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Agricultural Policies in Non-OECD Countries
Monitoring and Evaluation 2007

Chapter 8

South Africa

Evaluation of policy developments

- Changes in South African agriculture in the past decade have been shaped by substantial reforms implemented from the mid 1990s: deregulation of the marketing of agricultural products, abolishing certain tax concessions favouring the sector and reductions in budgetary expenditure on the sector. The main development in trade policies was the replacement of direct controls over imports by tariffs, which were set below the bound rates of the URAA, and elimination of state controls over exports and of export subsidies. In 2005 and 2006, most policy developments were linked with the introduction of programmes providing support to new farmers emerging from land reforms.
- The average level of producer support in South Africa, measured by the %PSE, indicates a relatively low degree of policy interventions and the overall trend shows some reduction of support from 1994 up to 2001. Support increased in 2002 but then stabilised. Around 80% of producer support in South Africa is delivered in the form of Market Price Support (MPS). Budgetary transfers increased in the current decade due to the introduction of the fuel tax rebate and increased spending on land reforms and related programmes.
- An important share of public financial resources is devoted to the implementation of land reforms, especially land redistribution. To support this programme, Land Redistribution and Agricultural Development (LRAD) grants are given to the disadvantaged black population to acquire land or for other forms of on-farm participation. It allows farmers who can provide personal contributions (financial or own labour) to access or acquire more land. From 2005, new programmes are implemented to support the development of market-oriented family farms emerging from the land reform process.
- The black population in rural areas is the target of land reform policies, but it is clear that adequate supporting infrastructure must also be in place if these new entrepreneurs are to survive. The new entrants into commercial agriculture are at a considerable disadvantage relative to the more experienced operators in facing the challenges of the liberalised market. The government has to address these issues by implementing well targeted support programmes and services (including research and development) tailored to the needs of the emerging farms.
- It is essential for the development of small-scale farms and for the less developed regions of South Africa, to have a financial system able to mobilise savings, allocate capital and monitor farmers, business firms and micro-enterprises. South Africa has recently developed programmes targeting those, who with the help of a loan are able to establish a viable business and escape poverty. In this respect, careful client targeting and development/application of transparent selection criteria are of utmost importance to secure longer term financial viability of such programmes.

Description of support

- Support to producers as measured by the %PSE followed a downward trend in the period 1995-2001 when it reached its lowest level of 2%. After an increase in 2002 to 8%, the %PSE stabilised around that level during 2003-05, which is far bellow the OECD average of 30% for the same period.
- The overwhelming share of producer support in South Africa is delivered in the form of Market Price Support (MPS). Budgetary transfers, although showing a tendency to increase from 2001, are a minor part of transfers to producers.
- The producer Nominal Protection Coefficient (NPC) indicates that on average the prices received by domestic producers (including the payments based on output) were only 7% higher than world market prices.
- However, the NPC for individual commodities indicates a large share of variation in price support. Sugar attracts the highest price support, while price support is much lower for livestock products and negligible for crops.
- The cost to consumers (%CSE) halved from an implicit tax of 14% in 1995-97 to an implicit tax of 7% in 2003-05.
- Support for general services provided to agriculture represents a relatively stable share in the Total Support Estimate (TSE), increasing slightly from 33% in 1995-97 to 41% in 2003-05.
- The total cost to the economy of agricultural support as a share of GDP declined from 1.1% in 1995-97 to 0.7% in 2003-05, which implies that the costs of agricultural policy to the economy is relatively low.

Figure 8.1. **PSE level and composition over time**

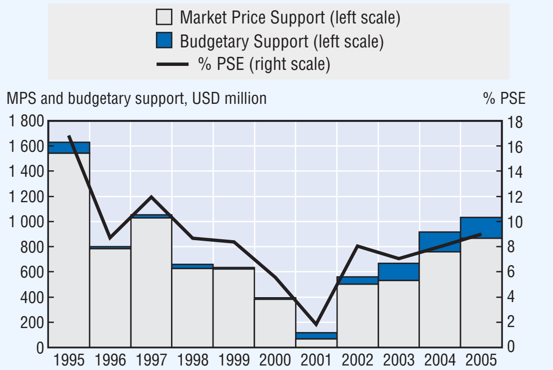

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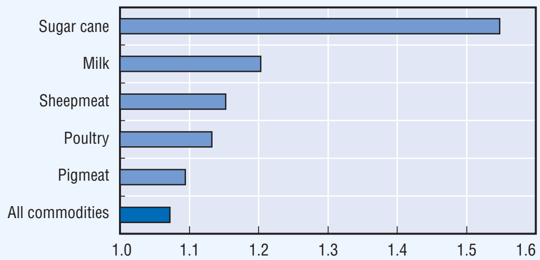
Figure 8.2. **Producer NPC by commodity, 2003-05 average**



NPC was equal to 1 for wheat, maize, sunflower, groundnuts, fruit, beef and veal and eggs.

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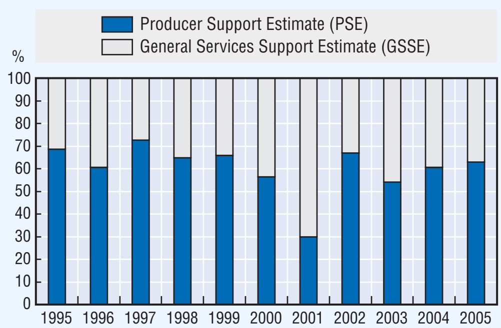
Figure 8.3. **TSE composition over time**



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Source: OECD, PSE/CSE database, 2006.

Table 8.1. **South Africa: Estimates of support to agriculture**

ZAR million

	1995-97	2003-05	2003	2004	2005
Total value of production (at farm gate)	**37 180**	**71 872**	**70 820**	**72 979**	**71 816**
of which share of MPS commodities (%)	*73*	*73*	*72*	*71*	*72*
Total value of consumption (at farm gate)	**34 942**	**69 229**	**69 995**	**69 501**	**68 191**
Producer Support Estimate (PSE)	**4 546**	**5 846**	**5 062**	**5 916**	**6 560**
Market Price Support (MPS)	4 387	4 808	4 023	4 901	5 501
of which MPS commodities	*3 210*	*3 361*	*2 784*	*3 409*	*3 888*
Payments based on output	0	0	0	0	0
Payments based on area planted/animal numbers	10	0	0	0	0
Payments based on historical entitlements	0	0	0	0	0
Payments based on input use	59	812	704	844	889
Payments based on input constraints	3	1	4	0	0
Payments based on overall farming income	87	224	331	171	171
Miscellaneous payments	0	0	0	0	0
Percentage PSE	**12**	**8**	**7**	**8**	**9**
Producer NPC	**1.15**	**1.07**	**1.06**	**1.07**	**1.08**
Producer NAC	**1.14**	**1.09**	**1.08**	**1.09**	**1.10**
General Services Support Estimate (GSSE)	**2 170**	**4 003**	**4 296**	**3 857**	**3 857**
Research and development	1 797	2 145	2 442	1 997	1 997
Agricultural schools	0	0	0	0	0
Inspection services	146	586	574	593	593
Infrastructure	141	925	1 112	832	832
Marketing and promotion	3	8	0	12	12
Public stockholding	0	0	0	0	0
Miscellaneous	82	338	168	423	423
GSSE as a share of TSE (%)	**32.7**	**40.8**	**45.9**	**39.5**	**37.0**
Consumer Support Estimate (CSE)	**–4 712**	**–4 550**	**–3 679**	**–4 469**	**–5 503**
Transfers to producers from consumers	–4 255	–4 028	–3 323	–4 013	–4 750
Other transfers from consumers	–598	–522	–356	–456	–753
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	141	0	0	0	0
Percentage CSE	**–14**	**–7**	**–5**	**–6**	**–8**
Consumer NPC	**1.17**	**1.07**	**1.06**	**1.07**	**1.09**
Consumer NAC	**1.16**	**1.07**	**1.06**	**1.07**	**1.09**
Total Support Estimate (TSE)	**6 715**	**9 849**	**9 358**	**9 772**	**10 417**
Transfers from consumers	4 853	4 550	3 679	4 469	5 503
Transfers from taxpayers	2 461	5 821	6 036	5 759	5 667
Budget revenues	–598	–522	–356	–456	–753
Percentage TSE (expressed as share of GDP)	**1.10**	**0.71**	**0.74**	**0.70**	**0.68**
GDP deflator 1995-97 = 100	**100**	**177**	**168**	**178**	**186**

For the definition of OECD indicators of support to agriculture, see Annex A.1. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient. Market price support is net of producer levies and excess feed costs. MPS commodities for South Africa are: wheat, maize, sunflower, groundnuts, sugar, grapes, oranges, apples, milk, beef and veal, pigmeat, sheepmeat, poultry meat and eggs.

Source: OECD, PSE/CSE database, 2006.

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Summary of key policy developments

The main policy development in South Africa is the modification of land reform policies for redistributing agricultural land. From 2005, new programmes were implemented to support the development of market-oriented family farms emerging from the land reform process. The Comprehensive Agricultural Support Programme (CASP) is targeted to the beneficiaries of land reform willing to establish commercial farms. Support is provided mainly through investment grants allocated to viable projects. The Micro-Agricultural Finance Scheme of South Africa is a state-owned scheme to provide micro and retail financial services in rural areas. It was implemented in three provinces in 2005 and extended to other provinces during 2006. For a detailed review of agriculture policy reforms in South Africa, see OECD (2006).

Policy context

Agriculture's share in the GDP has been around 3% for the period 2000–05. This relatively low share is mainly due to the importance of service activities like trade, transport and finance in the South African economy (65% of GDP). Although the share of primary agriculture in the economy is relatively small, its overall importance should be considered in the context of its linkages with upstream and downstream industries, employment opportunities, its role in foreign trade and inter-regional linkages. The officially reported employment in primary agriculture (mainly employment on commercial farms) represents around 10% of total employment. The share of agro-food trade in total exports is around 10%, while the share of total imports is around 6%.

Macroeconomic situation

The still robust economic growth in 2006 showed some moderation compared to the 4.5% and 4.9% GDP growth in 2004 and 2005 respectively, and consequently posed little threat to the inflation outlook. However, in 2006 the inflation rate went up because of robust consumer spending. The budget deficit for the fiscal year 2005/06 had been a low 0.6% of GDP compared with the government's original target of 3.1% of GDP, owing largely to stronger than expected economic growth (2005 was the highest growth since 1984) and further strong performance in domestic revenue. The fiscal deficit is expected to increase to 1.5% of GDP in 2006/07.

Monetary policy remains focused on containing inflation within the official target range of 3-6% per year set by the South African Reserve Bank (SARB). After a period of lowering interest rates (from September 2002) The SARB raised interest rates twice in 2006 (June and August) in both cases by 50 basis points, reflecting the fears that the economy is overheating and that inflation targets are at risk. The year-over-year (end of year) inflation rates increased from 1.4% in 2004 to 3.9% in 2005 and were further increasing in 2006 (August 2006 year-to-year index was 5%). After a strengthening of the rand (from 10.5 ZAR/USD in 2002 to 6.36 ZAR/USD in 2005), the exchange rate has exhibited considerable volatility and a general tendency to weaken during 2006. The overall current account deficit rose to 4.2% of GDP in 2005 (compared with 3.5% of GDP in 2004) as the visible and invisible trade deficits both deteriorated. Exports posted robust growth, but imports grew faster, causing the trade deficit to widen.

The core objective of the government, as set out in 2004, is to halve poverty and unemployment by 2014. With the improvement in the economic growth rate has come employment creation, though unemployment remains high at over 26%. The government announced the introduction of the Accelerated and Shared Growth Initiative (ASGISA) which is to raise investment, growth and job creation in the formal (*first*) economy, but also to integrate the informal (second economy) in the formal one. Although special attention will be given to business process outsourcing and tourism, other sectors are encouraged to develop strategies for focus areas within each sector.[1] These sectors are labour intensive, rapidly growing sectors world wide, suited to South African circumstances, and open to opportunities for Broad Based Black Economic Empowerment (BBBEE) and small business development.

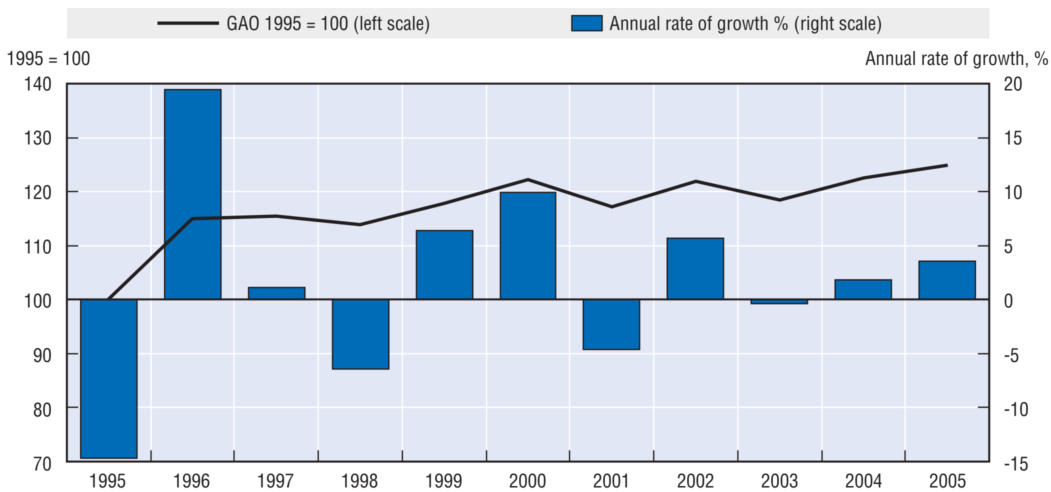
Agriculture and agri-food situation

Overall, the conditions for agricultural production are not favourable in most of the country. Only 16% of agricultural area is potentially arable and water resources are scarce in most regions. Natural pastures in desert and semi-desert areas represent 83% of total agricultural area, with the remaining area is used mostly for field crops and horticulture. South African agriculture is highly dualistic with a small number of commercial operations run predominantly by white farmers (although there is a small number of larger scale black farmers) and large numbers of subsistence farms run by the black farmers. The problems and opportunities are quite different for each group. Some of these subsistence farms aim to develop into commercially oriented farms. Agricultural reform continues with a series of measures to address past injustices including land redistribution, agricultural support programmes to disadvantaged farming communities, and a broad-based programme of economic empowerment of the black population in the agriculture and food sector.

Output

The development of Gross Agricultural Output (GAO) is characterised by an upward trend but with important year-to-year fluctuations (Figure 8.4). In 2004 and 2005, the GAO increased by 3.4% and 2%, respectively. Overall, the volume of agricultural output has increased by 25%, between 1995 and 2005. Year-to-year changes demonstrate that horticultural and livestock

Figure 8.4. **Evolution and annual changes of agricultural output in South Africa, 1995-2005**



Source: OECD Secretariat, 2006.

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1. The agricultural sector will focus on growth points in the targeted areas related to livestock improvement, rehabilitation of eroded areas, irrigation developments and biofuel initiatives.

production is less vulnerable to annual fluctuations compared with field crops. Field crops, horticulture and livestock products accounted, respectively, for 28%, 28.5% and 43.5% of total agricultural output in 2003-05, with the horticultural sector gaining in relative importance over the past decade.

Crops

The most important field crop grown in South Africa is maize followed by sugar cane, sunflower and wheat. The country has traditionally been a net exporter of maize and sugar, and a net importer of wheat. Field crop production is extensive and mostly without irrigation. Thus, field crop yields are relatively low (compared with the US or European levels) but also more variable due to low and erratic rainfall. Maize is used as the major feed grain (yellow maize) and also as the staple food for the majority of the South African population (white maize). With an area of more than 3 million hectares, maize is cultivated on around one-quarter of total arable land. Wheat is produced on 0.8 million hectares, mainly for human consumption with only small quantities of lower quality wheat marketed as feed. Sunflower seed is the most important oilseed crop but its area has been steadily declining since 2001, to 460 000 ha in 2004. Sugar cane area is relatively stable at around 430 000 ha.

Horticulture

Horticulture production is concentrated in regions with suitable quality land and sufficient water resources. Most horticultural production is under irrigation. Horticulture production, mainly wine and fruit production, has been increasing in the last 10 years. The share of horticultural production in the value of total agricultural output increased from 21% in 1990 to 29% in 2004. This was largely due to the liberalisation of South Africa's export regimes and the opening up of other countries' markets to South African exports. However, in 2004/05 there was a year-to-year reduction in horticulture production, the first time since 1992/93.

The most important categories of fruit produced are citrus fruits (mainly oranges), apples, pears, peaches, table grapes and avocados. The fruit sector is mainly export oriented. Around 85% of table grapes and 70% of avocado production is exported, while for the citrus fruits and apples these shares are around 50% and 33%, respectively. The most important vegetable produced in South Africa is potato (41% of vegetable area), followed by cabbage, onion and tomato. Vegetable production is more oriented towards domestic consumption. Although its area is increasing, the horticultural sector occupies a relatively small share of arable land, but consumes most of the water used in agriculture. It is also a labour intensive sector and provides important employment opportunities.

Livestock

Livestock remains the most important category of agricultural production and its share in total agricultural output remains around 43%. Poultry meat, beef, milk and dairy are the most important livestock products. In 2003-05, their share was more than 70% of the total value of livestock production. Other important livestock products are eggs, sheepmeat, wool and mohair, and pork. There are two important and contrasting patterns of production. The extensive production of cattle, sheep and goats occurs on most of the pasture land in the arid and semi-arid areas, as it is the only possible production. The more intensive production of poultry, milk and pigmeat is located in areas with field production and closer to the main consumption centres and the ports.

Production of most livestock products was declining in the early 1990s but stabilised from 1995. The only notable exception was poultry meat for which production has been steadily increasing. Between 1990 and 2005, production of poultry meat increased by 37% (although the production showed a tendency to stabilise in 2004 and 2005), while sheep and goat production halved within the same period.

Structures

South African agriculture is of a dualistic nature, with a developed, capital-intensive, commercial sector comprising about 45 000 commercial farms (mostly owner-operated and using hired labour), which occupy 86% of agricultural land. The top 20% of these farms produce 80% of the value of production, which means that, in terms of revenue, most of the remaining 80% of commercial farms are relatively small and the owners often complement household revenue with off-farm sources of income. There is a large number of small-scale subsistence and sub-subsistence (communal) farms (operated by family labour) occupy the remaining 14% of farmland. A limited number of these farms produce for local markets, but most of them don't produce enough to cover household needs.

Inputs

Although the relative share of inputs has not changed dramatically over the last two decades, changes in the cost of intermediate inputs had a substantive impact on the profitability of farming in South Africa. At present, feed costs comprise 47% of the major intermediate inputs and over time the main intermediate inputs (feed, fuel, fertilisers, chemicals and packaging) has increased from about 40% at the start of the 80's to between 50% to 60% of gross farming income during the last decade. There is a downward trend in the purchases of fuel and fertiliser (but not chemicals). Although the move toward minimum tillage systems was a factor in dampening fuel purchases, this is more a recent phenomenon. The major factor over the last two decades was a decline in the total hectares planted with cash field crops due to the withdrawal of marginal agricultural land from production.

In the commercial farming sector, there has been a shift towards higher use of skilled labour combined with the reduction of the number of hired workers. The decline in the number of paid employees was combined with increased per capita remuneration in real terms. These effects are felt more severely in the field crop and livestock sectors, where the demand for part time workers is small, unlike the horticultural sector, where seasonal workers are hired more extensively.

Food industry

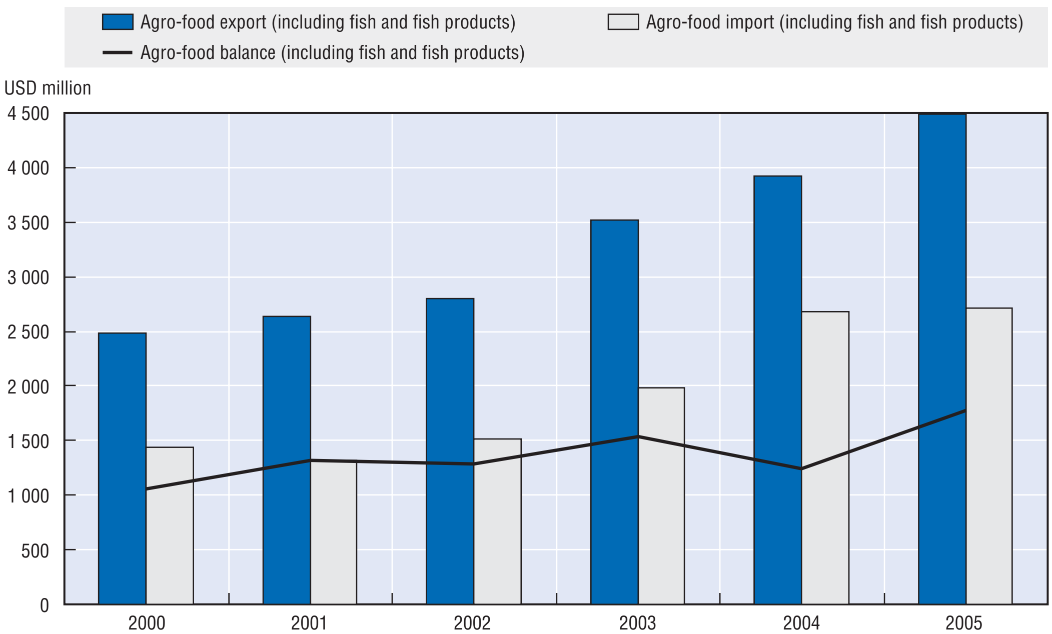
Although market deregulation lead to an increase of the number of enterprises in the food sector, in most industries the production and markets are dominated by a relatively small number of enterprises. In beef production, there is an increasing integration of large-scale feedlots with slaughtering and marketing activities. The broiler industry has a high degree of concentration. Two producers produce 70% of broilers, while a multitude of small producers supply the remaining 30%. Sugar milling and refining activities are concentrated in five sugar plants. Also food retailing has become highly concentrated with four retail companies dominating the retail market (totalling almost 90% of the market share).

Agro-food trade flows

The South African economy, including agriculture, is increasingly integrated in world markets. Three major political and economic developments in the 1990s contributed to this process: *i)* the political transformation and democratisation; *ii)* liberalisation of domestic and foreign trade; and *iii)* a relatively stable macroeconomic environment. The opening of the agricultural sector placed South Africa among the world's leading exporters of such agro-food products as wine, fresh fruits and sugar. The country is also an important trader in the African region. The beginning of the current decade witnessed particularly strong agricultural export growth. South Africa's agricultural exports increased during the period 2000–05 (Figure 8.5) and its revenues reached almost 9% of the total value of national exports. Europe is by far the largest importer, absorbing almost one-half of the country's agricultural exports. The African market is the second most important destination, accounting for around 26% of exports, with the Asian market slightly less with an 18% share. The United States and Canada play a relatively modest role as export destinations, absorbing only around 7%, while exports to Latin America and Oceania are marginal.

Agricultural imports are also growing but less rapidly than exports (Figure 8.5). Agricultural imports have accounted for 5% to 6% of total imports on an annual basis since 2000. They are distributed more evenly than exports with less emphasis on Europe. Europe, Latin America and Asia account for roughly equal shares (between 22% and 26%). Combined, these three regions supply almost three-quarters of South Africa's agricultural imports. Most notable is the major role of Latin America as a supplier of agricultural products (24%), compared with its negligible role as an export destination (1%). Oceania and North America are also much more important as a source of imports than as export destinations. Conversely, Africa which is a major export destination is not a major supplier of agricultural imports.

Figure 8.5. **Agro-food trade in South Africa, 2000-05**



Source: UN, UN Comtrade database, 2006.

StatLink http://dx.doi.org/10.1787/506133353258

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Domestic agricultural policies

Price and income support measures

Important market intervention schemes providing support to commercial farmers were implemented for decades under the Marketing Act. The Marketing Act was repealed in 1997, following the promulgation of the Marketing of Agricultural Products Act, Act 47 of 1996. The new Act involves much less state interference, regulation and state involvement in agricultural marketing and product prices.

Although most sectors of agro-food production are deregulated and price and income support measures are not applied on domestic markets, Market Price Support (MPS) still makes up the overwhelming share of agricultural support. This is, in part, explained by a combination of border protection and a domestic pricing system on a limited number of commodities, of which sugar is the most important. The government has abolished sugar cane quotas and the South African Sugar Association (SASA) no longer has statutory marketing powers nor is it the sole statutory sugar exporter. However, the Sugar Agreement of 2000 (between different agents in the sugar production chain) still permits raw sugar to be exported only through a single channel industry arrangement, and allocates quotas to individual producers for sugar sold on the domestic market. Also, provisions under the Sugar Agreement, which divides proceeds between growers and sugar plants, are still in place.

Input subsidies

The most important input subsidy applied in agriculture is the diesel fuel refund system, introduced in 2000. It provides to targeted sectors, including agriculture, a refund on the tax and road accident fund levies paid on diesel fuel. (80% of the total eligible purchases used in primary production qualify for the refund). The refund per litre was steadily increasing from ZAR 0.42 per litre in 2001 to ZAR 0.715 per litre in 2005. The increase in the diesel rebate was due to the rise in the total administered diesel price and not because the rate of the rebate was increased.

Land reform

Land transfers

An important share of public financial resources is devoted to the implementation of land reforms, especially land redistribution. To support this programme, Land Redistribution and Agricultural Development (LRAD) grants are given to the black disadvantaged population to acquire land or for other forms of on-farm participation. It allows farmers who can provide personal contributions (financial and/or own labour) to acquire more land. From 1995 to 2006, more than 3.5 million ha of agricultural land were transferred to black farmers. Most of this land (2.7 million ha) has been acquired through the land redistribution and land restitution process (Table 8.2).

Support to emerging farmers

From 2005, new programmes were implemented to support the development of market oriented family farms emerging from the land reform process. The Comprehensive Agricultural Support Programme (CASP) adds the vital element of post-settlement support, which is imperative to improve the production and marketing capacity of emerging farmers. The support is provided mainly through investment grants allocated to viable projects. The

Table 8.2. **Land transferred within the process of land reform in South Africa**
Thousand hectares

	1995-2006	2004-05	2005-06
Redistribution	1 555.4	125.7	197.7
Restitution	1 115.6	76.8	212.5
Land tenure	128.4	18.9	28.3
State land	761.8	11.5	53.7
Total	3 561.2	232.9	492.1

Source: Department of Land Affairs, South Africa, 2006.

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Micro-Agricultural Finance Schemes of South Africa (MAFISA) is a newly established state-owned scheme to provide micro and retail financial services in rural areas. It is designed to be a complementary tool to the CASP. In 2005, the MAFISA scheme was applied in the Limpopo, Eastern Cape, and KwaZulu-Natal provinces, with ZAR 150 million (USD 24 million) allocated for the year. It was expected to be rolled out to the other provinces during 2006.

Part of the Knowledge and Information Management System (KIMS) also targets the emerging commercial farmers. To provide targeted marketing support, a state-aided programme, aimed at improving agricultural marketing infrastructure to support agrarian reform beneficiaries in the rural areas will be implemented during 2006-07. The Department of Agriculture (DoA) will continue with the development, printing and distribution of information booklets on marketing. These brochures cover the basics of agricultural marketing and are targeted at small-scale developing farmers in all provinces. A DoA web-based integrated agricultural marketing information system was created to provide agricultural marketing information to farmers in rural development centres and will be updated regularly.

There have been developments relating to services at the farm level as well. Two national computerised economic information support systems were upgraded and redeployed towards emerging farmers. Both systems are analytical tools that are linked to area/national databases. One is a farm enterprise budget system (COMBUD) for planning purposes and the other is a farm record system (FINREC) for monitoring and evaluation as well as advisory services.

Integrated Food Security and Nutrition Programme (IFSNP)

Support to agriculture also targets food insecure households (estimated at 2.2 million). Under this programme, an increasing number of food-insecure households are benefiting from the Agricultural Starter Pack Programme which provides support for agricultural subsistence production by the households. As part of the IFSNP, the Food Insecurity and Vulnerability Information Mapping System (FIVIMS) has been established to assess vulnerable and potentially vulnerable areas in the country. This mapping system serves as a decision-making and monitoring tool to identify groups requiring food aid (food parcels).

Agro-food trade policies

Import measures

South Africa's import protection for agricultural and food products is based mostly on specific and *ad valorem* tariffs. It also provides for tariff rate quotas, which are country and product specific, as well as anti-dumping and countervailing duties. The average agricultural tariff protection is lower compared with the overall average. As a member of South

African Customs Union (SACU), South Africa applies the common external tariffs established for all members. For most agro-food products, *ad valorem* tariffs or specific duties (or a combination of both) are applied. Tariff quotas exist for a range of agricultural products under the minimum market access commitments, with tariffs at 20% of the bound rates. For some products, preferential tariffs are granted to imports from the EU, while imports from Southern Africa Development Community (SADC) countries outside the SACU are duty free. The characteristics of the border measures applied to main agro-food products are as follows:

- Grains: For maize, a specific import duty (ZAR/tonne) is applied, calculated according to a formula based on the world price and the relevant exchange rate. Between 1998 and 2005, the *ad valorem* equivalent of the duty fluctuated between 0 and 28%. Until July 2005, a similar formula tariff also existed for wheat, fluctuating in *ad valorem* terms between 0 to 30%. In July 2005, the formula tariff for wheat was replaced by an *ad valorem* tariff of 2%. Imports of other grains are duty free.
- Sugar: For sugar and sugar products, import tariffs range from zero on sugar, cane molasses, and fructose syrup to 37% on sugar confectionery. Additional duty level adjustment (ZAR/tonne) is applied to sugar imports based on a trigger price system. Hence, the *ad valorem* equivalent of the duty for sugar ranged from 12% to 85% between 2001 and 2005. The *ad valorem* equivalent import tariff on sugar was close to zero by the end of 2006.
- Oilseeds: For soybeans the applied tariff is 8%, and for sunflower it is set at 9.4%.
- Horticulture: Average tariff for fruits is 5% (citruses, wine grapes, apples and pears), while that for vegetables is 10.6%.
- Dairy products: are mostly subject to specific tariffs with a ceiling fixed in the form of *ad valorem* equivalent (fresh milk and yogurts are imported duty free; concentrated and powder milk or with sugar 450 c/kg with a maximum of 96%; butter 500 c/kg max. 79%; cheese and curd 500 c/kg max. 95%, other milk products 450 c/kg max. 96%).
- Beef and sheep: Live animals are imported duty free, while for meat and edible offals import tariffs are set at up to 40% (or a specific duty of 240 c/kg for beef and 200 c/kg for sheepmeat), and for meat products up to 50%.
- Pigmeat: Live animals are imported duty free, while for meat and edible offals import tariffs are set at up to 15% (or a specific duty of 130 c/kg).
- Poultry and eggs: Live animals are imported duty free; for processed chicken (fresh, chilled or frozen) the tariff is set at 27%; imports of other poultry (turkey, goose, duck) and eggs in shell are duty free.
- Imports of wool and fine or coarse animal hair are mostly subject to a zero tariff.

Safeguard measures: Although South Africa reserved the right to use special agricultural safeguards for a number of products, these were not used in the course of the implementation period as they were not deemed necessary, mainly because of the substantial margin between bound and applied tariffs which made it possible to raise tariffs when deemed necessary.

Export measures

Since July 1997, when the General Export Incentive Scheme (GEIS) was abolished, no export subsidies are applied for agro-food products. However, the price pooling regime for sugar applied by the South African Sugar Association (SASA) is effectively subsidising sugar exports, while the costs are born by local sugar consumers.

Box 8.1. **South Africa's trade agreements**

South Africa was a founding member the General Agreement on Tariffs and Trade (GATT) and the subsequent World Trade Organisation (WTO). The Southern African Customs Union (SACU), whose members are South Africa, Botswana, Lesotho, Namibia and Swaziland (BLNS countries) has been in existence since 1910 and was renegotiated in 2002. In 1994, South Africa became a member of the 14 member Southern African Development Community (SADC). The SADC free trade agreement is to be implemented between 2000 and 2008. A very important feature of the SADC is the trade Protocol intended to stimulate trade between member countries through the reduction of tariffs. SADC incorporated the principle of asymmetry: A phase-down of SACU tariffs in five years (by 2005); and those of other countries in 12 years (by 2012).

The Trade, Development and Cooperation Agreement (TDCA) between South Africa and the EU and its Member States was signed in October 1999 and implemented on 1 January 2000. Under this agreement, a free trade area between the two parties will be established by the end of the transition period in 2012. The area will cover approximately 90% of total trade between the two parties (including an important segment of agro-food trade). The TDCA will be reviewed during the course of 2006. The aim will be to further liberalise trade amongst the parties, while also addressing market access issues other than goods. The amended agreement is expected to come into force during 2007.

SACU-EFTA Free trade agreement: SACU has recently concluded a free trade agreement with the European Free Trade Association (EFTA) (Liechtenstein, Iceland, Norway and Switzerland). The agreement covers both agricultural and non-industrial market access. It also includes some evolutionary clauses that would allow the future inclusion of other aspects into the agreement, *e.g.* trade in services. The agreement is expected to come into force during 2006.

Apart from the existing Free Trade Agreements (FTAs), South Africa with other SACU partners is currently negotiating a FTA with the United States and with Mercosur. Negotiations towards a comprehensive FTA with the USA started in 2003, and are still underway. The process is not likely to be achieved in the near future as both parties while confirming their commitment to achieve a mutually beneficial FTA, recognised that a range of substantive issues have arisen in the negotiations that will require detailed examination over the longer term. A trade and Investment Cooperation Agreement (TICA) is seen as a potential road towards an eventual FTA. This will comprise a series of trade-enhancing agreements.

SACU negotiated a Fixed Preferences Agreement, as a first step towards a FTA, with Mercosur. The Agreement and Memorandum was signed in December 2004. The Agreement grants fixed margins of preferences in a limited number of tariff lines, to either party. The agricultural offers cover approximately 33% of agricultural trade, both ways. The agreement also has annexes on Safeguard Measures and on Dispute Settlement. Two rounds (in May and October 2005) have taken place since then. Discussions focused on SPS, customs co-operation, Rules of Origin and tariff preference. An SPS annex was agreed and work on product specific Rules of Origin is in an advanced stage. Attempts are still underway to improve the tariff offers.

Export permits: For those products that need to comply with certain EU or US quota arrangements, the South African government requires an export permit to ensure that small and medium-size enterprises, as well as disadvantaged communities, get a fair chance to export under certain quota windows.

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