

OPPORTUNITIES FOR BEE AND EXPORT
DEVELOPMENT IN PERSPECTIVE

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1. INTRODUCTION

The initial idea was to produce a short-list showing the diversity of product opportunities (see attached ‘list’ in points 3 and 4) for small farmers and BEE development within the context of international trade. A “short-list” or opportunity-list was produced in two ways:

- a. Trade Performance Indicators was used to benchmark South African industries to that of other countries to select the “top-10 in the world” agricultural trade clusters
- b. South African export statistics was scanned and classified in terms of their export growth and world demand, in such a way that indicate their potential for export development.

The problem is that better trade opportunities through open markets do not necessarily directly translate into options for farmers, entrepreneurs and investors. Through a better understanding of our comparative advantages and of the global competitive environment and through understanding some of the difficulties to translate them into options for the industries and businessmen, we can improve the role of trade in growth, employment and income in the agricultural sector. The overall vision of the South African agricultural trade strategy is: A globally competitive and profitable sector with equitable access and participation in the opportunities offered by agricultural trade. More opportunities are the one side of the coin but institutional support (especially financial), R & D and education and training to build the necessary bridges to utilize those opportunities in future is the other side of the coin.

The study also provides an overview of the world trade trends and facts that established the rules of the “trading game”, to avoid oversimplification in utilizing trade statistics and to provide an appreciation for the complexity of trade and export opportunity studies for development and poverty reduction. Furthermore two scenarios were chosen, based on two key uncertainties, to illustrate what the results would be if our country would either go with the flow and ignore changes or took a specific direction to adapt.

A short-list of opportunities was produced through trade analysis and mainly statistics was used to produce the 'short-list' but a healthy skepticism should be maintained not to base decisions on opportunities on statistics alone. Statistics has many limitations but, where sufficient trade volumes reveal trends it could be worth to take notice of it. Based on statistical indicators a further fundamental analysis could also be done of the opportunities and threats per industry to determine the potential for export development.

2. THE NECESSITY TO CHANGE: DISCUSSION THROUGH A SCENARIO PLANNING APPROACH

2.1 The rules of the trading game: trends and facts of the world trade environment

i. A Power shift in favor of distribution

In the new Millennium, distribution costs are already 70% of the typical retail production cost compared to only 50% in the late 1960's. Generally the greatest opportunities lie in the distribution sector rather than in production and manufacturing. Wealthy people face a range of consumer goods of high quality, especially in developed countries. The competitive drive has shift more to services and information. The most expenses in making products and services are in research and development and to educate consumers or intellectual distribution. Increasing relative distribution costs compared to the percentage of other cots is one of the main reasons for many fortunes made by those who improve distribution rather that improving production. Examples are the ever powerful retail distribution chains, the fast rise of transport and physical distribution companies and the boom in business done through information processing, the internet and telecommunications.

Producers and exporters in developing countries face ever increasing powerful distribution chains in developed counties that dictate even production specifications and manufacturing processes. These distribution chains demand products just on time from

capable and larger producers and consolidators and demand tractability to be able to provide guarantees to their consumers.

But physical distribution has also become less important compared to the importance of the role of education and intellectual distribution through the internet, television and other media in convincing and educating consumers about their products. Educating consumer will be the most important condition for selling new products to make consumers aware what they need to improve their lives.

ii. The world trade liberalization game has winners and losers

Generally globalization reduces poverty because economies that become integrated grow faster. According to the World Bank Report (2002), some 24 developing countries (with 3 billion people) have doubled their ratio of trade to income over the past two decades. These economies that includes; China, Brazil, India, Uganda, Vietnam, Hungary, Mexico are catching up. The number of poor people in the newly globalize developing economies has declined. The most recent wave of globalization in the 80's and 90's was spurred by technological advance in transport (lower costs) and communication and by developing economies that improved their investment climate (increased capital flows) and opened up to foreign trade. In the 80's manufactured products only comprised 25% of developing country exports; by the 90's that was more than 80%.

However, the new growth in the fast growing economies is not fast enough to prevent the rising number of poor people overall in the world. Many economies did not successfully integrate or became part of the global economy. We still have a seriously dysfunctional world between the rich millions of the developed world and the poor billions of the developing and least developed worlds. Reasons for marginalization could have been; unfavorable geography (e.g. landlocked), disease prone, weak policies, lack of institutions, lack of investment, lack of education, problems with property rights, dysfunctional governance or civil war. Many of these countries are in Africa and the

former Soviet Union. Examples are the Russian federation, Nigeria and Pakistan. Over the last 2 decades around 2 billion people are in danger of becoming marginal to the world economy. Incomes for these countries are falling, poverty is rising and they participate less in trade than two decades before. The danger exists that global markets can continue to by-pass these marginalized. Dependence on a primary commodity export increases the risk of civil war. Where there is no investment, no capital mobilization and zero prospects for citizens it is a recipe for revolution with national and international consequences.

Within countries that have succeeded in breaking through to global manufacturing, there are also losers. Normally some owners of firms and workers in protected industries are likely to lose from liberalization and a more competitive economy. Consumers and those who find jobs in new firms are amongst the winners.

Rich countries have low tariffs but generally remain significant high tariffs on those products where developing economies have a comparative advantage, inhibiting poverty-reducing integration. Protectionism in rich countries costs developing countries twice as much as the development aid that comes from north to south.

There are various options for further integration. Countries need good institutions and policies for strong and sustained benefits from financial integration, since there are considerable benefits and risks from such integration. There are also clear benefits from lower tariff barriers. Good institutions and low transport costs improve migration and wages. During the first wave of globalization about 10% of the world population moved to a new country. Globalization draws the best skills from developing countries to the developed world. This is a major factor in the further marginalization of Africa. OECD countries are aging but they are also more restricted on unskilled labour and favorable towards skilled labour, leading to the brain drain of the educated workers in developing countries and unskilled workers remained stuck in poorer countries.

Global policies are not keeping pace with global opportunities and global risks. Open trade and investment policies can spur growth but it will not do much for the poor if other policies are bad. Good governance is a precondition for trade and opportunities to benefit the poor. More than ever before government needs to facilitate win-win partnerships between government, the rich and the poor to overcome poverty. Successful countries also has a few general conditions in order: a high standard of education, a strong work ethnics, mobilization of capital, synergies between rich and poor where there is a dual economy, social harmony and ambition to look outward and be a global player. Government has the ability to coordinate from high on bottlenecks and where real value can be added. Growth can be spurred and jobs created by multiplying the number of hands the money passes through in a year. Capital mobilization of investment funds is an important part in growth.

iii. Consumer behavior changes

In a society that is fast-moving, where the most people live in cities where both men and woman work, convenience has played an important role. The amount of fast food places and restaurants and convenient shops have increased. However, the pendulum has gone to an extreme in developed and industrialized countries with more people being overweighed and under-nutritious (due to junk food) than ever before. This pendulum has fast been coming back and many consumers are requiring better nutritious food and functional foods with added benefits. They will also set the example for the next generation. This has led to the recent boom in the wellness industry.

Generally consumers are more affluent and experiment with different foods and tastes and variety. New products become more important as a way for producers to distinguish themselves and to utilize niche opportunities for better profits. Even the nature of commodities changed as products become more specialized for specific purposes.

Today's consumers are also willing to pay for certain unwritten rules and this has an effect on what they buy. Consumers are more concerned about fair labor practices, social responsibility, animal welfare and the environment than before.

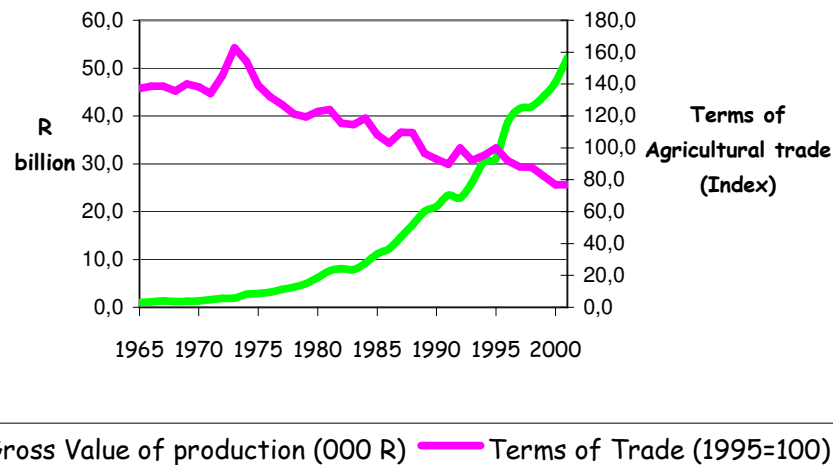
iv. Declining agricultural terms of trade necessitate investment, new research and industry cooperation

The declining terms of agricultural trade have been inevitable through technology development. This has increased the financial risk of farmers because larger amounts of capital are needed for larger operations with smaller profit margins and less ability to bridge risk. Traditional farmers that have to not stay abreast of technology have been marginalized.

Developing new indigenous products and well adapted crops with a high international demand can go a long way in better resource utility. Countries with a high level of R & D investment move away from commodities with declining terms of trade and those with a declining world demand. Investment in medical and food science research is the key towards finding high value as medicinal products or functional food. A more upper-class wellness industry is emerging over the next decade that will surpass the presently high growth healthcare industry. This is due to the growing economic imbalance of an unhealthy lifestyle while the risk is being taken by medical aid schemes.

Agricultural research can also secure best practices in manufacturing to ensure that industry development of especially new industries can grow into world class industries. The declining terms of agricultural trade especially on traditional crops makes farming increasingly more risky for those who do not stay abreast of the changes. In richer developed countries, savings and investments through venture capital play a larger role. Such venture capital or equity capital is much more scarce in developing countries and less opportunities realize into gains through technology development and new industry development. This is a gap that can possibly be bridged by institutional support and through a culture of savings and investment and through private / public partnerships.

Graph 9 Terms of agricultural trade 1965-2001



A holistic approach to resource utilization will avoid increasing the risks in agriculture. Farming today is much about avoiding risks both on the marketing side as well as on the environmental side. The agricultural sector should be the leader in environmental issues e.g. organic farming, water management and sustainable farming in harmony with the environment. We live in a time where there is a rise in the scale and extreme of events; droughts, floods, hailstorms, hurricanes, pests, diseases, epidemics, AIDS and water pollution. The world population had doubled since the 1960's and these events affect more people and farmers alike. Commodity cycles and exchange rates are more volatile and have far reaching effects on farm. Rules on non-tariff barriers of other countries also have extreme adverse effects on an industry. Powerful international distribution chains regulate and prescribe to the local industry and they can easily cut you off as a seller. Investment money is more mobile and it is relatively easy to relocate if you have the market. Marketing risks could be reduced by building relationships, especially the Asian markets, and by moving away from the commodity market and distinguish yourselves with a unique selling proposition. This all requires a more holistic approach to farming as a business.

The whole industry and the whole of the supply chain need to be competitive. The majority industry players can be damaged by a few outsiders since industries often also have a national brand image to foreign companies. A lack of cooperation can destroy an industry. Extremely high prices obtained for Buchu, will most probably open opportunities for alternatives and chemical substitutes. A lack of manufacturing standards and R & D in the new indigenous Aloe Ferox industry has caused that it cannot grow much beyond the present levels to compete with the world renowned Aloe Vera industry.

It is important for the agricultural industry to know their future competitive position against rich rival countries and multinational companies for the same market share. One has to know your international competitors because they can easily erode your position. World class companies can outsmart and outmaneuver any fledgling industries the developing world tries to nurture. There has never been a fair world.

v. Asking the right questions for BEE development.

The kinds of questions we need to ask ourselves in trying to assist small farmers and to promote Black Economic Empowerment are;

- Does the farmers agricultural proposition provide real opportunities for making money?
- Do small farmers have a natural ability to succeed in that sector? Who does? What business models have been successful in utilizing international opportunities?
- We must know very well the forces that are out of reach for the small farmer and how it will affect him.
- Should black farmer development necessarily be small farms and small operations or will it be better to have empowerment in a larger operation?
- You have to understand the things that the farmer doesn't control: international market forces, investment money, changing powers of distribution and governments and distribution chains setting standards.

- Is my industry highly protected? What will be the implications with an increasingly open trading environment?
- Can highly skilled and educated people with little own funds have access to funding or venture capital to start a business?

2.2 Key uncertainties and opportunities for South African agriculture. Scenarios:

To illustrate how the current of global forces can change the history of farmers, two possible opposite scenarios have been chosen based on key uncertainties. The one is where the rate of on-farm changes is slower than the changes in the global trade environment. Farmers are established and invest in sinking islands in an environment where there is a rising current. Eventually the farmer loses its land. This especially affects the small rural farmer that does not partake in integration in the world class economy and become marginalized or that invest in a grand farther industries. They are usually also plagued by a lack of transport, communication and as a result lack of investment. Governmental and institutional responses to lobby are often to build walls (tariffs) against the rising current.

The second scenario is when global changes are taken into account and responses are in advance and outpace the rate of global changes. Bridges are being built by both government and the farmer to stay ahead of changes and to become part of the global economy. Safe islands are being created that is integrated by bridges to the global economy. The scenario accepted that we have become part of a global economy and only those elements of society that have integrated to some extent will benefit from fast growth and will share in the wealth that's being created by integration. Other resources (such as human and capital) will eventually migrate to these safe islands if allowed to flow and in this way they will become part of the global economy.

i. Sinking Islands

The outcome of the Sinking Islands scenario is that the small farmer cannot withstand the rising current and the island sinks, so he loses his farm. Efficiency drivers and

technology drivers' result in shrinking profit margins, due to declining terms of agricultural trade on commodities over time, especially on traditional commodities. This is a typical situation where changes in the trading environment happen faster than the countries' policies can adjust or than the industry or farmer is adjusting. The farmer becomes more fragile against risks outside his control. As disasters strikes, such as drought or floods or even strong competition from third countries due to their weak currencies or a cyclical low in commodity prices, the farmer who cannot bridge the adverse year is knocked out. He has to sell his farm. As a result of this happening on a larger scale, land prices will drop and will be bought by more efficient farmers. Larger more efficient producers (probably further towards the end of the value chain), better integrated into the world economy, with more capital and who can bridge two or three negative years will expand. The nature of farming has changed. This international trend is in conflict with land-hunger and the present policies to settle farmers on small pieces of land.

Governments' and commodity lobbies reaction is to increase the protective walls in developing countries, to protect especially old industries from the swelling current. In developed countries the reaction is to slow or stop the trend by paying the farmer to stay on the land or to impose more non-tariff barriers to make the cost of imports higher. When tariff liberalization takes place this leads to painful adjustments and protective industries has the most losers. Especially where large industries have developed through consistent government protection, trade liberalization will result in such an industry to have losers while other in the economy such as the consumer or new industry investments or new industry jobseekers will be the winners.

When trade is used for development and poverty reduction we can ask the question whether it is wise to have large government supported projects in highly protected industries such as the sugar, maize, meat and dairy industries. For example the average South African citizens (including especially poor ones) are subsidizing the sugar industry by an average of one day's salary. That days salary could have been spend on something else. When protection is sustained over a long time we take a job from a successful

industry to make a job in a less competitive industry. At a later stage painful adjustments have to be made or protection has to be sustained at the cost of alternative investments and at the cost of the consumer.

Sometimes old 'dog-industries' or 'dog-farms' that have not been successful due to a changing world demand, is being used to settle small farmers, only for the project to fail once the injected funds is depleted. How much time should be spent to turn around dead-horses or should developers rather concentrate on more promising opportunities and options?

ii. Building bridges

The building bridges scenario recognize that we are part of a global economy and that the pace of changes within the government, institutions, companies and on farm level have to outpace the changes occurring in the international environment. This scenario more than ever realizes that government and industry has to cooperate to open opportunities and translate them in options for entrepreneurs. With building bridges, farmers can even make good economic existence with smaller portions of land and scares water resources. Cooperative and corporate structures can be formed to act collectively, links to foreign more profitable markets with higher income, links with investors to allow world class standards and links with world class technology. The building bridges scenario recognizes that you are part of the global economy and that world class becomes the norm. Many bridges can be built in an environment where the current is rising and we need to move to safer and higher ground.

Research and development is the one area where both government and the private sector can make a difference jointly. Israel spends up to 7% of agricultural GDP on research and development. In South Africa this figure is probably only 1%, however, new policies recognize that there have to be drastic changes. Water resources become more scares and with growing populations the conflicts between agricultural and human use. Agricultural production is in danger to shrink in Africa due to water shortages. But do we build the technology bridges to cope with the times?

The terms of agriculture trade are decreasing for commodities with the progress in technology. Less and less real profit margins are obtained from the same volume of produce from commodities, because it can be produced more efficiently. If we settle small farmers on a small portions of land with no or little capital and a farmer farms with a traditional commodity, chances is good that with time profit margins will become so small that he can't make a living or that the standards of his farming practice will become irrelevant for him to become part of the global market. Again bridges can be built by Research and Development on new crops. Indigenous crops can add to the range of functional foods and variety in food and simultaneously be sensitive about our resources. Examples are the indigenous Marula, Buchu, Rooibos and Aloe that have high levels of functionality in medicinal and food value and simultaneously are effectively adapted to local climatic conditions and have a low water use. Such industries are less affected by disasters. Venture capital can assist in the establishment of new high profit opportunities with international markets. Usually rich countries with a savings culture, such venture capitalist exist and are more freely available. But in developing countries banks do not even want to take the risk of starter ups or new technology development or financing new profitable ventures. Normally entrepreneurs from previously disadvantaged backgrounds do not have the collateral to borrow money although they may be highly skilled and qualified to start successful businesses. Government does play a role to stimulate such investments. In future bridges have to be build

Market-orientated farming recognizes that exports can be highly specialized based on the specifications of overseas requirements and demand in those communities. Consumer trends are changing due to the way people live, especially in the Cities and their changing requirements. The growth in the red wine and Rooi-bos tea industries has been the result of medical research discoveries in Japan and Germany. People will in future prefer to eat easy peelers citrus compared to oranges. Oranges are increasingly be used for only fruit juice. In the same manner consumers have over a short period preferred new apple cultivars such as Pink Lady before conventional cultivars. In future bridges have to be build between agricultural development and medical research and agricultural research

and new crop development to establish nutritious functional foods that are preferred by the consumer especially in the Cities of the world.

Farmers in an industry cannot afford to farm in isolation anymore. Foreign metal found in one Rooibos shipment to Japan affected the whole of the Rooibos industry. In the same manner, maize meal found in one paprika shipment to Italy affected the whole paprika industry negatively and ruined their reputation. Weak quality essential oils by one exporter can also ruin the whole industry. Industry standards are essential for the industry to build a national reputation. Standards and tractability become important as overseas distributions chains want guarantees for their consumers and to maintain their good brand. Industry cooperation and industry standards together with tractability become more important requirements.

Farmers who want to stay in primary commodity production either have to go big or go out. Another option would be to go up the value chain in a particular niche market. Even commodity groups may have to buy into the value chain. It may not be an uncommon strategy for a large production firm also to buy large shares in a foreign company that already has a large market share in order to tap into the existing brand or marketing opportunity. Farmers have to get involved with the downstream retail market to influence demand or they will be subjected to fluctuations of exchange rate. Vertical integration turns you into a price maker as apposed to a price taker.

2.3 Options or just opportunities?

It is important to distinguish between global trade opportunities and the ability one has to convert the opportunity into an option. Opportunities only become options when they fall within your control. Options are often dictated by uncertainties outside your control (e.g. the ability to obtain capital). Options have to be implementable. This is an area that needs to be intensely participatory in strategic planning to create implementable options. Trade negotiations generally create opportunities. Trade information and research generally creates opportunities. However, good policies, good governance, institutional support and

investment convert the opportunities into tangible options to utilize the opportunities for the farmer, industry or business entrepreneur. Without venture capital and knowledge, good communication and transport, little entrepreneurs will be able to make something from the international opportunities that exist.

The traditional engines for job creation; the public sector and big business, have slow down and in stead retrenching to become leaner due to competition. The medium sized, small and micro enterprises are the area of most potential for future development. Government programmes can assist entrepreneurial development, especially where such entrepreneurs do not have collateral. Agriculture is one area where job creation multipliers can be more than double compared to manufacturing and other sectors for the same amount of capital invested.

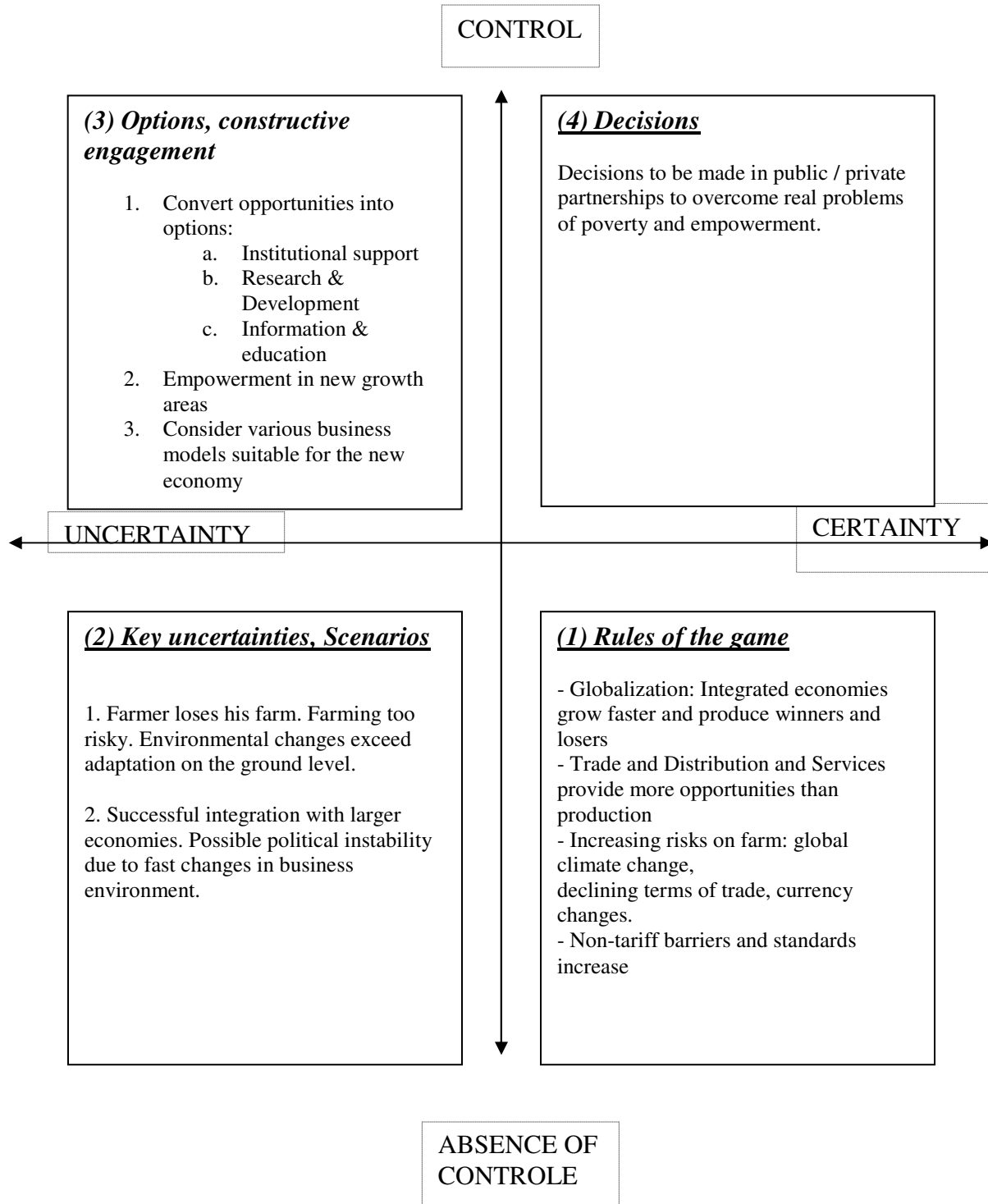
The economic power of the developed world over the past few decades was build by free trade. The main challenge for developing countries is to allow their billions of citizens to participate in free trade in such as manner not to cause undesirable political instability due to the fast changes in the economy. Poor countries need to leapfrog over previous generations of technology. The rich millions of the world will have to find common ground together with governments and the poor to eradicate poverty and disease and environmental problems. Rich countries have to get rid of their protectionism on imported food. Globalization need to reshape to bring more benefits and prospects to the poor young billions. Global trade opportunities can only be utilized if the institutional support and the right kind of partnerships are in place to realize opportunities into options for the poor.

New models of cooperation will provide small farmers access to high-value export markets. Through partnerships with larger companies they also provide the necessary agricultural support services that presently is lacking from the public service. Bridging the technology gap on a large scale can realize in rapid economic growth. The key for rapid agricultural growth is Research and Development as a priority, integrated management of water resources, education and training, marketing strategies and

business partnerships. Out-growers' schemes and shareholding partnerships with larger successful exporting companies is the type of model that can be successful in export development. Government can play a large role to facilitate such out grower networks and partnerships.

The key for unlocking the potential for Black Economic Empowerment is new financial models that provide equity and venture capital and that nurture entrepreneurs who have ideas, experience, skills and education. Prospective farmers need access to finance, technology, markets, infrastructure and high-cost farming inputs.

2.4 Scenario Summary



3. DISCUSSING THE SHORT-LIST: CHAMPION INDUSTRIES FOR SOUTH AFRICAN AGRICULTURE

3.1 Trade Potential Index method:

TPI is a tool developed by the international Trade Centre in Geneva for assessing and monitoring the different dimensions of export performance. It covers 178 countries and 72 clusters. It reveals how competitive and diversified an export sector is compared to those of other countries. It brings out gains and losses in world market share and factors behind it. It monitors the diversification of export products and markets. It is purely quantitative. See Annex 2.

3.2 Product cluster champions for trade in South African agricultural exports

International trade has become a key factor in the growth of the country. Information on competitiveness and opportunities are still incomplete. In the absence of good information, it remains difficult for policy makers to assess product groups having a competitive advantage. In terms of BEE development it will also be undesirable to only focus on low performing export industries in the context of increasing globalization. Exceptionally high growth can only be obtained from utilizing a larger world market and in some cases the replacement of imports. The local market does not provide enough expansion to justify sustainable high growth to eradicate poverty and create jobs for all.

The aim of the study is also to provide some direction of promising industries for BEE development and for developing key industries for economic growth. It provides an overview of the South African trade performance in the world market both at the industry level and the product level for agriculture. Traditionally non-agricultural industries have also been included because they are the industries with a demand-pull for some land based produced products. Examples are the Fragrances and flavors, Perfumery and cosmetics and Specialty Food and Fish industries.

3.3 Agricultural Industry performance (Trends 1997 to 2001)

The International Trade Centre (WTO/ UNCTAD) has developed several indicators to rank industry clusters and their competitiveness in international trade. More than 20 benchmarking indicators were used to compare South Africa's performance to that of the World and an Index was obtained, ranking agricultural related industries' performance out of 184 countries, representing 90% of world trade. Interpretation of the results follow.

The "Top Ten" in the world

South Africa's performance is regarded amongst the top ten in the world for the following industries:

- Fruit and Vegetable juices (No.1)
- Sugar, Molasses and Confectionary (No.3)
- Beverages (No.5)
- Fruit and Vegetables (No.7)
- Cutflowers and ornamental (No.9)
- Animal Products (No.10)

Industries' ability to change to fit world dynamics

However, because some of these industries are relatively large their ability to change to the world dynamics is less impressive. The very largest net export-earning industries were slow to change; Sugar & Confectionary, Fruit & Vegetables, Specialty products and Fishery products. The Beverage industry was about the only very large net-export earning industry that scored a "top 25 in the world" ranking in terms of its ability to change. The 'Animal related Industry' (Animal Products and Hides, Skin, Leather and Meat and Animal Products) has also shown impressive ability to catch up on the dynamics of the world market. This may have been from a low base after periods of banning due to pest and disease management.

The relative good performance of the Juices Industry and its ability to adapt to changes in world trade have been partly driven by their product diversification and product spread. However, this industry can still improve much in terms of targeting high growth export destinations. The Vegetable and Fruit industry has very well covered high-growth export destinations but falls behind in terms of the product mix in the export basket. Theoretically this can possibly mean that they are falling behind in terms of research on new or preferred fruit and vegetables with the high growth trends.

Amongst the “Top 10” SA industries that lack performance in both product and market diversification, and spread are: Sugar & Confectionary, Beverages and Fishery Products. In the case of the Sugar & Confectionary industry it could be mainly the protective nature of the industry that acts as an inhibition to change. In the case of the Beverage industry it could be fast growth and high dynamics of this industry that could be the cause that this exponentially growing SA industry can still not keep up with the pace in growth of new export destinations and new popular products. The Fish industry is mainly marine (non-agriculture) but a large scope exist for expanding the aquaculture industry as marine resources becomes increasing scares.

Smaller industries that need attention in both the products as well as market dynamics are: Fragrances & flavours, Nuts, Specialty products and Meat products. Most of these products have a very lively and dynamic world market and room for improvement on the dynamics of this market indicate scope for expansion in these, mostly young and upcoming industries.

South African agricultural industries with high export growth

The SA industries that showed remarkable export growth was Animal related products, Fragrances and Flavors (22%), Tea and Tea Products (35%), Nuts (20%) and Specialty Foods (20%) and Cereal products (14%).

Growing the share in world trade

Among the top 10 SA agricultural industries, the SA Cutflower and ornamental industry still has a relatively small share (0.40%) of world trade as well as the Animal products (0.4%) and Hides and Skins (1%), generally ranking below average compared to their overall performance. These industries could grow more than double their share in world trade if the key constraints can be overcome. The Cut-flowers industry's under representations in world markets could therefore be a critical industry that needs attention in terms of overcoming supply chain and market access constraints for it to develop into a world class industry. Furthermore, the whole Animal products and Hides, Skins and Leather industry cluster needs attention to develop into a world class industry. The main constraint could be on Veterinary health issues that constrain the industry in growing a larger share of the world market.

Net-Export Specializing industries

The industries that are the large net export earners and that can be regarded as mainly specializing in exports are (in order of the performance ranking):

1. Sugar, Molasses, Confectionary (368 Mil US\$)
2. Fragrances, flavors (79 Mil US\$)
3. Beverages (262 Mil US\$)
4. Fruit, Vegetable juices (48 Mil US\$)
5. Fruit, Vegetables (447 Mil US\$)
6. Specialty food products (147 Mill US\$)
7. Cutflowers, Ornamental (23 Mill US\$)
8. Meat and animal products (98 Mill US\$)
9. Hides, Skin, Leather (119 Mill US\$)
10. Nuts (5 Mill US\$)
11. Fish (not mainly agriculture) (216 Mill US\$)

Upcoming export industries

The Industries that showed the strongest upcoming trends in import coverage by export (amongst the “top 10” in this regard) and that had an excellent positive growth in world market share were:

Fragrances, flavours (No.1 in the world),

Meat and animal products (No.1...),

Tea and tea products (No.4...) and

Nuts (No.7...).

Import replacements by exports are the highest for these sectors in terms of their international benchmarking / ranking. Tea and tea products are from a negative net export value basis (-10 Mill US\$), but at the present rate could become a net export industry in future.

4. THE SHORT-LIST: CHAMPION PRODUCT LIST OF SOUTH AFRICAN EXPORTS

4.1 Methodology:

The principal source of information was the United Nations Trade database, with about 90% of world trade and representing trade of about 200 countries. National Export TradeMaps was used to identify important products and markets and potentially important ones covering 80% of South African trade by value. Products have been presented in a Boston matrix concept with different categories such as; “Infant Industries” or new industries, “Champions”, “Cash-cows” or grand-father industries and “Dogs”. Statistics is readily available for most high volume commodity markets such as for the “stars” and the “cash-cows”. World growth and changes in South Africa’s share have been important indicators to map products. However, statistics was not always readily available for the “baby” industries.

4.2 Infant Industries -list

Based on Customs and Excise statistics, this category account for less than one percent of the South African exports. These are the new industries with high world demand and a lack of local supply. This is the typical industries in which it is still possible to make a good income from a small farm. However, generally this category may require high capital inputs. Research and development has an important role to play. These new industries often lack cooperation between producers. Best production and manufacturing practices often lacks which restrict the development of these industries. Bottlenecks are often found in marketing links and knowledge, promotion and lack of industry standards. Many producers in new industries do not want to share knowledge, to keep out unnecessary competitors. Infant industries may often require a high level of technology for the right markets.

Government facilitation and support will typically be in Research and Development Support, facilitating coordination amongst producers, marketing support and linking out-growers with successful entrepreneurs and providing access to venture capital. Constraints are often on the production of the right quality, acceptable international standards, acceptable managerial ability and marketing. For this category it may also be important for government and industry to be present on international forums to be leaders in growing the international demand. One such an example is the FAO committee on Bananas and subtropical fruit.

Typical products in this category is breeding animals, high value meat cuts, fresh water fish, preserved and frozen vegetables, subtropical fruit, various berries, green tea, pectin, fructose and the list goes on. However, many new industries and products exist that is not easily picked up on the radar screen of trade statistics. Examples of such products are; aloe, avocado- and macadamia oils, Aqua culture, rooibos tea, marula products, agricultural services and technology, essential oils and game meat and many more. This is industries where knowledgeable entrepreneurs that can obtain good information can establish themselves. The new industries are not for the fainthearted.

4.3. Champions – list

Champion products account for about 14% of South African exports in value. Champion products have a high world demand and high local export supply by volumes and export growth. Such industries are regarded as successful industries and expansion is usually high. This is generally safe industries to invest provided economies of scale and international standards are met and the Country has a high competitiveness in world trade. Often Research and Development plays an important role because this market may be sensitive to the right cultivars and environmental conditions for quality. Generic marketing for these industries become important because their image is often connected to the Country as a whole. Such industries may have supply chain constraints because of fast expansion.

Government can play an important role in opening new markets and negotiating free trade. These industries are also relatively safe to invest for Black Economic Empowerment if it is done on international standards and economies of scale and the requirements for best practices are met. Government has an important role to add value to supply constraints such as transport as well as trade promotional efforts.

A typical list of such products are; wine in bottles, mineral waters, fruit juices, berries, processed strawberries, tea extracts, fresh grapes, horses, high value meat cuts, meat preparations, milk and cream powder, trees and cuttings, various, nuts, vegetables, protein concentrates, oilseeds, preparations of cereals, essential oils and the list goes on. When deciding on a particular export business it is always wise to first study more in-depth market briefs.

4.4 Cash Cows – list

Cash Cow products still provide the largest exports, in value it is 60% of South Africa exports. Many developing economies have most of their exports in this category. It provides an important base for the sector and bulk for food processing. Cash Cows are

products with a declining world demand compared to the world average growth but it has a competitive and growing local supply. This is normally older grandfather industries and most developing economies have a competitive edge in these industries. Unfortunately these industries are often plagued by protectionisms and they have to make the largest adjustments in trade liberalization. The challenge is to maintain and increase your market share in a market that is declining compared to the average industry. It is often valuable to study competitors. Profit margins are low and economies of scale are important.

Governments' role is often to give a lot of attention to lobbies that requests the maintenance for protection. Industry is often hampered by Non Tariff Barriers as other countries' lobbies try to keep products out. Research and Development efforts could focus on new cultivars with unique selling propositions. These industries could often be on the high sensitivity list in free trade negotiations because they have to make the most painful adjustments.

Most typical commodities base on South African exports in this group are; sugar and confectionary, meat lower value cuts, eggs, plants and foliage, tubers, mushrooms, onions, potatoes seed, dried vegetables, Mandarins and Clementine's, lemon and limes, grapefruit, coffee and black tea, grains, flours and starches, groundnut in shell, vegetable saps and extracts, soybean-oil, sunflower oil, groundnut oil, margarine, bovine meat and offal preparations, Fruit juices such as grape, orange, apple and tomato juices, food preparations, bulk wine and beer, tobacco, certain essential oils and bovine skins.

4.5 Dogs-list

Dogs are losers in a declining world market and are between twenty to thirty percent of South African exports. It is possible to turn a dog into a star. Since commodity markets go up and down in often cyclical movements and therefore these categories is not cast in stone. However, this category has experienced a five year decline in world demand and our local exports have also experienced negative growth.

Generally export prospects for these categories are bleak and promotion efforts are difficult. An integrated approach is needed to re-strategize both supply and demand.

Products in this group includes; fowls whole frozen, feathers, potatoes, oranges, tomatoes and garlic, apples, apricots, peaches, maize, molasses, pineapple juice and preserved fruit and chicory.

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	"Top 10" ranking in the world
	"Top 20" in the world
	Less favorable rankings >20

TABLE 1: SACU INDEX OF PERFORMANCE (1997 - 2001) : THE "TOP 10" AND THE "TOP 20"

No	Industry	Current Index	Change Index	Trends of Exports	Rank	Value in Net exports 000'USD	rank	Share in world market	Rank	Per Capita Export	Rank	Percentage change in world market share p.a	Trend of import coverage by export RANK	Product Change: Rank	Market Change: Rank
1	Fruit, Vegetable Juices	1	18	10%	9	48,329	12	1.4%	16	12	4	1%	46	<10	>20
2	Sugar, Molasses, Confect	3	51	4%	18	368,045	5	3.0%	10	69	7	5%	58	>20	>20
3	Fertilizers, Plant Protect	5	54	-2%	47	27,994	23	1.1%	18	1	18	-1%	47	>20	>20
4	Beverages	5	25	9%	14	262,243	11	1.1%	17	62	10	0%	11	>20	>20
5	Fruit, Vegetables	7	56	0%	43	446,853	13	1.2%	19	89	7	-3%	57	>20	<10
6	Cutflowers, Ornamental	9	25	8%	11	22,860	18	0.4%	25	5	14	-6%	34	<10	>20
7	Animal Products	10	1	56%	1	-13,609	23	0.4%	24	2	15	1%	11	<10	<10
8	Hides, skins, leather	12	3	12%	15	118,958	20	1.0%	25	32	12	-3%	14	<20	<20
9	Fragrances, flavours	13	15	22%	3	79,186	6	1.6%	12	24	5	45%	1	>20	>20
10	Tea and tea products	13	16	35%	1	-10,440	24	0.6%	19	2	8	59%	4	>20	<20
11	Fishery Products	14	44	9%	20	215,601	25	0.6%	22	44	22	4%	21	>20	>20
12	Perfumery, cosmetics	16	18	18%	9	-84,141	26	0.2%	40	12	25	0%	38	<10	<20
13	Pets, petfood, accessories	16	18	9%	10	-37,017	34	0.2%	34	3	26	1%	28	>20	<10
14	Cereal Products	18	13	14%	5	-137,094	28	0.4%	25	25	14	9%	29	<10	>20
15	Oils and fats	18	10	6%	14	-273,242	31	0.2%	39	12	28	-2%	18	<20	>20
16	Nuts	19	15	20%	4	4,829	22	0.5%	25	3	10	19%	7	>20	>20
17	Speciality food products	21	53	20%	3	146,779	14	0.8%	25	49	12	-7%	52	>20	>20
18	Meat and animal products	22	6	140%	1	97,656	19	0.4%	24	98	15	53%	1	>20	>20
19	Food Ingredients	23	24	13%	10	-21,556	39	0.4%	36	3	25	0%	47	<10	>20
20	Dairy	26	33	-3%	35	-81,317	29		36	5	30	-5%	38	<20	<10
21	Spices, culinary herbs	26	42	3%	31	-9,564	40		28	2	12	-4%	46	>20	<10
22	Leather Products	27	32	-2%	39	-30,330	26		43	2	32	-10%	40	<10	<10
23	Rubber, rubber products	30	34	2%	32	-138,106	39					-3%	28		
24	Gums, resins, extracts	32	49	0%	33	-13,465	37		42	1	23	5%	32	>20	>20
25	Coffee Products	37	9	9%	7	-19,068	38					-6%	36		
26	Cocoa Products	37	27	-2%	35	-13,964	28					-3%	35	<20	>20
27	Wood and wood-products	37	28	17%	8	125,972	28					9%	17	>20	>20

ANNEX 2: How are the combined rankings of the Trade Performance Index calculated?

	INDICATOR	WHAT DOES IT MEAN?	HOW IS IT CALCULATED?	Weight in the ranking
P1	Value of net exports	How important is the country on the world market? (net exports used to eliminate re-exports)	Exports less imports	1
P2	Per capita exports	How outward looking is the economy? To what extent does the labour force produce for the world market?	Exports divided by population	1
P3	World market share	Success on the world market	Percentage share of world imports	1
P4	Diversification of products	(Lack of) Dependence on a small number of products and vulnerability to industry-specific external shocks	See cells below	1
P4a	Equivalent number	Number of export products of equal size that would lead to the observed concentration of exports	Inverse of the Herfindhal index	0.50
P4b	Spread	(Lack of) Concentration of export products by value	Weighted standard error	0.50
P5	Diversification of markets	(Lack of) Dependence on a small number of export markets and vulnerability to shock within partner countries	See cells below	1
P5a	Equivalent number	Number of markets of equal size that would lead to the observed concentration of exports	Inverse of the Herfindhal index	0.50
P5b	Spread	(Lack of) Concentration of export markets by value	Weighted standard error	0.50
C1	Change in world market share reflecting:	Change in global performance	Change in the world market share	1
C1a	Change in competitiveness	Gain in market share due to increased competitiveness	Change in the exporting country's share in destination markets' imports times by the initial share of partner countries' imports in world trade (weighted average of the variation in the country's position on elementary markets*)	0.25
C1b	Initial geographic specialization	Benefits associated with the initial pecialization of domestic exporters on dynamic markets	Initial market share of the exporting country in partner countries times by the change in the share of partner countries in world trade (weighted average of variations in the relative importance of export markets)	0.25
C1c	Initial product specialization	Benefits associated with the initial sectoral specialization of domestic supply on products characterized by dynamic demand.	Change in the share of elementary markets in world trade times by the difference between the initial share of the exporting country in elementary markets* and the initial market share of the exporting country in destination markets (initial product orientation weighted average of changes in destination market's share in world imports)	0.25
C1d	Adaptation to changes in world demand	Ability to adjust export offer to changes in world demand	Change in the share of the elementary markets* in world trade times by the change in the exporting county's market share in these elementary markets*	0.25
C2	Trend of the coverage of imports by exports	Development of sectoral surplus or deficit of exports over imports	Growth trend of the coverage ratio (exports divided by imports) over the period 1993-1997 (based on the least-squared method)	1
C3	Correlation with the dynamics of world demand	Focus of the national export portfolio on the world's most dynamic products	Spearman's rank correlation between the country's share of export products in national exports and the respective trends in world demand	1
C4	Change in the diversification of products	Ability to develop new export products	See cells below	1
C4a	Variation of the equivalent number	Change in the number of export products of equal size that would lead to the observed concentration of exports	Variation in the inverse of the Herfindhal index	0.50
C4b	Spread variation	Change in the concentration of the export markets by value	Variation in the weighted standard error	0.50
C5	Change in the diversification of markets	Ability to penetrate new markets	See cells below	1
C5a	Variation of the equivalent number	Change in the number of markets of equal size that would lead to the observed concentration of exports	Variation in the inverse of the Herfindhal index	0.50
C5b	Spread variation	Change in the concentration of the distribution of export markets	Variation in the weighted standard error	0.50

ANNEX 3: A SHORT LIST OF PRODUCT DIVERSIFICATION OPPORTUNITIES FOR SA EXPORTS (THE TOP 80% OF EXPORT SHARE, BY VALUE)

High Value Products > 1 unit value (US\$ / kg)

(?) = Discrepancy in statistics

HS CATEGORY		UNDERACHIEVERS (INFANTS)	CHAMPIONS (PERFORMERS)	CASH COWS	LOSERS
		New industry, supply constraint / High World Demand	SA competitive / High World Demand	SA competitive / Declining World Demand	Declining SA exports/ Declining World Demand
1	Live animals	Horses breeding Poultry live	Horses, not breeding	Bovine, not pure-bred Fowls live domestic Animals, live	
2	Meat	<i>Swine cuts Sheep cuts Sheep, goat meat Poultry cuts</i>	Bovine cuts, boneless <i>Swine cuts Bovine offal Duck, geese, guinea fowl cuts</i>	<i>Bovine cuts, with bone Fowl cuts and offal</i>	Fowls, domestic, whole, frozen
3	Fish and seafood	<i>Fresh water fish (fillets)</i>			
4	Dairy	<i>Yogurt Buttermilk, curdled milk</i> Whey Milk products <i>Cheese, grate / powder Cheese fresh Edible products of animal origin (0410)</i>	<i>Milk and cream powder Milk powder <1.5% fat</i>	Egg of bird in shell Cheese, blue-veined Egg yolks, dried	Milk not concentrated, unsweet <i>Milk, cream powder sweetened Butter and other fats and oils Cheese other</i> Milk, cream other sweetend (?)

5	Animal products	Fish, shell nt for hum cons		Guts, bladders, stomachs	Feathers
6	Trees, balbs, flowers	Bulbs, tubers (Flowering, grow) Cut flowers (?) Foilage (?)	Trees Cuttings, slips	Plants, live Foilage, fresh (?) Bulbs, tubers (dormant)	Cut flowers (?) Foilage, not fresh Roses
7	Vegetables [SA no.7 in world]	Vegetables, fresh or chilled Mix of Vegetables, frozen Vegetables, frozen Onions, preserved Caspers, preserved Chickpeas and beans Legumious vegetables Lettuce Asparagus (?)	Leeks Carrots and turnips Beans Peppers	Potatoe seed Onions and shallots, fresh Mushrooms, fresh or chilled Kidney beans, white pea Vegetables dried Mushrooms, dried	Potatoes Oranges Tomatoes Garlic Onions, dried
8	Fruit and nuts [SA no.7 in world]	Subtropicals: Avocadoes Guavas Mangoes Pawpaws Berries, fresh (incl. raspberries, mulberries) Dried fruit (incl. dried prunes) Dates, figs Cucumbers, Gherkins Walnuts, Chestnuts, Cashew nuts (?) Cherries	Grapes, fresh Almonds Cashew nuts Pineapples Other Citrus fruit Currants, gooseberries Cranberries, bilberries	Nuts, edible Fruits / edible nuts Manderins, clementines Lemons, limes Grapefruit Apricots, dried Other fresh fruit Hazelnuts	Grapes, dried Apples, fresh Pears, quinces, fresh Apricots, fresh Peaches, nectarines, fresh Plums and sloes, fresh

9	Tea and spices	<i>Green tea (not fermented)</i> <i>Nutmeg</i> <i>Mixture of products</i>	<i>Green tea (fermented)</i> <i>Curry</i> <i>Spices</i>	<i>Coffee not-decaffeinated</i> <i>Black tea fermented</i> <i>Mate</i>	<i>Fruits of Capsicum</i>
		Vanilla Cloves			
10	Cereals	Rye Barley Grain sorghum		Durum wheat Wheat and meslin Cereals unmilled	Maize Canary seed
				<i>Rice</i> Oats Malt	
11	Milling	Inulin (mostly from chicory) Flour of dried leguminous Maize flour Wheat pellets Wheat gluten Maize, semi-processed Oats semi processed Manioc (cassava) starch Wheat starch	Cereal groats <i>Oats, rolled, flaked</i>	Wheat or meslin flower Cereal flour Maize starch Potato starch Barley, rolled or flaked Cereals, rolled or flaked Other starches	Maize groats and meal Buckwheat Rye flour
12	Misc grain, seed	Seeds, Timothy grass Sugar cane Cereal straw Locust beans, Soy beans Sesamum seeds,	Cotton seeds <i>Oil seeds and oleaginous fruits</i> Flours and meals of oil seeds Seeds, vegetable, for sowing Cereal straw + husks (swede, mangold, lucerne, fodder, hay)	Ground-nuts in shell Sunflower seeds <i>Seeds, fruit, spores, sowing</i> <i>Plants used in pharm, perf, insect</i> Safflower seed Linseed, Poppy seed Rape seed	Ground-nut shell Palm nuts + kernels Custor oil seeds

		Shea nuts			
13	Vegetable extracts	Pectic substances <i>Mucilages, thickeners</i> Liquorice extract Lac Opium sap		Vegetable saps and extracts Gum arabic Agar-Agar	
14	Vegetable plaiting	Vegetable dying material Bamboos for plaiting	Cotton liners	Rattans for plaiting	
15	Fats and oils	Edible oils (margarine, other) Industrial fatty alcohols Acid oils from refining Stearic acid Castor oil Sesame oil Fish-liver oils Jojoba oil	Wool grease Wool derivatives Glycerol	Soya-bean oil crude Sunflower seeds or oil Maize oil Veg fats, oils hydrogenated Margarine, excl liquid margarine Coconut oil Palm oil Animal / veg fats or oils Groundnut oil	Fixed vegetable fats and oils Olive oil vigin Palm oil - crude Rape / Colza seed oil Palm kernel oil Linseed oil
16	Preparation Meat/ Fish	Turkey meat, prepared Meat of duck, goose Shrimp, prawns prep. Lobster processed Meat preserved Extracts & juice of meat / fish (1603)	Meat preparations Caviar Crustaceans, processed	Bovine meat and offal, prep. Sardines	

17	Sugars / confectionary [SA no.3 in the world]	Fructose, chemically pure	Fructose, >50%	Refined sugar, added flavour Sugar confectionary Raw sugar, cane Refined sugar Glucose Molasses (other) Chewing gum	Cane molasses
18	Cocoa products	Cocoa powder Cocoa shells, husks, skins	Cocoa powder, sweetening	Chocolate, cocoa products (not bulk)	Chocolate, cocoa prep >2kg
19	Prep. Flour / milk	Couscous Gingerbread Communion wafers, empty cachets f pharm Prep cereal foods Topioca + substitutes from starch	Prep. of cereals, flour, starch/milk infant use, retail Pasta Crispbread Malt extracts, food prep contain cocoa	Stuffed pasta Uncooked pasta Cereals, excl maize Sweet biscuits, waffles, wafers Rusks, toasted bread	
20	Prep. Fruit / veg [SA no.1 in the world on fruit juices]	Juice mixes Vegetables, processed Veg, fruit, nuts; processed Fruit other prep. Preservd Potatoes proccessed, frozen Nuts Olives prepared or preserved Mixes & doughs for prep of	Orange juice (not frozen) Grapefruit juice Other Fruit/ veg juices (Not mix) Strawberries processed	Citrus fruit juice Orange juice (frozen) Grape juice Apple juice Tomato Juice Citrus fruit prep, preservd Homo prep, jams, jellies Citrus fruit marmalades,	Pineapple juice Asparagus, in vinegar Jams, fruit jellies Pineapples prep. Preservd Pears prep, preservd Apricots prep., preservd Peaches presevd Fruit mix prep., preserved

		bakers'wares		puree Beans prepared, preserved, not frozen Groundnuts prep o preserved Mushrooms prep o preserved Sweet corn prep o preserved	Tomatoes prep., preserved
21	Prep. Miscellaneous	Yeast Soups and broths Sauses and preps Soya sause Tomato ketchup Mustart flour	Tea extracts Yeast active Protein concentrates	Ice cream Food preperations Baking powders, prepared	Chicory, coffee substitutes
22	Beverages [SA no.5 in world]	Non-acloh. beverage exl juices Ice&snow&potable waters Ethyl alcohol and other spirits Vinegar and substitutes	Undenatrd ethyl alc <80% alc, e.g. liqueur. Grape wine <2l Waters,mineral, sweet, flavourd Fermented beverages e.g cider Rum and tafia Mineral&aerated waters (pure)	Grape wines, must, add alc Gin and geneva Grape wines, sparkling Undenaturd ethyl alcoh 80%+ Spirits by distilling grape wine Beer made from malt	Grape wines > 2l Whiskies
23	Residues, wastes	Palm nut / kernel oil cake	Wine lees, argol Palm nut / kernel oil cake	Dog or cat food (?) Flours, meals, pellets of meat Flours, meals, pellets of fish	Cotton oil cake Linseed oil cake Groundnut oil cake

				Soya-bean oil-cake Animal feed preparations Sunflower seed oil cake Coconut oil cake	
24	Tobacco	Cigars, cigarettes substitutes	Smokg tabacco Tobacco extracts	Tobacco, unmanufactured Cigarettes containg tobacco	
33	Essential oils	Essential oil of jasmin Resinoids (?) Other essential oils, flavours	Essential oil of Bergamot Aqueous distils of essentl oils Casein Essential oil of lime	Essential oil of lemon Essential oil of citrus fruit Other essential oils Essential oil of pepermint	Essential oil of other mint Essential oil of orange Essential oil of lavender
35	Albumin, starch, ensyme	Casein glues Glues based on starch Albumins, peptones, protein substances		Gelatin	
41	Hides and skins, leather	Equine hides, skin Reptile skins	Hide sections, bovine	Bovine skins, whole, raw Sheep or lamb skins Raw hides and skins of animals	Bovine hides, whole fresh Othe, bovine hides raw Sheep or lamb skin, raw (wool) Sheep or lam skin pickled
50	Silk		Silk waste		
51	Wool, animal hair			Degreased shorn wool Coarse animal hair Noils of wool, fine animal hair	Greasy shorn wool, not carded Carbonised wool, not carded Fine animal hair not carded

52	Cotton				Cotton, not carded or combed
53	Vegetable textile fibre	Flax, raw / processed True hemp, raw / processed			

A LIST OF ADDITIONAL INFANT INDUSTRIES AND PRODUCTS, NOT VERIFIED BY TRADE STATISTICS:

Aloe
 Avocado-oil, Macadamia-oil, Grapeseed-oil
 Essential oils, Buchu
 Fresh Water Aqua:
 Abalone, Catfish, Trout, Waterblommetjies
 Game, ostrich, crocodile
 Litchi
 Marula products
 Rooibos, Honey Bush
 Services, technology
 Sharon fruit
 Sport-drinks
 Stevia

Statistics Period: 1997-2001
 Source of data: UNCTAD trade database

Analysis done by Ezra Steenkamp, National Department of Agriculture
 Date: 24 June 2003
 My doc/priority products/final revised