

SOUTHERN AFRICAN CUSTOMS UNION AND EUROPEAN FREE TRADE ASSOCIATION FREE TRADE AGREEMENT

1. BACKGROUND

SACU¹ and EFTA² concluded a Free Trade Agreement in August 2005. Four agreements were negotiated that all form part of the instruments establishing the free trade area between the two sides. The main agreement covers all products falling within HS Chapters 25 to 97, including products classified by the WTO as an agricultural product, but falling outside chapters 1 to 24, e.g. cotton in chapter 52 or hides and skins falling in chapter 41. The agreement further covers processed agricultural products, as well as fisheries. To cover agriculture and ensure WTO compatibility, three bilateral agreements on basic agricultural products (within chapters 1 to 24, excluding processed agricultural products) were negotiated with each individual EFTA Member State (Switzerland also covers Liechtenstein). The agreements will be liberalized over a period of 10 years after entry into force. However, the agreements are not yet implemented pending to ratification by all SACU member states. The agreement would be implemented with July 2006 as a reference period.

2. TARIFF PREFERENCES TO THE AGRICULTURAL INDUSTRY

2.1 Main agreement - Processed Agricultural Products (PAPs)

In terms of the main agreement, SACU will enjoy immediate duty-free access into EFTA for all products covered by this agreement, with the exception of processed agricultural products. Here SACU will enjoy access that is the same as what the EU enjoys in terms of its respective agreements with the different EFTA States. This, however, does represent a substantial improvement on the market access SACU is currently enjoying. In return, SACU will gradually eliminate import duties over a period not exceeding nine years, with different phase-down modalities for different products. SACU did negotiate the right to exclude certain sensitive products, e.g. chocolate, as well as only offer partial preferences on certain other products. SACU also managed to introduce a clause that would prevent processed agricultural products that qualify for export subsidies from benefiting from preferences under this agreement. These would have to trade under Most-Favoured-Nation (MFN) conditions.

2.2 SACU-Switzerland bilateral agreement

The bilateral agreement will eliminate trade barriers between SACU countries and Switzerland. Through the bilateral agreement SACU exporters will have a better market access for canned oranges, mandarins, and apricots to Swiss market. They will also face duty free access for canned peaches, grapefruit and lemons. Cider apples and apples for distilling will be duty free within the limits of Switzerland's World Trade Organization (WTO) market access quota. For other apples, MFN duties will be payable, except for apples in open packings exported from June 15 to July 14 which will be duty free. Apples exported from July 15 to June 14 will also be duty free within the limits of the WTO market access.

2.3 SACU-Norway bilateral agreement

SACU exporters will face duty free access for canned fruit- Pineapple (2009.20), Pears (2008.40), Apricots (2008.50), Peaches (2008.50), and Mixtures entirely containing fruits of heading 0803 – 0810 (2008.92.01) and except for those classified under other (2008.92.09) at 20% MFN.

2.4 SACU-Iceland bilateral agreement

SACU secured duty free access for all canned fruit, fruit juices, wine, grapes, citrus and apples into Iceland. Exporters will face no duties when exporting the above mentioned agricultural products to Iceland.

2.5 SACU offer to individual EFTA countries

¹ SACU comprises of Botswana, Lesotho, Namibia, South Africa and Swaziland

² EFTA (European Free Trade Area) member countries are Iceland, Norway, Switzerland and Lichtenstein. Switzerland and Lichtenstein constitute a customs union.

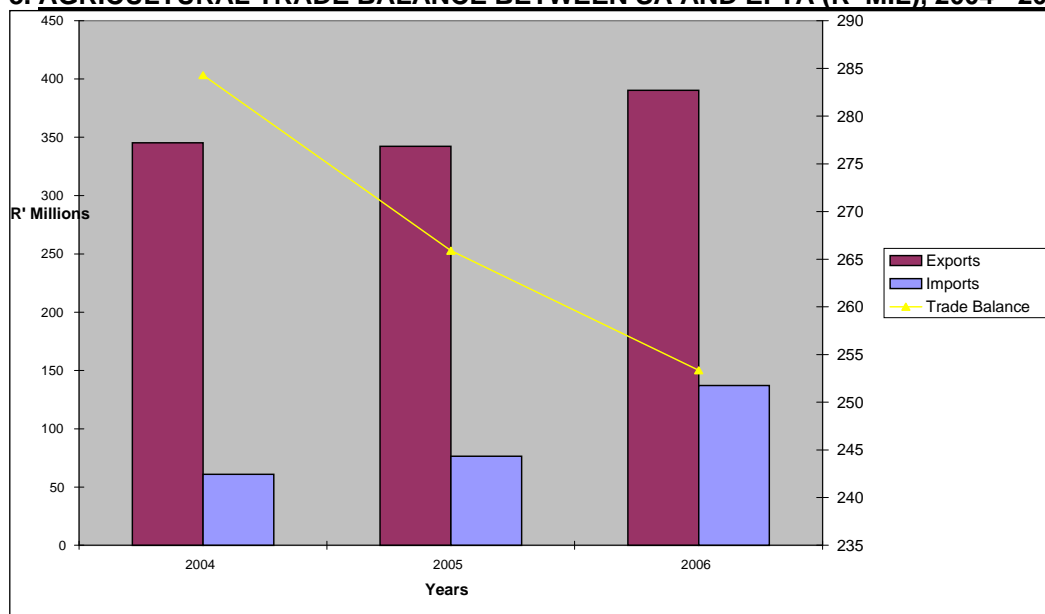
Preferences for the bilateral agreements were negotiated based on request lists exchanged between the two sides. Based on these lists, parties constructed market access offers, taking into account defensive interests and sensitivities. In terms of the bilateral agreement with Iceland, SACU is only offering duty-free market access on live horses and meat of horses. This is because Iceland was unwilling to include a clause preventing the use of domestic support for products to be traded under this agreement (the export subsidy provision has been included). As a result, SACU was unable to offer any additional benefits (Iceland was specifically looking for lamb meat).

The bilateral agreement with Norway only offers market access for SACU. Norway was unwilling to include the export subsidy and the domestic support provisions into the bilateral agreement. As a result, SACU could not offer any preferences, as the products for which Norway expressed an interest, i.e. dairy (mainly cheese), are heavily subsidised in Norway.

The third agreement with Switzerland is more comprehensive than the two other agreements. It offers substantial market access improvements for both sides. Switzerland also agreed to include the clause on domestic support and export subsidies. This means that the one fundamental principle included in South Africa's agricultural trade strategy has been adhered to, namely that no preferences will be offered to any product that enjoys trade and production distorting support from the exporting country's Government.

Of the three agreements the Switzerland agreement, offers the most substantial benefits, putting SACU on par with its major competitors in the Swiss market, especially the European Union. This is especially pleasing as Switzerland has been identified as a major export destination for SACU, specifically South African agricultural products.

3. AGRICULTURAL TRADE BALANCE BETWEEN SA AND EFTA (R' MIL), 2004 - 2006



Source: Data source from South African Revenue Services (Excise and Customs)

For the period 2004 to 2006 the agricultural trade balance between EFTA and South Africa is in favour of SA. However, the challenge is that the balance has been declining overtime (R284.3, R265.89 and R253.35, respectively) It is envisaged that the trade balance will improve upon entry into in force of the agreements as SACU secured market access on several agricultural products. This analysis indicates Switzerland as the main trading partner for South Africa. The main products exported to EFTA are meat and edible offal, fresh, chilled or frozen (HS 02089000) followed by unfortified wine in containers of 2 litres or less (HS 22042140).

4. CONCLUDING REMARKS

It is envisaged that more agricultural products will be exported to EFTA upon implementation of the agreement. The electronic copies of the trade agreements can be obtained from the DoA website www.nda.agric.za, follow link Agricultural Marketing Information Systems (AMIS), then MIS- e library- International agreements.

Details regarding the implementation of the agreement will be issued to the industry as soon as they are available.