined at 15 years and South Africa would like the same concession. It should however be remembered that in 1974, when Israel signed a FTA with Europe, there was no WTO laying down the rules for these agreements.

During a mid-year round of negotiations, South Africa proposed that all products be included in a FTA with an adjustment period of 12 years. This proposal is not only aimed at prolonging the time frame, but also at the agricultural exclusions. Although, according to all reports, the proposal was received sympathetically, the EU still feels that it cannot make significant changes to its mandate.

3.2.5 The Negative Impact on SADC and SACU

The negative impact which the FTA might have on SADC and SACU has been the main focus of the South African negotiators. South Africa is aware that without an economically stable neighbourhood, Southern Africa will not be able to develop adequately. It has expressed its loyalty to the region time and again. As discussed, South Africa's participation in the Development Community appeared to be a ploy at the time to win full Lomé participation, or at least to secure a deal more suited to a developing nation than a developed one. However, African refugees, illegal immigrants, a continent which seems to remain in political turmoil and a massive trade imbalance are real worries to South Africa. It cannot afford a deal with Europe which, according to all estimations, will initially have a negative impact on itself and may have a far worse effect on the region. Such an economic setback to the region would only further increase the problems currently experienced by South Africa.

The situation in SADC is evident from the following statistics: South Africa has a per capita GDP of US\$2,902 in comparison to its immediate neighbour Mozambique (US\$80). South Africa accounts for 82% of the total GDP in the area, and Zimbabwe, the next strongest economy, a mere 8%. Primary commodity exports dominate the exports of SADC, with an average of 82%. Once again South Africa dwarfs its neighbours in both imports and exports,

accounting for 62% of total SADC imports and 70% of total SADC exports.³³

South Africa is therefore taking a multi-faceted approach to its trade relations with the world and the region. In order to harmonise trade it is currently negotiating a Free Trade Protocol with the region, renegotiating the SACU formula and participating, although only partially, in the Lomé Convention. As already discussed, to increase its participation in the global market and to develop a tariff regime attractive to FDI, South Africa is negotiating a trade agreement with Europe, its biggest trading partner, and participating as a full member of the World Trade Organisation.³⁴ This approach provides a partial explanation for the lengthy nature of the EU-SA negotiations. Although these negotiations do not have to follow one another, they have to proceed concurrently. Whereas the EU would like to finalise all the negotiations, South Africa first needs clarity on the SACU and SADC negotiations, before it can make a final offer to Europe.

(a) SADC

Given their intent to achieve political liberation, South African regional organisations have for years made political stability their focus. The transformation of the Southern African Development Co-ordination Conference (SADCC) into the Southern African Development Community (SADC) in August 1992 heralded a new era for the regional body. Political stability of a sort had been achieved in most member states and over the past few decades the focus shifted to developing those member countries stricken by war, poverty and natural disasters. The Community was also strengthened by the accession of South Africa in 1994 and Mauritius the following year. Most recently SADC was also joined, perhaps controversially, by the Democratic Republic of the Congo (DROC) and the Seychelles.

Since its inception, SADC has had a number of successes in the area of political co-ordination, and it is hoped that it might be the first African regional organisation to achieve some permanency. In order for this to be achieved, SADC is attempting to harmonise economic and trade policy through a Free Trade Protocol. From this point of view the argument that South Africa signed the Protocol in order to have a stronger claim on Lomé seems unfounded. However, the Protocol remains vague, and at the time of writing, only Tanzania and Mauritius have ratified it.

South Africa argues that there is no real need for it to ratify the Protocol, as the

³³ Cassim R, 'Trends in the Southern African Economy' in *Trade Monitor*, 12, March 12, 1996.

³⁴ Currently South Africa is still ahead of GATT obligations on tariff reduction.

country is already dedicated to the process. Entering into negotiations on the finer details of the agreement will be sufficient ratification. The Department of Trade and Industry is currently discussing the exact offer it will be making to the region, but it is expected that it will offer SADC lower tariffs than the EU.

In future the Protocol may present South Africa with difficulties. The very clauses that brought SADC indirectly to the EU-SA negotiating table,³⁵ could make it more difficult for South Africa to negotiate trade deals with third countries. The articles stipulate that most favoured nation (MFN) status should be granted to every member country, and that every benefit granted to a third country should also be extended to all SADC members. Trade agreements should also be concluded in consultation with the SADC states. This effectively means that South Africa is negotiating on behalf of the entire community. Although in some situations it will be beneficial for South Africa to stress its links with SADC, its real needs differ tremendously from those of the developing countries, and in most cases it may find its association with SADC burdensome.

Tariff liberalisation has generally been accepted in South Africa as a difficult but necessary measure to encourage economic development and prosperity. The rest of SADC is, however, not entirely convinced. Whereas most participants in regional organisations view regional bodies as necessary and auxiliary steps to facilitate participation and competitiveness in the world market, most members of SADC look towards the SADC itself for protection from that global market.

Critics have attacked the Protocol on a number of grounds, including its failure to provide for differential treatment for least developed countries; its emphasis on tariff barriers to trade when these are not the main obstacle to intra-regional trade; the absence of provisions to address supply-side measures; the call for the immediate national treatment of goods and services traded within the region; its attempt to create policy harmonisation when this is not required from a FTA; the treatment of relationships of member states to other regional groupings; inadequate provisions to foster equitable industrial development in the region, the absence of compensatory mechanisms; and its failure to adequately address prevailing trade imbalances in the region.³⁶

However, the finalisation of the SADC trade agreement is not the only reason why South Africa's affiliation with the region is hampering the negotiations.

³⁵ Articles 27 and 28.

³⁶ Mayer M & RH Thomas, 'Trade Integration in the Southern African Development Community: Prospects and Problems' in *Towards Strengthening Multisectoral Linkages in SADC*. Johannesburg: Development Bank of Southern Africa, 1997.

Southern Africa fears that the fragile industries in the region will suffer once South Africa enters into a FTA with Europe. Border controls are weak, so cheap European products could filter through to SADC countries. In addition, South Africa could 'steal' some FDI away from the SADC countries: with its stronger and more stable economy, South Africa will become even more attractive once a FTA is implemented. It is argued that the massive trade imbalance that currently exists between South Africa and its neighbours, will be increased when South Africa can buy cheaper European products. The SADC's Lomé advantage over South Africa on the European market will also be diminished once South Africa can also export freely.

South Africa therefore asks that the EU provides a guarantee that the region will not suffer. As no guarantees can be given in the agreement itself - the real effects of a FTA are difficult to predict - South Africa would like the EU to set up a fund to compensate those workers in SADC who lose their jobs due to the agreement, and to provide investment where businesses are closed. However, the EU remains adamant that it is not even considering the proposal, and that South Africa should deal with this problem itself. After all, the members of SADC are currently still receiving generous funds under the Lomé Convention.

(b) SACU

The Southern African Customs Union (SACU), which comprises South Africa, Botswana, Lesotho, Namibia and Swaziland, is one of the oldest customs unions in the world. Under SACU, as negotiated in 1969, South Africa administers duty collection and distributes shares of the common revenue pool to the other four countries according to a revenue sharing formula. More than 46% of Swaziland's national budget in the fiscal year of 1994/1995, and more than 50% of Lesotho's budget and 24% of Namibia's was derived from the SACU revenue pool.

In a trading world where tariff reductions and free markets are the order of the day, fiscal dependence on a customs union is no longer viable. Each SACU member concedes that the present agreement had certain shortcomings, but instead of abandoning the union completely, the BLNS countries want a revised formula to be phased in so as to avoid a precipitous fall in their incomes. In December 1994 the revision process was initiated, but due to the lack of consensus, there is still no new deal in place. Although there seems to be agreement on a new revenue-sharing formula, there is still no clarity on a new set of institutions and policies to underpin the formula; and although it is accepted that the BLNS should receive compensation from South Africa for the effects of industrial polarisation and fiscal disruption, the scale of the compensation has to be yet agreed upon.

Under a FTA between South African and the EU, the BLNS countries not only stand to lose fiscal income due to a diminishing tariff income, but unemployment is also likely to rise. With a smaller revenue pool, fragile industries may be destroyed and infrastructural development will be curtailed. The SACU countries will in all probability have to compete with European agricultural and manufactured products which, under a FTA, would arrive duty free in the Customs Union. The BLNS would be unable to compete. Losses incurred will not be adequately replaced by aid from Europe, as prospective losses will be eight to ten times the amount of European aid previously granted to the SACU countries.

Due to the free trade nature of the customs union, all trade deals involving South Africa should be concluded with SACU as a whole, but this has proved too much for SACU to handle. Had they become co-negotiators, several of their industries would have qualified as most sensitive, and would possibly have been excluded from a FTA. Such exclusions would have resulted in high transaction costs, for example for policing to ensure that goods imported by South Africa from the EU did not percolate across their borders without having paid the full customs duties.

There are very few options available to SACU to replace income lost owing to a SA-EU FTA. Alternative taxes could prove fatal to investment incentives. Such taxes would have to be simple, fair and based on the ability to pay. Looking to South Africa for compensation would prove fruitless. South Africa, with its dedication to its own RDP, would most certainly not be willing to pour further taxes into the common revenue pool.³⁷

The future of SACU remains unresolved. It is undisputed that the BLNS countries will be the worst hit if South Africa should enter into a FTA with Europe and, so far, no viable measures to cushion their markets from the impact appear to have been found.

³⁷ Maasdorp G, 'South Africa's Regional Trade Agreements' in *US-South African Economic Yearbook*, 1996.

4. CURRENT ISSUES

4.1 The Months Ahead

As outlined earlier, South Africa proposed the inclusion of all traded products between the Europe and South Africa under a FTA, shortly before the European summer break. The parties returned to their constituencies and two months of planning followed. A timetable for negotiations until the end of 1997 was established and, in accordance with the proposed timetable, in July mutually acceptable trade data was exchanged. The EU prepared documentation on what had so far been discussed for mid-August, which was then reviewed by South Africa during the following two weeks. Completion of these documents contributed to the negotiations concerning sensitive products, due to start in September. Small technical teams led these discussions well into October, at which point a report back session was held in South Africa. By January 1998, the trade aspect of the agreement is expected to be finalised and agreement reached on what is to be excluded. The EU will take this 'agreement' to the European Council, which still has the final say on accepting or rejecting it.

The September discussions, however, could not proceed effectively without South Africa having clarity on its position. In order to protect the region, it needed to know which products are considered 'sensitive' by its neighbours. Unfortunately, the region has been slow in responding to South African requests for this information. Proceeding without SADC input might seem fair after the long period granted to SADC for input, but it could prove fatal to the interests of the region of which South Africa forms an integral part.

Not only does this bring South Africa's commitment to the timetable into doubt, but also affects its negotiating capacity. It has been evident from the start that South Africa is new to international trade negotiations, struggling to finalise its position document and negotiating mandate. Too few people have the necessary expertise and time to dedicate themselves whole-heartedly to these negotiations, vital though they may be.

Both sides felt that if, by December, no real progress had been made and that the timetable was not being followed, then these negotiations would be abandoned. It is envisaged that trade issues would then be excluded from the overall talks. Despite all the negative press surrounding the FTA, substantial progress has been made in other areas of co-operation. An agreement similar to the Russian-European agreement would then be the only option left to the two parties.

However, in a dramatic turnaround, the November round of negotiations was heralded as a '120% success' by EU negotiators. During a conference hosted by SAIIA on the specifics of 'South-South Co-operation', the South African

Minister of Trade and Industry, Mr. Alex Erwin, admitted that South Africa had in the past had a *defensive* attitude towards the EU/FTA, but that the defensiveness had now been dropped: South Africa had accepted that free trade with the EU would be a positive development for the country. Many of the problems discussed above do still exist. However, South Africa is now dedicated to finding solutions rather than seeking for an alternative EU mandate.

4.2 South Africa's Bilateral Relationships

During the last couple of months, South Africa's relationships with individual countries have come under the spotlight again. Deputy President Thabo Mbeki visited Germany and discussed a German-South African bi-national commission. In addition, the French Foreign Minister has visited South Africa to explain France's new vision for Africa, identifying South Africa as the key country within France's renewed strategy for the continent.

These, amongst other developments, seem to indicate a renewed interest in South Africa after a perceived 'Madiba magic fatigue'. Trade with Britain is on the increase, France is looking for a new partner in Africa, and Germany is keen to remain the EU's dominant voice in foreign policy formulation, creating links with the outside world. It is also of note that these new bi-national links with Europe are being forged during a crucial phase of the FTA negotiations. Extensive lobbying by South Africa is still necessary in order to ensure the best possible deal. It is, therefore, of great importance that the major trading partners in the EU are targeted. France and Germany are important as far as the agricultural aspect of the deal is concerned: apart from the Southern countries, these two have been renowned for their strong agricultural lobbies against a preferential deal for South Africa. Britain should also be targeted in this regard, as it remains the most outspoken European country in its opposition to the CAP. If South Africa and the EU fail to reach agreement, relations with France, Germany and Britain will remain of high importance, as they are South Africa's biggest trading partners.

Within the lobbying process, which may continue well into 1998, it is also important to note that Britain will be assuming the EU presidency in January. This may be South Africa's last chance to secure a deal: if any country will be lenient in continuing negotiations and keeping the door ajar for a favourable deal, it will probably be Britain. During its presidency, a country can set the agenda for the EU and the UK could, therefore, secure a prominent position for South Africa on that agenda. This window of opportunity may, however, finally close in June 1998, when Britain passes the presidency on to Austria and when the EU's negotiating timetable will be filling up with the business of Lomé, EMU and Eastern Europe.

5. POLICY PRESCRIPTIONS

It is always easy in retrospect to point out mistakes made and to suggest alternative ideas. However, South Africa should note some of the lessons learned during the lengthy negotiation process:

- Apart from having a clear vision on what is practically achievable within the negotiations, negotiators should be prepared for the 'worst possible scenario.
- Whereas politically, countries might be enthusiastic about South Africa and pledge support, trade talks present a different story. Emotional rhetoric seldom convinces businessmen.
- The trend throughout the world today is towards free trade. While it is important to take the region into consideration, South Africa should be aware of global trends and assure the best possible position for itself in a highly competitive world economy.
- A comprehensive training programme for South African negotiators should be established and a detailed negotiating timetable should be drawn up in order to have capable negotiators at every negotiating table. Negotiations should also be planned in such a manner as to avoid having to wait for the outcome of another set of negotiations.

Closing Resumé of the Core Issues:

- A FTA with the EU is of great importance to South Africa. Although details of the agreement might affect some sectors and some of our neighbours adversely, these costs should be weighed against the disadvantage of lagging behind the world in economic policies. The deal should not be allowed to fall by the wayside.
- European negotiators have stressed repeatedly that their mandate, and by implication the exclusion of 39% of South African agricultural products from the agreement, is only a first proposal and it is expected that this percentage should decrease during the negotiations.
- The importance of the British presidency should not be undervalued. Extensive lobbying of South Africa's previous colonial power could prove essential during the closing rounds of the negotiations.
- After having concluded the EU negotiations, South Africa must realise that this alone is not enough: better market access to the economies of NAFTA, Latin America and East Asia will not only complement and promote South African trade, but could also prove useful in countering any possible negative effects of the European FTA.

- The EU is under immense pressure to dismantle the CAP, not only from potential new traders, but also its own members, the WTO and other long-established trading partners. Fears of a FTA on the grounds of the CAP should therefore, subside as the prospects of a dismantled or reformed CAP are real.
- The Department of Foreign Affairs (DFA) and the Department of Trade and Industry (DTI) should work more closely together within trade negotiations. Whereas DFA should be encouraged to provide the political will to secure a deal, DTI should acknowledge the need for, and make use of, help from DFA.

6. A BIBLIOGRAPHICAL CHRONOLOGY OF FTA DEVELOPMENTS AND SADC ISSUES³⁸

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GLOSSARY

ACP	African, Caribbean and Pacific
BLNS	Botswana, Lesotho, Namibia and Swaziland
DFA	Department of Foreign Affairs
DTI	Department of Trade and Industry
CAP	Common Agricultural Policy
CET	Common External Tariff
CFSP	Common Foreign and Security Policy
EAEC	European Atomic Energy Community
ECSC	European Coal and Steel Community
EDF	European Development Fund
EEA	European Economic Area
EEC	European Economic Community
EC	European Community
EPC	European Political Co-operation
EIB	European Investment Bank
EMU	European Monetary Union
EU	European Union
FTAA	Free Trade Across the Americas
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	General System of Preferences
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
MERCOSUR	Common Market of the South
MFN	Most Favoured Nation
NAFTA	North American Free Trade Area
OECD	Organisation for Economic Co-operation and Development
RDP	Reconstruction and Development Programme
RPO	Red Meat Producers' Organisation
SACU	Southern African Customs Union
SADCC	Southern African Development Co-ordination Conference
SADC	Southern African Development Community
TEC	Transitional Executive Council
TDA	Trade and Development Agreement

UNCTAD United Nations Conference on Trade and Development
US United States
WTO World Trade Organisation

ABOUT THE SAIIA

The origins of the South African Institute of International Affairs (SAIIA) date back to the Paris Peace Conference of 1919. In this fragile post-war atmosphere, many delegates expressed a strongly-felt need for the establishment of independent, non-governmental institutions to address relations between states on an ongoing basis.

Founded in Cape Town in 1934, in 1960 the Institute's National Office was established at Jan Smuts House on the campus of the University of the Witwatersrand. SAIIA's six branches countrywide are run by locally-elected committees. The current National Chairman is Dr. Conrad Strauss and the National Director is Dr. Greg Mills. The SAIIA produces a wide range of publications including *The South African Yearbook of International Affairs*, *The South African Journal of International Affairs*, *International Policy Update*, the *Occasional Paper* and *Bibliographical* series, as well as a number of specialised book projects.

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Talitha Bertelsmann was born and raised in Pretoria. After having matriculated in 1992, she spent a year in France, first in Saint-Tropez, and later attending the Alliance Française on a full-time basis in Paris. On her return to South Africa she moved to Stellenbosch, where she obtained her BA, majoring in Political Science and English. Her thesis was entitled: *A Free Trade Agreement with the European Union: Should South Africa Accept?* She is currently studying towards her Honours in International Relations at the University of South Africa.

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