An assessment of the Trade and Development Cooperation Agreement: Implications for South African agricultural trade, with special emphasis on the wine trade

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Abstract

The Trade and Development Cooperation Agreement (TDCA) between South Africa and the European Union (EU) is an important trade agreement for South Africa as it enables preferential access to South Africa’s largest market for many product lines. The TDCA was provisionally but only partially applied from 1 January 2000 and fully entered into force on 1 May 2004 albeit with phasing periods. This paper will focus on assessing the success of the trade objective of this agreement, with an emphasis upon the agricultural trade in general and the wine trade in particular.

While it is natural that South Africa should be focusing upon the opportunities it has been afforded through its relationship with the newly emerging BRIC (Brazil, Russia, India and China) countries it is crucial to look back and assess the TDCA against the prospects of an enhanced trading and economic relationship with the BRICs. This is especially so in the present policy environment where the Economic Partnership Agreements (EPAs) between the EU and African countries are being vigorously negotiated. In addition the EU has remained the most important export market for South African agriculture and wine, while, similarly, the EU is the main source of agricultural imports into South Africa.

For a detailed performance assessment World Trade Atlas data is used to examine South Africa’s performance in the EU import market, to examine South African exports in the world market and to examine the performance EU’s performance in the South African market. This assessment was done for all commodities and for agricultural commodities, which allows a detailed assessment of the performance of wine trade in the context of overall trade. Performance was analysed for trade lines at the HS 6 digit levels using the pre-TDCA 1999/2000 average trade and the 2010/2011 average trade. These averages are used to create a ratio to compare the performance of commodities relative to the overall market. The relative

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performance ratios are then used to categorise commodities so as to indicate how well both the overall market and the relevant traded commodity are performing. Commodities and categories are then assessed against the tariff preferences from the TDCA to seek a linkage between performance and tariff preferences.

The relative importance of the EU as an export destination for South Africa has declined despite the tariff preferences accorded to the bilateral partners. This general conclusion conceals the variation in HS trade lines that are explored in this paper. When looking at individual trade lines many commodities seem to be faring well. For instance, the analysis finds that approximately 92% of the EU’s agricultural imports from South Africa are growing, while only approximately 2% of EU agricultural imports from South Africa are ‘shrinking’. As regards South African exports, the majority of South African exports to the EU seem to be growing, but seem to be growing more slowly than average South African exports to the world. As regards EU imports into South Africa, the analysis suggests South Africa is performing better in the EU market than the EU is performing in the South African market. The importance of the EU as an import source for South Africa seems to have declined.

Considering wine specifically, EU imports of South African wine emerge as a ‘real star’ in the performance categories and wine is the highest value product in this category. This means that EU imports of wine from South Africa are growing more quickly than EU imports of wine from the world. In addition, EU imports of wine from South Africa are also performing better than average EU Imports from South Africa and average EU imports from the world. Wine also emerges as a ‘real star’ of South African exports, which means that South African exports of wine to the EU are performing better than South African exports of wine to the world. South African exports of wine to the EU are also performing better than average South African exports to the EU.

Of particular interest to the TDCA analysis is the extent to which performance has been driven by tariff concessions into Europe. No discernible pattern is found between the mean of the tariff preferences and performance categories. What does emerge is that the TDCA seems to have been kinder to EU imports into South Africa than to South African imports into the EU. The analysis shows that 65% of EU imports into South Africa have been granted tariff concessions of 10% or greater as compared to only 33% of South African imports into the EU having been granted tariff concessions of 10% or greater. As regards trade in wine, which has been a good performer in the TDCA period, EU imports of South African wine have been granted only small tariff concessions of between 0% and 4%. Despite endeavors by the South African trade negotiators to protect South Africa’s newly liberalised agricultural sector against European protectionism, the casual evidence suggests that this has not been the case.
The overall conclusion is that there appears to be limited evidence that the TDCA has resulted in any significant trade creation. Examining South Africa’s performance in the EU reveals that performance has not met the average EU performance for either total imports or agricultural imports as the South African trade shares have slowly declined after an initial post-TDCA increase. Despite this, individual South African commodities still seem to be performing well in the EU market, and wine is a good example of such a commodity. On this basis it is recommended that South Africa learn from the TDCA while exploring trade agreements with new markets such as the BRICs, while simultaneously recognising the EU market as a solid base from which to grow into new markets. South Africa should also consider building on the good relations and trading history that has been forged with the EU to expand further into underexplored EU markets. For the wine industry such an approach may be particularly relevant since despite flat growth since 2007 the EU is still the largest market for South African wine.

**Keywords:** Trade and Development Cooperation Agreement, South African agricultural trade, South African wine trade, trade performance, European Union, tariff concessions, trade creation

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