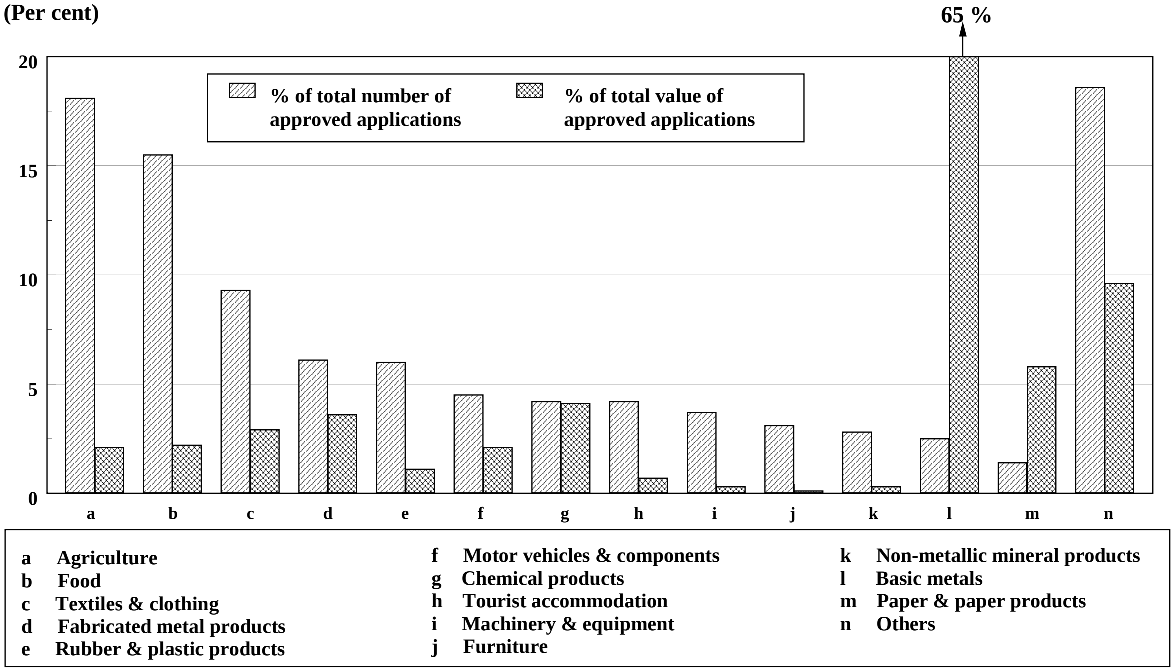
IV. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Introduction

1. South Africa has a relatively diversified economy at the core of which is the mining and quarrying sector. A long-standing and relatively expensive import-substitution strategy, maintained during the period of international sanctions against South Africa, nevertheless contributed to the development of forward and backward links between the different sectors of the economy. The major goal of the agriculture sector was South Africa's self-sufficiency in food; the mining and quarrying sector provided inputs to manufacturing industries and for the production of utilities (e.g. electricity and oil) to meet domestic demand, particularly following international embargoes. Control boards and state-owned enterprises were established to support the system. However, the inefficiencies and resultant high costs induced by the import-substitution strategy and foreign pressure contributed to timid trade liberalization processes during the 1970s and the 1980s. Since 1992, with the phasing-out of the sanctions, trade policies and practices in the individual sectors of the economy have come under review, especially with a view to liberalization; the process of deregulation and of introducing an outward-oriented trade strategy begun by the previous Government has been continued. There have been tangible results from the liberalization process and from the review of the various incentives provided by the Government, including through the Industrial Development Corporation (IDC) to support the system; incentive schemes are still concentrated in mining and quarrying activities, which received the largest share of the financial assistance (Chart IV.1), but mainly for mineral processing purposes.

Chart IV.1
Sectoral distribution of IDC financial assistance,
July 1992 - December 1996



Source: Data provided by the Industrial Development Corporation (IDC).

2. The agricultural sector accounts for less than 6% of South Africa's real GDP and usually contributes between 8 and 10% to its merchandise exports (in nominal terms). The sector has been protected mainly by means of non-tariff measures. Since 1992, the Government has been liberalizing the marketing boards of agricultural products. Agriculture provides inputs to industries, those processing food in particular. South Africa's manufacturing sector, protected by means of various types of duties, is diversified. The sector contributes some 24.5% to South Africa's real GDP. Textiles, clothing and related products are the most tariff-protected branch of the manufacturing sector (Chart IV.2).

3. The contribution of the mining and quarrying sector to South Africa's GDP and exports has declined following the continued decline in gold production since the 1970s. However, minerals and mineral products still account for more than 40% of South Africa's total exports of goods, with gold representing more than 50% of the value of mineral exports. Tariff protection for the sector is relatively low.

4. Services account for more than half of South Africa's GDP. Two state-owned enterprises, Telkom and Transnet, dominate the services sector and are operating under monopoly or hold exclusive rights in several branches of the sector, telecommunications and transport in particular. The liberalization of services should improve the efficiency of the other sectors and the competitiveness of South Africa's exports, especially by reducing costs related to telecommunications and transport.

(2) Agriculture, forestry, fisheries and related activities

(i) Main features

5. South Africa's land area suitable for agriculture covers 103 million hectares (ha.) equivalent to about 84% of South Africa's surface area; about 70% of the 103 million ha. is appropriate for animal grazing and around 15% is potentially arable land. Forestry land represents 1.1% of South Africa's land area. The province of Western Cape holds the largest share of agricultural production (nearly 22%) followed by KwaZulu-Natal and the Free State (nearly 15% each); livestock is also important in these three provinces.[1] Field crops are grown mainly in the provinces of Free State and KwaZulu-Natal. Western Cape produces about 50 per cent of South Africa's horticultural crops.

6. South Africa's agricultural sector is dualistic; modern large farms, the commercial branch of the sector, coexist with small-scale units whose owners rely largely on traditional farming methods and farm on a subsistence basis. Commercial farms hold about 86% of agricultural land; these farms and those producing predominantly field crops are located mainly in the provinces of Free State (4.2 million ha.), Mpumalanga (1.7 million ha.) and KwaZulu-Natal (1.2 million ha.). A decline in the number of commercial farms and in their full-time employment, and an increase in their average size and specialization has been recorded for almost three decades. Small-scale farmers provide varying support to 68% of the rural population with crops grown on the 14% of the agricultural land that they farm. Most of the small-scale farmers supplement household income from sources other than agriculture. The ratio of arable land to rural population is 0.2 ha. per person in small-scale farming areas compared with 2.5 ha. per person in commercial farming areas[2]; the small-scale and commercial farming branches employ roughly the same number of people.

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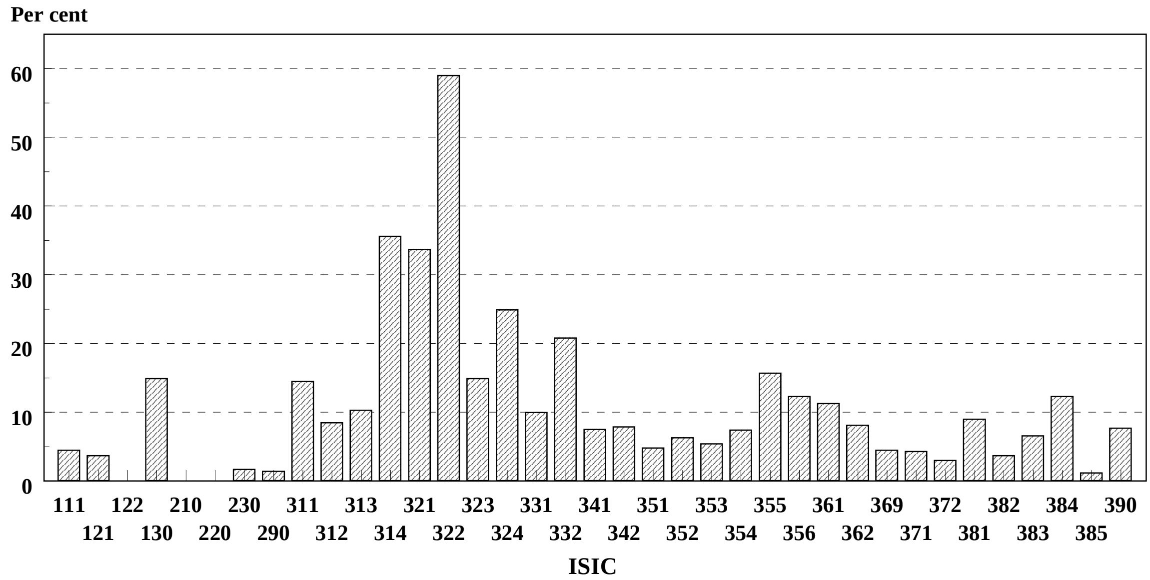
[1]The percentages refer to total agricultural production in 1991.

[2]The average farm size is 3,974 ha. in Northern Cape, Government of South Africa (1996i). The average size of farms in rural KwaZulu-Natal is 0.75 ha. and most farms are smaller than 2 ha..

Chart IV.2
Average South African tariffs by ISIC classification, 1997



ISIC	Major groups
111	Agriculture and livestock production
121	Forestry
122	Logging
130	Fishing
210	Coal mining
220	Crude petroleum and natural gas production
230	Metal ore mining
290	Other mining
311-312	Food products
313	Beverages
314	Tobacco
321	Textiles
322	Clothing
323	Leather poducts
324	Footwear
331	Wood products
332	Furniture except metal
341	Paper products
342	Printing
351	Industrial chemicals
352	Other chemicals, incl. pharm.
353	Petroleum refineries
354	Petroleum and coal products
355	Rubber products
356	Plastic products
361	Pottery and china
362	Glass and products
369	Other non-metallic mineral products
371	Iron and steel
372	Non-ferrous metals
381	Fabricated metal products
382	Non-electrical machinery incl. computers
383	Electrical machinery
384	Transport equipment
385	Professional and scientific equipment
390	Other manufactured products

Source: Data provided by the South African authorities; and estimates by the WTO Secretariat.

7. Agriculture, forestry and fisheries employ less than 10% of the economically active population and accounted for 5.6% of real GDP in 1996 as against 6.3% in 1988. A downward trend of the share of the sector in South Africa's real GDP has been recorded since 1985. Significant forward and backward linkages exist between agriculture and the other sectors of the economy: agriculture provides inputs to industry and is a beneficiary of intermediate inputs from the other sectors.

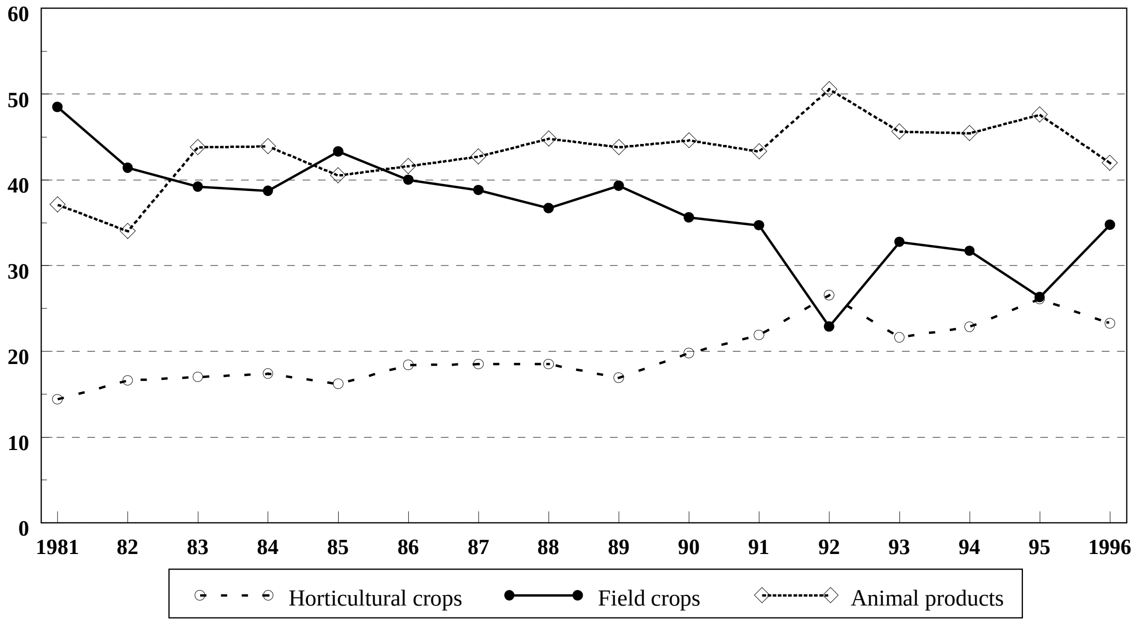
8. Exports represent about 30%, on average, of the value of annual agricultural production in South Africa. The share of agricultural products in South Africa's foreign trade (both imports and exports) has been increasing since 1990: earnings from agricultural exports were 8.7% of the value of total exports in 1990 and 10% in 1995; the value of agricultural imports were 10.1% of total imports in 1995 as against 4.9% in 1990. South Africa's major agricultural exports include maize and maize products, wool, mohair, hides and skins, deciduous fruit, citrus fruit, table grapes, preserved fruit and jam, wheat products, cut flowers and bulbs, wine, sugar, and groundnuts; major agricultural imports include rice, coffee, cottonne, vegetable oils, wheat, dry beans, sisal, cocoa beans, bananas, unprocessed rubber, tea and oilseeds. In addition to these export products, South Africa produces, *inter alia*, vegetables, grain sorghum, wheat, subtropical fruit, oats, barley, rye, lucerne seed, dry peas, lentils, chicory root, sunflower seed, soya beans, wattle bark, sisal, nuts, potatoes, rooibos tea, tobacco and hay. The national herd comprises cattle, sheep, goats, poultry and ostriches. Farmers have been substituting horticultural products, livestock and animal products for field crops since the early 1980s; therefore, a decline in the production of field crops (maize in particular) has since been recorded (Chart IV.3). Forestry is being developed and fishing is severely regulated in South Africa.

9. There has been a decline in annual real net fixed investment in agriculture since the 1980s. Total capital investment in the sector increased by only 1.5% (in nominal terms) during the period 1990-95. In 1995, gross domestic fixed investment in agriculture was R 1,815 million in constant 1990 prices. Total capital assets of commercial farmers amounted to about R 77 billion in 1995, with fixed assets representing nearly two thirds of this value. Rapid increases in input prices compared with producer prices, the decline in the Government's agricultural budget in both nominal and real terms since the mid-1980s, high real interest rates and the slowing of agricultural investments have negatively affected the sector and contributed to the weakening of the financial position of South African farmers. Indeed, the substitution of non-farm inputs for labour and land since the 1980s has led to the increase in the prices of those inputs; the resultant intensive use of labour and land contributed to an increase in their productivity. The depreciation of the rand since early 1996 has fuelled the increase in the prices of non-farm inputs while the prices of locally produced goods are still set relatively low in comparison with increasing prices of imported inputs.

10. South Africa's agriculture is vulnerable to unfavourable weather conditions; only about 8% of arable land is under irrigation. Recurrent droughts have contributed to large fluctuations in agricultural production, mainly livestock and maize; the 1992 drought was the worst in South Africa's history. Other factors, including topographical impediments, reduce the area of available agricultural land that can be brought under conventional cultivation.

Chart IV.3
Contribution of the main branches to gross value of agricultural production, 1981-96

(Per cent)



Source: Information provided by the South African authorities.

(ii) Policies, objectives and instruments

11. The major objective of agricultural policy in South Africa has shifted from food self-sufficiency to food security, at both household and national levels; agriculture is to ensure a secure supply of food to the consumer at "reasonable" prices.[3] Therefore, the main mission assigned to South Africa's agricultural policies is to ensure more equitable access to agriculture (including production factors, inputs and assistance) and more productive use of agricultural resources, with a view to promoting the development of the rural sector and uplifting, in a sustainable manner, the general standard of living in rural areas via the enhancement of the beneficiaries' wealth. Freer national and international movement of commodities, at more affordable prices for consumers, is to be developed without compromizing the national agriculturally based industries, "reasonable" returns to farmers and long-term agricultural viability. Farming systems, more adapted to the natural resource base and variable climate of South Africa, are to be developed and used. Farmers will be encouraged to make provision for drought periods as a normal phenomenon and the development and use of hardy crop varieties will be promoted.

12. Under the 1996 Constitution, agriculture, including the marketing of agricultural products falls within the authority of provincial governments; support services, such as training, extension services and information on the sector are provided without charge by the provincial departments of agriculture. At the national level, regulatory functions, as well as the delivery of certain services, are performed by the National Department of Agriculture and research support services are rendered by

[3]In the South African definition, food security means access by all people at all times to enough food for an active and healthy life.

the Agricultural Research Council (ARC), which employs 3,000 persons and comprises 11 research institutes.

13. Marketing schemes for agricultural products, set up under the 1968 Marketing Act (as amended), have been notified by South Africa to the WTO as state trading under GATT Article XVII.[4] Each scheme is administered by a control board. The number of boards was reduced from 22 in 1992 to 14 in June 1997. The boards currently administer three basic types of scheme. The Wheat Board, the Dried Fruit Board, the Citrus Board and the Deciduous Fruit Board operate single-channel pool schemes, under which producers market their goods through a board-operated pool; they receive advance payments on delivery of their crops and deferred payments once final pool proceeds have been realized. The Oilseeds Board, the Lucerne Seed Board, the Meat Board, the Mohair Board, the Sorghum Board and the Maize Board (until the end of April 1997) operate surplus-removal or floor-price schemes. Under the schemes, some at which are voluntary, the boards only intervene when prices drop below a fixed floor price; the surplus is purchased for redistribution or resale at a later date, or for export. The Wool Board, the Cottonne Board, the Milk Board and the Canning Fruit Board currently operate supervisory schemes: under these, the board arranges contracts between producers and buyers. The Cooperative Wine Growers Association (KWV) controls the marketing of wine.

14. The control boards operate under the supervision of the Minister of Agriculture; their members, mostly farmers, are appointed by the Minister. The National Marketing Council advises the Minister on issues relating to the marketing of agricultural products. Prices fixed by the boards must be approved by the Minister. In certain cases, including the Dried Fruit Board, the boards may appoint agents to purchase and pay the producers directly; the agents are paid on a commission basis. Products marketed through the boards are destined for sale in "controlled areas" where most production and consumption occur; in the case of wheat, all of South Africa is a controlled area. Outside controlled areas, no levy is payable and sales occur without any price or supply intervention; as a result, regional market segmentation occurs. To ensure a better price for higher quality produce, sales of inferior products may be prohibited on the local market in the controlled areas.

15. All boards have either overt control over, or tacit influence on, conditions for international trade in their commodities. The administrative expenses of the boards are financed by ordinary levies, typically paid by producers in controlled areas. Special levies are also collected to finance price stabilization funds, surplus disposal and exports, handling, advertising, research, inspection services and payments to the South African Agricultural Union, to finance its activities (Chapter III(2)(iii)(d)).[5] The Maize Board was closed on 30 April 1997.

16. Import and export controls on agricultural products are effected by means of permits issued by the Director of Imports and Exports, Department of Trade and Industry, on the recommendation of the Department of Agriculture. Import controls apply to fish, crustaceans and molluscs, dairy products, oats and maize, wine, vermouth, fermented beverages and ethyl alcohol (Table III.9). Coffee and wattle seeds are subject to export controls (Table III.13). Veterinary permits are required for the importation of live animals, and imports and exports of plants and plant products are subject to

[4]WTO document G/STR/N/2/ZAF, 16 September 1996.

[5]See GATT (1993) for more details on the functioning of the boards.

authorization and certification (Chapter III(2)(ix)(b)).[6] Under the 1990 Agricultural Products Standards Act, quality, compositional, marking and labelling requirements apply to agricultural products sold in, or exported from, South Africa (Chapter III(2)(ix)(c)); imported products must comply with the same standards set for local products. The Act requires the inspection of most animal products, citrus, subtropical and deciduous fruit, and certain processed products, including canned vegetables, fruit and food, before exportation; fresh produce is tested for pesticide residue levels. Fees charged for the inspection of agricultural standards range up to 12.1 cents per kg. of red meat or part thereof in a consignment; the fees may vary depending on the inspection point. Certain agricultural imports, eligible for preferential tariff treatment under bilateral trade agreements to which South Africa is a party, are subject to an additional permit; this is the case for dairy products, potatoes, coffee, tea and unmanufactured tobacco under the agreement with Malawi, and for all agricultural products (except a limited number of products such as vegetables, tea and fruit juice) covered by the agreement with Zimbabwe. South Africa applies tariff quotas to imports (including agricultural imports) from Mozambique that are eligible for non-reciprocal tariff treatment (Chapter II(5)(iii)).

17. Tariffs on imports of agricultural products, including forestry and fishing, range from zero to 35%, with a simple average of 5.6%. Imports of agricultural products, such as live animals, seeds, fruit and spores of a kind used for sowing, logging products, and some products of animal origin are duty-free; *ad valorem* tariff rates on farm, livestock and forestry products are on average lower than the mean tariff rate in the sector; fishery products carry rates that are on average higher than the mean. Higher tariff rates, ranging up to 55%, apply to processed food and beverages (Table AIV.1). Formula duties apply to certain preparations of tomato, cornflour, cherries and tobacco (Table III.2). The majority of South Africa's specific duties are applied in agriculture, mainly dairy products, beverages, meat and edible meat offal, products of the milling industry, sugars and sugar confectionery, and to fishery products. Incentives specifically available to farmers include the Orchards Scheme (Table AIII.3).

18. In the Uruguay Round, South Africa committed itself to fill quotas, under the minimum market access commitments, at a maximum tariff of 20% of the bound rates. Products subject to the commitments include animal products, potatoes, vegetables, fruit, cereals, coffee, tea, oil seeds, sugar, food preparations, wine and spirits, vinegar, tobacco, and cottonne. Initial quotas are expected to increase for, *inter alia*, meat of sheep, fresh milk and cream, cheese, eggs, certain cereals, potatoes and sugar (Table IV.1). According to the authorities, rebate facilities are being administered to fulfil South Africa's commitments regarding minimum market access; in consequence, no quantitative restriction formally applies to these products.

[6]South Africa is a member of the International Plant Protection Convention (IPPC) and the *Office International des Epizooties*. Inspection fees charged by the Perishable Products Export Control Board range from R 3.41 per pallet of deciduous fruit to R 10.20 per pallet of avocados; and R 0.0028 per kg. of foreign meat to R 0.0138 per kg. of flowers, bulbs and proteas. The fees range up to R 8.80 per integral container for the transport of perishable products.

Table IV.1

Tariff quotas in terms of South Africa's minimum market access commitments

Product description	Tariff heading HS line	Quotas	
		Initial quota (1995)	Final quota (2000)
Meat of bovine animals	02.01	26,254	26,254
	02.02		
Meat of swine	02.03	2,814	4,691
Meat of sheep	02.04	3,601	6,002
Edible offal	02.06	2,544	2,544
Meat and edible offal of poultry	02.07	17,420	29,033
Milk and cream fresh	04.01	32,194	53,657
Milk powder	04.02	4,470	4,470
Buttermilk and yoghurt	04.03	213	213
Whey	04.04	2,786	2,786
Butter	04.05	1,167	1,167
Cheese	04.06	1,557	1,989
Eggs	04.07	5,400	9,000
	04.08		
Potatoes	07.01	28,897	48,161
Chicory, fresh	07.05.20	4	4
Peas and beans, fresh	07.08	263	263
Vegetables, frozen	07.10	583	583
Dried vegetables	07.12	860	860
Dried peas	07.13.20	5,184	5,184
	07.13.90		
Dried beans	07.13.30	11,063	11,063
Lentils	07.13.40	1,601	1,601
Grapes, dried	08.06.20	238	397
Dried fruit	08.13	259	349
Coffee	09.01	15,746	15,746
Tea	09.02	11,375	11,375
Wheat or wheat equivalent	10.01 ex 11.00	97,333	108,279
Rye	10.02	50	83
Barley	10.03	14,552	14,552
Oats or oats equivalent	10.04 ex 11.00	7,333	7,333
Maize or maize equivalent	10.05 ex 11.00	161,400	269,000
Grain Sorghum	10.07	12,670	21,116
Other cereals	10.08	145	145
Barley equivalent	Ex 11.00	96,248	96,248
Soya beans	12.01	1,030	1,717
Groundnuts	12.02	7,908	7,908
Linseed	12.04	202	202
Rapeseed	12.05	871	871
Sunflower seed	12.06	8,709	14,514
Lucerne seed	12.09.21	576	576
Vegetables oils	15.07	61,083	61,083
	15.08		
	15.10 - 15.15		
Sugar	17.01	46,667	62,037
Other sugars	17.02	6,391	6,391

Table IV.1 (Cont'd)

Product description	Tariff heading HS line	Quotas	
		Initial quota (1995)	Final quota (2000)
Molasses	17.03	20,720	34,533
Malt extracts	19.01	6,119	6,119
Pasta	19.02	1,749	1,749
Tapioca	19.03	5,448	5,448
Preserved fruit and nuts	20.08 ex	1,636	1,636
Food preparations	21.06	3,109	3,109
Wine and spirits LI AA	22.04 - 22.08	9,572,405	9,572,405
Vinegar LI	22.09	9,000	15,000
Corn gluten feed	23.03	3,960	3,960
Oilcake	23.04 - 23.06	120,667	120,667
Tobacco	24.01	16,773	16,773
Cotton	52.01	17,101	17,101

Source: Data provided by the South African authorities.

19. South Africa has tariffied quantitative restrictions on all agricultural products, except black tea, and bound 87.2% of the tariff lines (at the eight-digit level) HS Chapters 01-[7] ; ceiling bound rates range up to 399.9% on certain spirits (Chapter III(2)(iii)(b)). South Africa bound tariffs on all products covered by the WTO Agreement on Agriculture, except certain albuminoidal substances based on eggs (HS 35 02 10 90); it also bound normal and specific levies (other duties and charges) on agricultural products (Table III.4). "As a result of the substantial inflation rate experienced by South Africa during the period under review, together with the marked reduction in the value of the South African rand over the same period and the widely fluctuating crop harvests as a results of the weather, the AMS has been calculated in real terms, in US$ terms and in percentage terms."[8] South Africa is to reduce its base AMS, estimated at R 2,519.28 million, by the agreed 20% over the six-year period ending 2000.

20. Several investigations into South Africa's agricultural policies, in particular the 1992 investigation of the Committee of Inquiry into the Marketing Act (CIMA), were commissioned by the Government; wine and sugar were not covered by the investigations. The major finding of the investigations was that the Act had not achieved its intended goals; it favoured large-scale farmers and did not promote efficient production, demand and consumption. The price mechanism set under the Act operated against producers and led to a growing gap between producer and consumer prices. Moreover, the introduction of control boards had limited the ability of producers to anticipate and respond suitably to the scope of foreign competition and to bargain with the relatively small number of buyers of their products.[9]

21. In consequence of the investigations, the Minister of Agriculture appointed an Agricultural Marketing Policy Evaluation Committee (AMPEC), comprising representatives of the major participants in agricultural marketing, to evaluate, *inter alia*, the recommendations emanating from

[7]The bulk of unbound tariff lines (excluding petroleum products) is on fishery products and preparations thereof (HS Chapters 03, 15 and 16).

[8]South Africa's Uruguay Round Schedule XVII; AMS means Aggregate Measurement of Support. WTO document G/AG/N/ZAF/13, 6 November 1997, contains information on domestic support commitments for 1996 notified by South Africa.

[9]Government of South Africa (1996d).

the investigation committees and the merits of specified trade policy instruments used by South Africa. On the basis of the recommendations of AMPEC, the Government undertook a revision of its agricultural policies, including the marketing of agricultural products. In keeping with the Reconstruction and Development Programme (RDP), a White Paper published in 1995 set the basic principles for the formulation of South Africa's agricultural policies. The present uneven income distribution in agriculture and rural communities is to be addressed by broadening access to mainstream agriculture for the emerging farmers via land reform, technical and financial assistance, improved infrastructure, training and other supply-side measures.[10]

22. Awareness of the South African farmers' weaknesses in marketing their products directly (partly a consequence of the regulatory environment), and the structural adjustments required for the reform of the marketing system, led the South African Future Exchange (SAFEX) to establish a national electronic auction system, the Agri-Marketing Exchange (AMEX), which started trading on 31 July 1995. Agricultural products marketed through AMEX include chilled beef, grains, oil seeds, potatoes, calves, sheep carcases, maize, sunflower seed and feedgrade wheat. Also, the Marketing of Agricultural Products Act (Act No. 47) was passed in 1996, and came into force in January 1997, to replace the 1968 Marketing Act. The Act is aimed at promoting the deregulation of the current marketing systems by contributing to increased market access for all market participants; promoting the efficiency of the marketing of agricultural products; optimizing export earnings from agricultural products; and enhanced viability of the sector. In this connection, the control boards were requested to submit business plans within one month following entry into force of the Act, to conclude their business and wind up their affairs within one year (two years maximum) after the first meeting of the National Agricultural Marketing Council (NAMC), held on 6 January 1997.[11] The Act allows, *inter alia*, the imposition of levies, the conduct of pools, and the control of exports and prohibition of imports and exports of agricultural products. However, according to the authorities, no more than a minimum degree of government intervention in the marketing of agricultural products is to result from the marketing reform.

23. According to the authorities, agricultural restructuring, including land reform, must preserve the current contribution of the sector to the overall economy. While formulating agricultural policies, the Government is to take account, under the Act, of the advantages of labour-intensive production as well as of the potential of different regions. Aware of the fact that commercial farmers have better access to research, technology and cooperatives than the small-scale farmers, the Government has decided to give higher priority to small-scale farmers in its funding of research. Greater focus is to be placed on the user-charge principle in respect of water, research and other services; the cost of water provision for irrigation farming will be increased. The Government is also to promote a more equitable distribution of land; a Restitution of Land Rights Act (Act No. 22 of 1994) has been enacted by Parliament and a Land Claims Court was established in November 1995 to address the issues of restitution for those dispossessed of their land during apartheid. Financial systems will be developed and a settlement grant of R 15,000 per household will be provided to resource-poor and

[10] The 1993 interim Constitution required that a new policy be established for agriculture and that land reform be implemented to favour new entrants in agriculture.

[11] NAMC is an advisory organ comprising all stakeholders in the agricultural sector.

beginner farmers in order to enable them to purchase land and agricultural inputs.[12] The 1996 Land Reform Act (Act No. 3) which came into force on 21 February 1997 protects existing tenants' rights and offers them the possibility of fair acquisition, from the owner, of the land they live on.

24. Agriculture is to be protected "primarily" by tariffs; the Minister of Trade and Industry will consider reports and recommendations of the Board on Tariffs and Trade (BTT) with regard to agricultural products in the light of the opinion of the Minister of Agriculture.[13] AMPEC proposed that tariffs on agricultural products be fixed on the basis of price bands and be automatically adjusted according to a predetermined formula based on international prices.[14] This would be achieved by increasing the level of tariff protection when international prices are relatively low and reducing it when international prices are relatively high. Such a system was applied in the case of tariff protection for maize and has been applicable on wheat since the end of 1995; the applicable tariff on wheat is calculated by using the four-week average of the Argentinian Trigo Pan Price of wheat as published in the IWC Grain Market Report (London).

(iii) <u>Policy by type of product</u>

(a) Maize and other food crops

25. Maize, the predominant crop and staple food in rural areas, in normal years accounts for about one quarter of the value of horticultural and field crops; however, the production of maize is more affected by drought than other crops (Chart IV.4). Maize is grown by both commercial and small-scale farmers. Commercial farmers also grow wheat and vegetables. Households are generally engaged in mixed cropping. Other important crops cultivated by small-scale farmers for subsistence purposes include sorghum, millet, cowpeas, beans, melons, gourds, pumpkins and sweet reed. Bananas are produced for domestic consumption and represent about 34% of the gross value of subtropical fruit produced in South Africa. Horticultural products such as vegetables are mostly for local consumption.

26. South Africa is self-sufficient in terms of all important field crops (except rice) and horticultural products (except coffee, cocoa, tea and spices), with self-sufficiency indices of 134% and 152% respectively, in the 1980s; these indices were just over 100% in recent years.[15] However, the substitution of rice and potatoes for maize by consumers, combined with high average growth rates of consumption of field crops and horticultural products in comparison with growth rates of the population in recent years, has raised government concerns about future self-sufficiency in food.[16]

[12]In accordance with the recommendations of the Commission of Inquiry into Rural Financial Services (Strauss Report) which was approved by Cabinet, the Department is in the process of developing agricultural finance support interventions with the aim to broaden access to agricultural finance to the developing agricultural sector.

[13]Previously, prior to the tariffication that resulted from the Uruguay Round, protection was afforded to local producers of agricultural goods "primarily" through quantitative import restrictions.

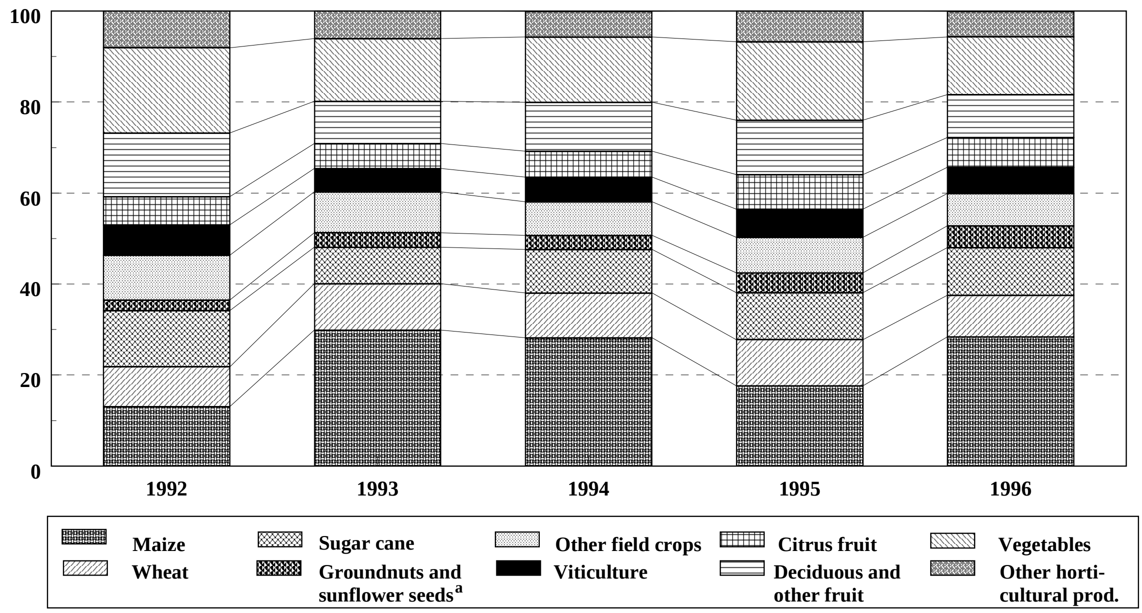
[14]Government of South Africa (1994b).

[15]The self-sufficiency index in terms of a product is the ratio of local production of the good to its consumption.

[16]Government of South Africa (1996i).

Chart IV.4
Gross income from field and horticultural crops, 1992-96

(Per cent)



a In general, sunflower seeds account for more than two thirds.

Source: Information provided by the South African authorities.

27. Tariffs on imports of cereals range from zero on products such as rye, barley, oats, maize and rice to 25% on, *inter alia*, millet and canary seed; higher rates ranging up to 50% apply to products of the milling industry. Imports of canned fruit and vegetables are subject to tariffs ranging up to 55%, with an average rate of 15.6%. Prepared foodstuffs are subject to specific excise duties. South Africa is a signatory to the 1995 Grains Trade Convention.

28. Until 1997, the Maize Marketing Scheme applied to maize and maize products. The Maize Board, a self-financed institution, was the sole authorized exporter of maize; it operated a floor-price and a surplus-removal system in the form of a voluntary export pool, in order to provide a certain price stability to producers. The Minister of Agriculture determined the maximum quantity to be exported in each season. Maize delivered to the export pool could be sold by the Board back onto the domestic market at a price of import parity plus R 20 per tonnene. The Board did not control imports; maize prices were market determined. The Maize Marketing Scheme was substantially liberalized before being terminated on 30 April 1997. Table IV.2 provides data on production, consumption and trade of maize over the period 1992-96.

Table IV.2
Maize production, consumption and trade, 1992-96
('000 tonnes)

Year	Imports	Exports	Production	Consumption	Stock levels	Balance[a]
1992	3,949	408	2,955[b]	6,828	701	369
1993	0	1,447	9,077	6,773	1,754	2,611
1994	0	4,719	12,067	6,417	3,304	4,235
1995	1,119	887	4,406[b]	6,842	849	-1,355
1996	139	2,656	9,694	6,738	946	1,385

a Balance = Imports - Exports + Production - Consumption + Stock levels.
b Shortfall of production i.e. local production is lower than consumption.

Source: Information provided by the South African authorities.

29. The Wheat Board operates a single-channel, fixed-price system, for locally produced wheat and barley; it appoints agents for the purchase and distribution of these cereals. The prices at which the Board buys and sells wheat and barley are annually determined on a basis negotiated between interested parties and approved by the Minister of Agriculture. The Wheat Board set the minimum price per tonnene of R 1032 (US$ 219) for the 1996/1997 season.[17] The Board, or any person it authorizes by permit, is responsible for both imports and exports of wheat and barley. In the case of oats, producers have been permitted to sell directly to consumers. The Sorghum Board operates a voluntary pool system under which exports are subject to permits, with the annual maximum volume of sorghum exported subject to approval by the Minister of Agriculture. The Sorghum Board was to be disbanded on 30 September 1997 and the Wheat Board on 31 October 1997.

(b) Export crops

30. South Africa is normally a net exporter of agricultural products; it has recorded a strong growth of agricultural exports since 1984. Agricultural exports increased by 84.9% between 1993 and 1995 largely because of rapid growth in exports of fruit to Europe and the Far East (following the end of the international embargo against South Africa). The Government is investigating the possibilities for greater diversification of agricultural export markets.

31. South Africa, in a normal year, exports groundnuts, cut flowers and bulbs, wine, deciduous fruit, preserved fruit and jam, and maize and maize products. Horticultural crops are grown mainly in the Western Cape, and subtropical fruit is grown in the Northern Province and Mpumalanga. Apples and table grapes, the most important varieties of deciduous fruit exported by South Africa, annually earn some R 1 billion in exports; the area planted in these fruits is about 36,000 ha. Together with pears, these two varieties of deciduous fruit account for more than 80% of the gross value of deciduous fruit produced in South Africa. Other varieties exported include peaches and plums. Production of subtropical fruit is expanding rapidly; citrus is the most important product in this category, accounting for more than 70% of the gross value of subtropical fruit produced by South Africa and among South Africa's major exports in value. Other export-oriented subtropical fruit includes pineapples (mainly for canning), avocados, mangoes, litchis and macadamia nuts.

[17]Africa Economic Digest, 11 November 1996.

32. The Dried Fruit Board operates a single-channel pool system for the marketing, including export of dried fruit. Under the system, surpluses of dried fruit are exported; the Board allocates the quantities to be exported to the different foreign markets. Similar systems are also operated for exports by the Citrus Board and the Deciduous Fruit Board; the Deciduous Fruit Board has appointed a single agent, Unifruco (a private company), to handle exports to almost all markets. The Canning Fruit Board operates a supervisory system but it may intervene to fix minimum producer or export prices. According to the Authorities, these control boards were to be phased out before 31 December 1997.

33. The Oilseeds Board operates a surplus removal scheme for all oil seeds and administers a single-channel system for the exportation of groundnuts; however, permits may be issued by the Board to persons who meet certain quality parameters set by the Board for the exportation of groundnuts. Producer prices are fixed by the Board, subject to approval by the Minister of Agriculture. The Board is involved in the exportation of sunflower seed and soya beans, with permits required for the exportation of these products by private traders. The Oilseeds Board was to be disbanded on 30 September 1997.

34. The 1989 Liquor Products Act provides for control, for quality purposes, over the sale, production, import and export of alcoholic products, excluding beer and medicines. Imports and exports of beverages and spirits must comply with local standards of labelling, chemical composition and sensory evaluation. Wine and spirits are also subject to import controls under the Import and Export Control Act, administered by the Department of Trade and Industry. A negotiated wine price, the base price, is applicable, supplemented by negotiated higher non-statutory guideline prices.

35. The 1970 Wine and Spirits Control Act is administered by the Cooperative Wine Growers Association (KWV). The Act empowers KWV to import distilling wine, on behalf of the industry, to cover shortfalls of local production. Subject to the approval of the Minister of Agriculture, the quantity of distilling wine to be imported is calculated on the basis of estimated commercial needs and the requirements of the wine industry, taking into account the total crop, and sales of wine (and juice for non-alcoholic purposes). An import-pool committee allocates at least 75% of the distilling wine so imported to individual distillers and to KWV. The five members of the committee, namely an officer of the Department of Agriculture who is the chairman, two representatives of the Cape Wine and Spirit Institute and two representatives of KWV are appointed by the Minister of Agriculture. An investigation committee appointed by the Minister of Agriculture recommended the abolition of import controls in terms of the Wine and Spirits Control Act.

36. Tariffs on imports range from zero on fruit not grown on a large scale in South Africa, such as dates, figs and nuts (including almonds, hazelnuts or filberts, walnuts and pistachios) to 20% on flours and meals of oil seeds or oleaginous fruits, and cut flowers, and to 35% on guavas, mangoes and mangosteens. In general, beverages, spirits and vinegar are subject to specific tariffs and excise duties; *ad valorem* tariff rates on these products range up to 25%. Certain categories of water carry compound duties.

(c) Sugar

37. South Africa produces cane for local processing into sugar. The production and marketing, including the sugar price, are regulated. Established under the 1936 Sugar Act and incorporated under the 1978 Sugar Act, the South African Sugar Association (SASA) has statutory marketing powers and is the sole sugar exporter. A Sugar Industry Agreement was promulgated in 1936 and substantially revised in 1993; the revised agreement came into effect in April 1994. The Sugar Industry Agreement covers: the administration of cane production and coordination of the supply of sugarcane to the mills; the administration of a two-price pool system; dispute resolution structures; the

determination of the quantity of sugar required for the South African national market; the disposal of the sugar available for export by SASA on behalf of the industry; the pooling of proceeds from the sale of sugar and molasses and the division of the net proceeds between the growing and milling sections; the determination of the sucrose content and price payable for sucrose in cane; the pooling of the cost of transporting sugar to permit the rationalization of production of the various grades of sugar; the imposition of levies to cover the cost of the administration of the industry by SASA; and control of pests and diseases.

38. Created to stabilize prices for a large proportion of total production of sugar, the two-tier price system has been in force since the 1985/86 season. The system comprises an A-pool of all the proceeds from local market production and a proportion of the proceeds from exports, and a B-pool consisting of the balance of the proceeds from exports. Each sugar-cane farmer is allocated a quota from the A-pool; since exports are subject to the conditions prevailing on the world sugar market, producers are free to determine the quantity they produce for exports and therefore their proceeds from the B-pool. The B-pool price is lower than the A-pool price; for example, during the 1995/96 season, the average price was R 886.27 per tonne of sucrose and R 105.20 per tonne of cane from the A-pool, and R 639.90 per tonne of sucrose and R 75.96 per tonne of cane from the B-pool (Table IV.3).[18] From the 1984/1985 to 1991/1992 seasons, sucrose prices had been kept low thanks to the financial support provided by the Growers' Transport Compensation fund in relation to transportation costs of cane.[19]

39. The Sugar Association provides financial assistance to 45,000 small-scale growers through the Small Cane Grower's Financial Aid Fund (FAF).[20] FAF provides loans for establishment or replanting of cane lands. Loans are for a maximum period of eight years and carry an interest rate of 17.5% (1997/98). Loans are repaid by way of a deduction from the grower's sugar proceeds when cane is delivered to a sugar mill. The benchmark loan rate is R 4,840 per hectare (1997/98). Both the total number and value of loans provided by FAF have been declining since the 1993/94 season when 10,577 loans of a total value of R 39.2 million were provided, as against 2,387 loans of a total value of 15.8 million during the 1996/97 season.

40. The 1994 revised Sugar Industry Agreement provides for certain deregulatory measures, including: the removal of quota restrictions on cane production over a period of four years; the free entry of prospective new growers into the industry; the removal of registered quota land provisions; the termination of the dual pool production and pricing system in 1998; and the lifting of the prohibition on subsidies. At the end of the 1993/94 season, a system of fixed division of proceeds replaced the 1972 division formula based on production costs and allowed returns. Under the new system, net pooled proceeds are divided between growers and millers on the basis of predetermined percentages; the total proceeds attributable to growers are used to determine the price they individually receive per tonne of sucrose in cane.

[18]The 1996/97 A-pool price was lower than its 1995/96 level because of a significant increase in the total crop; the increase in the B-pool price resulted from improved export prices and changes in the exchange rate, Government of South Africa (1997).

[19]Government of South Africa (1997).

[20]Small-scale growers are defined as those who do not have access to normal sources of agricultural credit and who produce less than 200 tonnes of sucrose per annum.

Table IV.3
Sucrose and cane prices, 1987 to 1997a
(Rands per tonne)

	Sucrose		Cane	
Season	**A-Pool**	**B-Pool**	**A-Pool**	**B-Pool**
1987/88	299.68	132.97	35.96	15.96
1988/89	339.10	267.93	42.76	32.52
1989/90	387.62	358.92	51.01	47.27
1990/91	436.19	362.09	56.31	46.75
1991/92	468.25	260.02	61.06	33.91
1992/93	705.88	344.31	97.55	47.58
1993/94	797.24	797.24	99.89	99.89
1994/95	833.50	639.73	104.52	80.22
1995/96	886.27	639.90	105.20	75.96
1996/97	872.23	721.33	109.90	90.89

a From 1984/85 to 1991/92, the sucrose price was reduced as a result of a proportion of the cane transport costs being financed through the Growers' Transport Compensation Fund.

Source: Data provided by the South African Authorities.

41. In 1996/97, South Africa produced some 2.27 million tonnes of sugar from nearly 21 million tonnes of cane, of which 994,000 tonnes were exported. South African sugar is exported to some 30 countries including Canada, Egypt, Iran, Japan, Republic of Korea, Malaysia, Ukraine and the United States.[21] An agreement between South African and Swaziland Sugar associations had limited the quantity of sugar produced in Swaziland and sold in South Africa; the agreement was terminated in 1995.

(d) Other agricultural products

42. South Africa is a world leading producer of certain blends of coffee. Cotton is produced for local consumption. Cotton prices are negotiated in the Consensus Committee consisting of producers, ginners and spinners; if no consensus is reached, a free market price applies. South Africa is a net importer of tobacco and imposes tariff quotas on imports of unmanufactured tobacco under bilateral agreements; the tobacco may be imported duty-free from Malawi and Zimbabwe, within limits of 300 tonnes and 900 tonnes respectively.

43. Import tariffs range from zero on cane molasses, fructose syrup, tobacco extracts and essences to 27.5% on sugar confectionery; higher rates ranging to 45% apply to manufactured tobacco. Certain tobacco products are subject to formula duties (Table III.2). In addition, specific excise duties apply to tobacco.

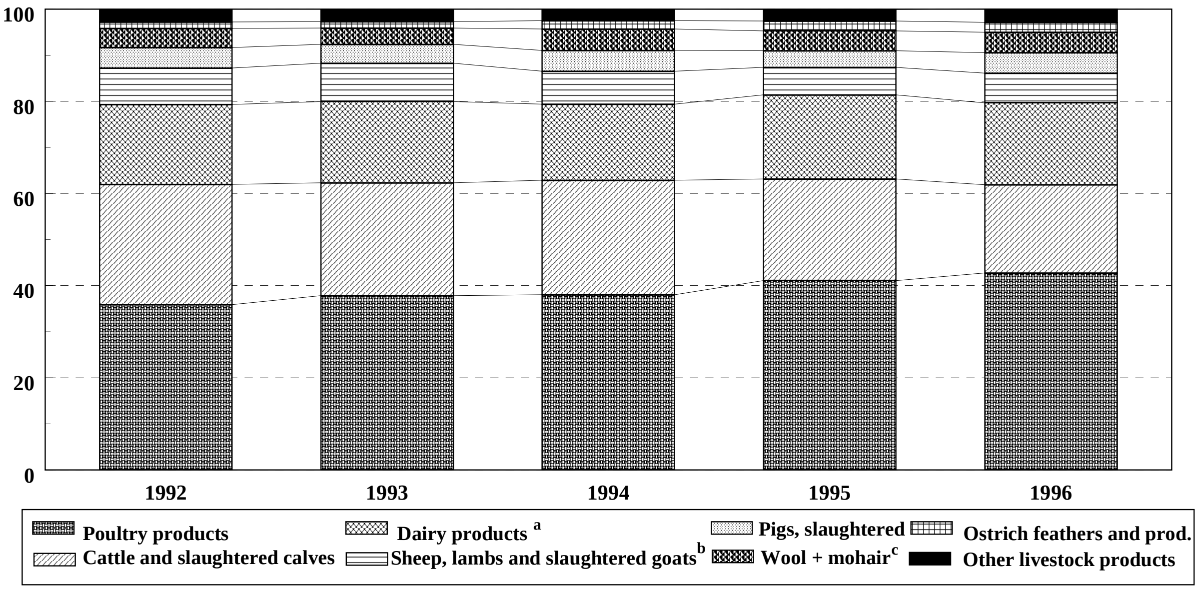
[21] South Africa's exports of sugar to the United States are subject to tariff quota: exports falling within the allowable quota allocated to South Africa enter the United States duty-free under the Generalized System of Preferences.

(e) Livestock

44. About one fourth of South Africa's small-scale farmers earn income from livestock production. Beef production is an integral part of South Africa's mixed farming system in commercial units. The total cattle population in the commercial sector was 8.4 million animals in 1996; a typical beef farm covers 3,800 ha. with a herd of approximately 380 animals.[22] Beef is produced in the northern areas (Free State, Mpumalanga and KwaZulu-Natal), sheep in western and southern provinces (Western Cape, Northern Cape, Eastern Cape and Free State) and poultry in regions close to the metropolitan areas (Western Cape, Gauteng and KwaZulu-Natal). Slaughtered livestock contributes more than 50% of total income from livestock and animal products. Poultry accounts for around 31% of the value of animal products. Since 1980, per capita domestic consumption has increased by 75.5% for poultry, by 51.2% for eggs, 14.7% for pork and 2.1% for fresh milk, and has decreased by 50.1% for mutton and 40.2% for beef. Economic recession and increases in prices of red meat resulted in the substitution of white meat, mostly chicken, for red meat (Chart IV.5).

45. Since 1992, animal products have annually contributed some 43% to the gross value of South Africa's agricultural production. South Africa's animal products are primarily for domestic consumption, and cover around 80% of its meat requirements; the shortfalls of local supplies, mainly of red meat (beef, mutton, goat and lamb meat) and industrial milk products, are covered by imports, mainly from the other SACU member countries (Botswana, Namibia and Swaziland in particular). Droughts have contributed to a decline in local supply of animal products and an increase in imports; in the period 1992-96, imports from outside the SACU area increased nearly tenfold for beef and veal, and nearly fivefold for mutton (Table IV.4). Imports of live animals are duty-free while imports tariffs range to 40% on meat and edible meat offal and to 50% on preparations of meat. Imports of dairy products are mostly subject to specific duties.

Chart IV.5
Gross income from animal products, 1992-96
(Per cent)



a Fresh milk accounts for more than 60%.
b Sheep and lambs account for nearly 97%.
c Wool accounts for around 82%.

<u>Source</u>: Information provided by the South African authorities.

[22] WTO document IMA/INA/9/Rev.1, 23 May 1996.

Table IV.4
Beef, veal and mutton in South Africa by origin, 1992-96
(Tonnes)

Years	Local production	Import from BLNS[a]	Import from Other	Exports and net purchases of the Board	Total available[b]
Beef and veal					
1992	489,339	52,587	3,900	-12,982	532,844
1993	446,905	52,055	7,603	-4,558	502,005
1994	369,226	57,848	41,775	4,036	472,885
1995	340,270	56,781	51,883	-1,971	446,963
1996	317,012	70,212	38,218	-2,136	423,306
Mutton					
1992	118,702	19,457	5,609	-1,563	142,205
1993	108,192	15,039	4,982	325	128,538
1994	71,895	17,267	36,722	231	126,115
1995	61,556	17,695	24,619	-302	103,568
1996	68,172	16,334	25,470	-548	109,428

a Botswana, Lesotho, Namibia and Swaziland.

b Total available = local production + imports + exports and net purchases of the Board.

Source: Data provided by the South African authorities.

46. The Meat Board annually determines total meat exports, subject to Ministerial approval, and issues permits to private exporters. The Meat Board is financed by specific levies collected on animal products (Table III.7). The Meat Board has statutory authority to implement floor prices (guaranteed minimum prices), at which it operates a surplus removal system; however, according to the authorities, the Meat Board has not implemented floor prices or operated a surplus removal system since 1995. The average retail mark-up for cut and bulk meat sales is approximately 30% on wholesale prices. All imports of animals and animal products are subject to a veterinary import permit issued by the Directorate of Animal Health (Department of Agriculture). Slaughtering of cattle and marketing of beef are subject to health and sanitary standards set by the Government. Any meat plant in a country wishing to export meat to South Africa must be approved by South Africa's Director of Meat Hygiene.[23] Consignments not complying with South African standards (physical conditions, temperature and bacterial counts of the meat) are condemned and are either returned to the exporting country or used for the manufacturing of pet food under Departmental supervision. The Perishable Products Export Control Board performs inspections on behalf of the Directorate of Plant and Quality Control, and charges inspection fees for its own account.[24] The Government is involved in prevention and eradication of animal diseases. Foot and mouth disease is currently endemic in Kruger National Park.

47. South Africa has traditionally exported wool, mohair clips and karakul pelts; it also exports hides and skins. A voluntary surplus removal scheme (at predetermined floor prices) is operated by the Mohair Board; all operators, including producers and traders or dealers of mohair must register with the Board. The Wool Board and the Milk Board operate supervisory systems. Ostriches and their fertilized eggs are still subject to export prohibition; according to the authorities, the prohibition will be lifted in the near future. South Africa is a signatory to the Plurilateral Agreements on Bovine Meat and Dairy Products.

[23]Article 121 of the 1992 Abattoir Act.

[24]WTO document IMA/INV/9/Rev.1, 23 May 1996.

(f) Fishing

48. South Africa's Atlantic and Indian Ocean shoreline is 3,000 km. long and offers excellent opportunities for fishing. However, overfishing of marine resources gave rise to strict catch quotas after 1983. Fishing currently employs less than 30,000 persons. The South African fleet comprises 3,800 vessels. Annual catches are around 500,000 tonnes, to a value of around R 1.5 billion. Total pelagic fish catches fell from around 450,000 tonnes in 1992 to about 200,000 in 1996; pilchards accounted for one half, followed by red eye and anchovy. Other species of seafood caught in South Africa's waters include hake, abalone, rock lobster and seaweed.

49. About one fifth of the catch is locally processed into fishmeal, fish body oil (from anchovy when available) and canned fish (pilchards in particular) by the nine fish meal plants and six canning plants in operation in South Africa. Canned fish production is presently expected to meet 75% of local demand as against 40% five years ago. As a result of an increase in pilchard resource, a substitution of canned fish for fish meal production has been recorded in recent years. Fish meal production fell from about 100,000 tonnes in 1992 to around 40,000 in 1996; the 1997 production will meet about 12% of the local requirements. In the near future, the production of fish meal based on red eye is expected to increase while anchovy meal is expected to fall to some 25% of the long-term average as a result of a decline in the anchovy resource. A maximum of 3,000 tonnes of fish meal is forecasted for 1997.[25]

50. The South African Bureau of Standards has set compulsory production standards for the seafood processing industry. Processing technology is developed by the Fishing Industry Research Institute; conservation policy is based on research conducted by the Sea Fisheries Research Institute (Department of Environmental Affairs and Tourism) and is enforced by 130 marine conservation inspectors.[26] The Government annually determines the "total allowable catch" of species such as pilchards, anchovy, abalone, lobster, sole and hake on the basis of scientific surveys; catches of other species of seafood in South Africa's waters are not subject to quotas.

51. Imports tariffs range from zero on live fish, to 30% on meal and pellets of cooked lobster, with an average of 14.9% on fishing products. Specific tariffs apply to a large variety of seafood; certain fishery products are subject to mixed tariffs. South Africa has not bound tariffs on fishery products.

(g) Forestry

52. Commercial forestry covers 1.5 million ha., about 1% of South Africa's land area. Around 16 million tonnes of timber are harvested every year, of which 35% is exported. Annual earnings from forestry amount to R 5.5 billion and its contribution to South Africa's GDP (in nominal terms) is about 2%. The sector employs 112,000 persons (direct jobs), of which about one third are involved in harvesting, transportation and processing. Forestry is mainly developed in the provinces of Mpumalanga (41.2 % of the total industrial plantation area) and KwaZulu-Natal (37.2%). About 750,000 ha. still have a high suitability for afforestation, mostly in KwaZulu-Natal and the Eastern Cape Province.

53. The main products of the forestry sector are pulpwood (65.5% of the 1994/95 volume of wood-products production), and sawlogs and veneer logs (22.8%). Capital investment in forestry has

[25]Government of South Africa (1997).

[26]SADC (1997).

grown at nearly 5% a year since 1980 to R 19 billion in 1996.[27] In 1996, Sappi and Mondi, the two largest pulp companies in South Africa, ranked 20 and 76, respectively, in the top 150 pulp and paperboard companies in the world; the two companies produced 84% of the 1995 pulp production of Africa and presently employ some 41,000 persons.

54. South Africa's forestry is undergoing transformation. In terms of the 1996 Forestry White Paper, the Government will not be managing plantations and forests after 2001.[28] A National Forestry Action Programme, aimed mainly at increasing exports of value-added forest products, was launched in August 1996 to implement the recommendations contained in the White Paper. SAFCOL, the state-owned forestry company with 236,000 ha., is classified among the parastatals with no public interest and no visible role in the Reconstruction and Development Programme (Chapter III(4)(iii)(c)); it is earmarked for privatization, and in consequence output of the sector is expected to increase. However, only 111 forestry farmers currently have permits to afforest 67,452 ha.; other farmers afforest illegally. The management of the Afforestation Permit System has been under the control of the Water Utilisation Directorate (Department of Water Affairs and Forestry) since 1996. A portion of SAFCOL's plantations has been certified as sustainably managed forest and the South African Bureau of Standards recently launched its ISO 14001 environmental standards programme (Chapter III(2)(ix)(a)).

55. South Africa values regional integration in the forestry sector, including forest resource, expertise and market access, as well as SADC initiatives in this regard. South Africa imports sawn timber from Zimbabwe (over 50,000 m^3 per year) and pulpwood from Argentina (some 82,000 m^3 in 1996/97). The sector is increasingly giving attention to more value-addition. Forestry and logging imports carry tariffs ranging to 25%, with an average of 2.7%; tariffs range from zero on wood charcoal, fuel wood, wood in the rough or roughly squared, gums and resins, to 25% on vegetable saps and extracts. Paper and paper products, and printing and publishing products carry tariffs ranging up to 22%. Higher tariff rates, ranging to 30%, apply to wood products. Tariff escalation is present on wood products, paper products and rubber products (Chapter III(2)(iii)(b)).

(3) Mining and quarrying

56. The mining and quarrying sector is at the heart of South Africa's economy. With its abundant and diverse endowment of minerals, South Africa is one of the world's leading suppliers of minerals and mineral products. In 1995, South Africa had the world's largest known reserves of gold, manganese, platinum metals, chromium, vanadium and alumino-silicates; second-largest reserves of vermiculite, zirconium minerals, titanium minerals and antimony; third-largest of fluorspar and phosphate rock; fourth-largest of zinc; fifth-largest reserves of coal and nickel; and the seventh and eighth of uranium and iron ore, respectively (Chart IV.6). Other industrially important metals, minerals and rocks found in South Africa include granite, diamonds and lead. Among processed mineral products, South Africa is also the world largest supplier of ferro-alloys and a leading producer of steel. [29]

[27] SADC (1997).

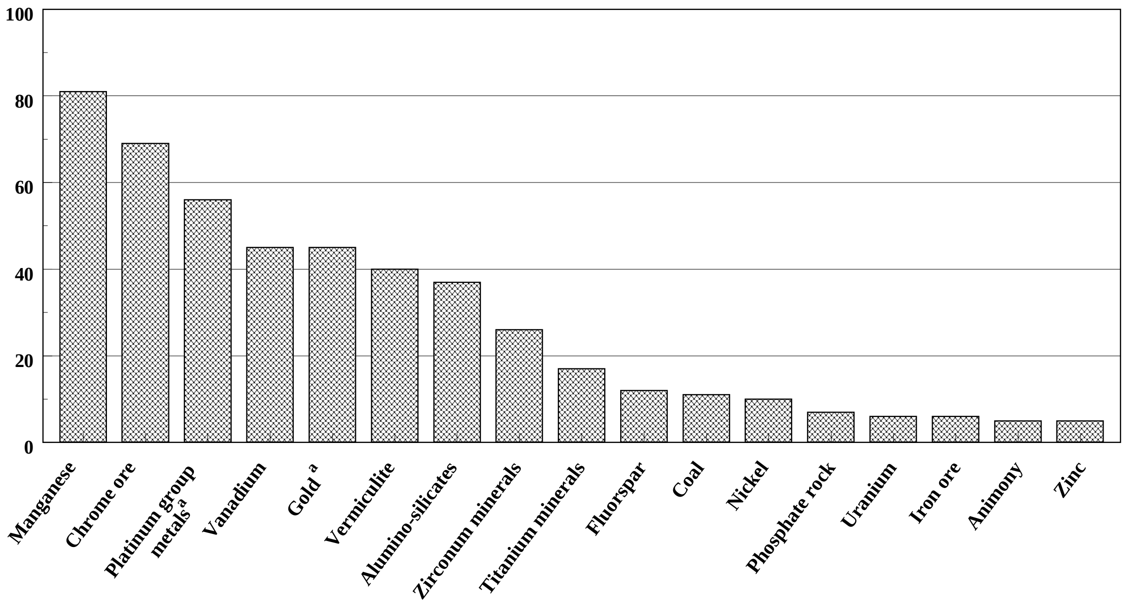
[28] Government of South Africa (1996j).

[29] Government of South Africa (1996k).

Chart IV.6
South Africa's shares in world mineral reserves, 31 August 1995

(Demonstrated reserves and marginal reserves)

(Per cent)



a Identified resources.

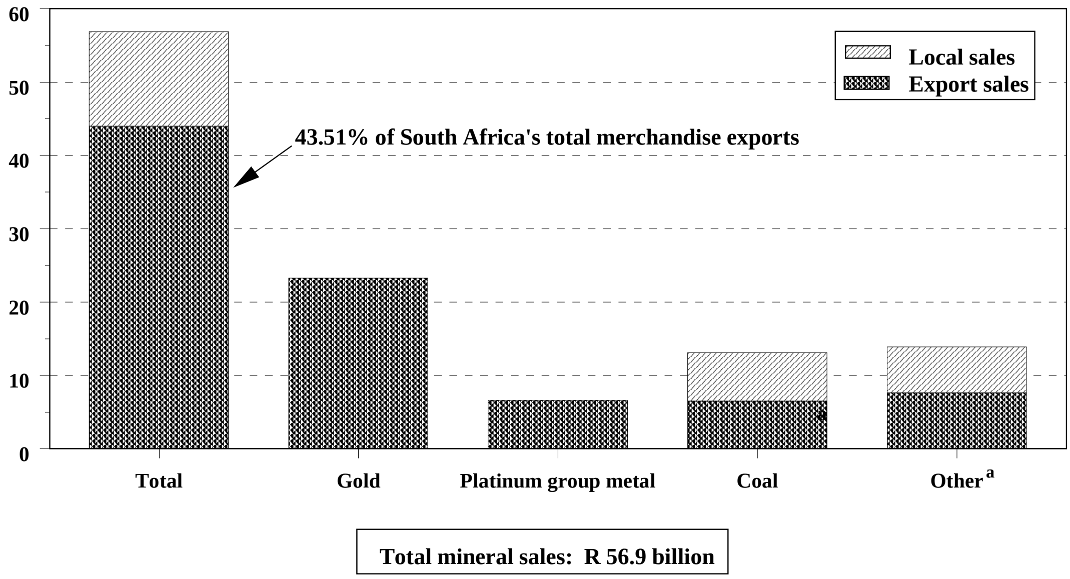
Source: Information provided by South African authorities.

57. South Africa's major mining (including processing) companies are Anglo American Corporation of South Africa, Anglovaal Limited, Gencor, Gold Fields of South Africa Limited, Iron and Steel Corporation (ISCOR) Limited, Johannesburg Consolidated Investment Limited, Randgold and Exploration Corporation Limited, Samancor and SASOL; they produce the bulk of minerals and mineral products in South Africa. The sector's contribution to South Africa's real GDP (at factor cost) was 8.6% in 1996 and 9.0% in 1995, as against some 10% in 1992 and 1993; gas, electricity and water contribute a further 4.5 to 5%. In 1996, mineral sales amounted to US$16.91 billion (R 65.1 billion), of which 78.4% was exported; Chart IV.7 portrays the 1995 sales of major South African minerals. Affected by the decline in gold production, mineral exports accounted for 41.1% of total earnings from exports of goods in 1996, as compared to 51.2% in 1993 and 66% in 1986. The sector employs about 536,475 persons, of which nearly 63% are employed in gold production. Wages represent about one fourth of total mining revenue. The share of government revenue from mining in total public revenue declined from 12.5% in 1986 and 4.4% in 1990 to 1.7% in 1996[30] ; this situation reflects, *inter alia*, the declining profitability in the mining sector (gold in particular).

[30]The share does not include government revenue from processed minerals.

Chart IV.7
South Africa's mineral sales, 1995

(Rand billion)



a Other major minerals include diamonds, uranium oxide, antimony, titanium, silver, chrome, copper, iron ore, manganese, nickel, zinc, andalusite, asbestos, limestone & dolomite, fluorspar, sulphur and granite.

Source: Data provided by the South African authorities.

58. entered into force on 1 January 1992. The Act is aimed at ensuring optimal and safe exploitation and utilization of South Africa's mineral and energy resources, the rehabilitation of the land surface affected by mining and prospecting operations, and the development of environmental management standards.[31] The Act is also aimed at ensuring fair management of mineral prospecting and of mining rights: it protects the rights of freehold owners against "unnecessary" damage to their property by mining operations, and protects the holders of mineral rights against the locking-up of their minerals as a result of the utilization of the surface and the worsening of their situation because of the implementation of the Act.[32] Aside from mineral rights under the continental shelf, which are controlled by the Government, some 27% of the mineral rights of South Africa's total land area are held by the private sector. Under the Act, the number of authorizations required for operating in the sector has been reduced from around 40 to 3: a prospecting permit, a mining permit and a mining licence. Prospecting permits are issued for 12 months or a longer period, renewable on application. The mining permit is issued for a period not exceeding two years, and the mining licence is issued where the mineral is to be mined on a larger scale or during a longer period than visualized under a permit, i.e. for a period exceeding two years.

59. The Department of Minerals and Energy administers the Act. It formulates policies in the sector, and issues and renews permits and licences upon the consent of the Regional Director of

[31]The 1996 Mine Health and Safety Act (Act No. 29) is also aimed at promoting and ensuring safety and health in the sector.

[32]Under South African common law, ownership of land includes the minerals on it; Government of South Africa (1996k).

Minerals and Energy, under whose jurisdiction the operations are undertaken. The Minister of Minerals and Energy may suspend or cancel any mining authorization if the holder contravenes or fails to comply with any relevant provision of the Act. The Mining Technology Division (Miningtek) of the Council for Scientific and Industrial Research (CSIR), a statutory organization partly funded by the Government, provides information on and is in charge of research and development in extractive metallurgy. The Chamber of Mines, a private sector employers' organization, was established to develop consultation and cooperation between its members; companies associated with the Chamber include the Rand Refinery and the Nuclear Fuels Corporation of South Africa.

60. In 1996, a new minerals and mining policy was debated with a view to attracting investment into the sector, improving the international competitiveness of the sector and maximizing profits. The private sector, through the Chamber of Mines, participated in the debate. Its main proposals, contained in a policy paper prepared by the Chamber in 1995, included: minerals bonification through market forces rather than government intervention; taxation on profits and not on inputs; and the creation by the Government of an enabling environment for activities in the sector. The private sector also proposed that cooperation be promoted through a phased removal of barriers to free movements of labour, capital, goods and services in the Southern African region.

61. In general, mining companies are liable to a company tax levied at a standard rate of 35%, and a Secondary Tax on Companies (STC) levied at a single rate of 12.5% on the net amount of dividends declared. However, the rate of company tax pertaining to gold mining companies is calculated on the basis of formulae and the companies may choose to be exempt from the STC (section(i) below).[33] Under the 1991 Minerals Act, a levy is collected on all mines to finance mine safety research; the revenue collected amounted to nearly R 36 million in 1995. Prospection expenditure may be deducted from mining income in addition to the general tax deductions provided to South African companies; mining companies may also immediately deduct capital expenditure from their taxable income, while other companies must split such expenditure over a five-year period. Table AIII.3 also notes other incentives for which minerals and mineral products may be eligible for.

62. Mineral products subject to export controls include aluminium and aluminium alloys; iceland spar; iron and steel in unworked or semi-worked form; lead in the form of metal; sugulite; tin, scrap and tin-bearing residues; tiger's-eye; and zinc in the form of virgin zinc, remelted zinc, old zinc, cuttings, hard zinc and zinc ashes. Controls are exercised by means of permits. Exports of unprocessed tiger's-eye are prohibited. Mineral products subject to import controls, including by means of licences, include mineral fuels, mineral oils and products of their distillation, radioactive chemical elements and radioactive isotopes, gold and coins, cobalt, cadmium antimony, manganese diromium, geranium, vanadium, gallium, hafniu mindium, rhenium, and thallium. Tariffs on imports range from zero on crude petroleum oils and oils obtained from bituminous minerals, natural gas, coal, and base metals, including silver, gold, platinum and precious and semi-precious stones, not further worked than semi-manufactured, to 18% on salt, pure sodium chloride, sea water and certain glass fibres; tariffs average 1.4%. Imports of metal ore carry tariffs ranging to 4%; a tariff rate of 20% applies to imports of distilled mineral tars, petroleum jelly and bituminous mixtures based on natural asphalt. Mineral products are also subject to specific excise duties.

[33]The rate of the Secondary Tax on Companies (STC) was reduced in 1996 from 25% to 12.5%; it applies to the net amount of any dividend declared (after payment of the company tax) on or after 13 March 1996 by any company, except gold mining companies which may choose between the dual taxation system and a unique rate.

(i) Gold

63. South Africa's major gold fields, located in the Witwatersrand basin, account for about 98% of South Africa's gold output. Six companies Anglo-American Corporation, Gold Fields of South Africa, Gengold, Johannesburg Consolidated Investment Company, Randgold and Anglovaal produce almost all of the gold produced in South Africa; Anglo-American Corporation alone accounts for more than 40% of the total. The Rand Refinery refines the raw gold to 99.5-99.95% purity, depending on market requirements.

64. South Africa's gold production declined from 1,000 tonnes in 1970 to 523.8 tonnes in 1995 and 496.9 tonnes in 1996; this decline in production led to a fall in South Africa's share of world supply of gold from 70% in 1970 to around one fifth in 1996. The largest annual drop in 20 years was recorded in 1995 when the production declined by nearly 10% from its 1994 level (Table IV.5); the 1996 production was the lowest since 1956. However, gold still dominates South Africa's minerals sales; it represented some 41% of such sales (Chart IV.8) and accounted for some 53% of the value of mineral exports, i.e. about 23% of the total value of South Africa's merchandise exports in 1995. Most of the gold produced in South Africa is exported; about 30 tonnes of gold are reportedly also smuggled out of South Africa every year.[34]

65. By law, all newly mined gold must be offered to the South African Reserve Bank (SARB) within 30 days of production, against payment in U.S. dollars. However, the Chamber of Mines has the right to sell up to one third of South African production, independently of the SARB, in value-added forms (gold coins and kilo bars) of one kilogram or less. Subject to the prior approval of the SARB, the monetary authorities, authorized dealers, registered gold producers, and authorized industrial and professional users may export gold.[35] Rand Refinery Limited, the world largest gold refinery, provides refining services to gold mines, members of the Chamber. Each year, approximately 5 tonnes of the gold produced in South Africa are processed into jewellery, mainly chains and wedding rings, by some 500 manufacturers employing about 4,000 persons; the Government's plan is to remove protection measures, including customs duties on imported raw materials, and promote higher value-addition and more labour-intensive downstream operations. Tax incentives have recently been announced in this regard.

Table IV.5

South Africa's gold production, sales and holdings of the Reserve Bank, 1986-96

Year	Production (tonnes)	Sales (R billion)	Reserve Bank holdings[a] (tonnes)	Reserve Bank holdings[a] (R billion)
1986	640.0	17.34	150.0	3.71
1987	604.3	17.56	181.3	4.90
1988	619.9	19.76	107.9	3.08
1989	607.7	19.50	95.7	2.88
1990	605.1	19.06	127.2	3.63
1991	601.0	19.36	201.3	5.69
1992	613.0	19.51	206.7	6.08
1993	619.3	23.24	147.9	5.63
1994	580.2	24.95	130.7	5.12
1995	523.8	23.33	132.1	5.40
1996	496.9	26.48	118.0	5.90

a Gold holdings at year ends.

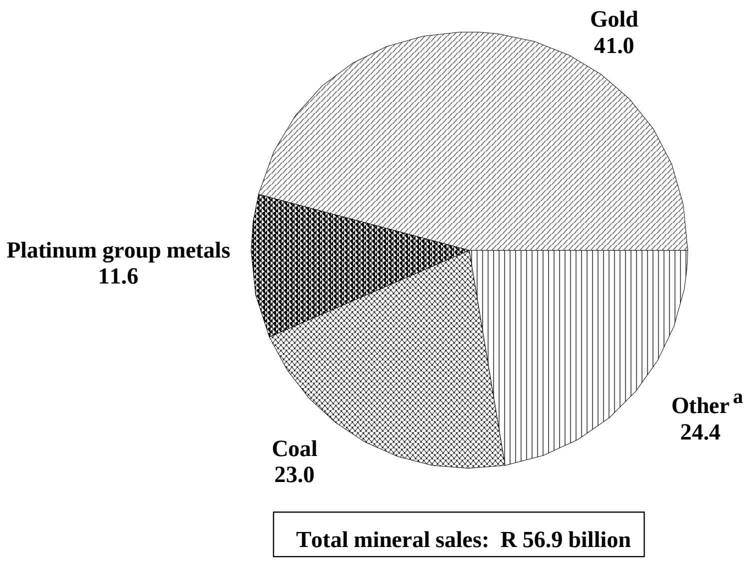
Source: Data from the South African Reserve Bank and the Mineral Bureau of South Africa.

[34] Africa Economic Digest, 24 February 1997.

[35] Gold mining companies and houses may sell forward anticipated receipts of their future gold sales. South African residents may purchase, hold and sell gold in South Africa for numismatic purposes and investment, IMF (1996).

Chart IV.8
Shares of products in South Africa's mineral sales, 1995

(Per cent)



a Other major minerals include: diamonds, uranium oxide, antimony, titanium, silver, chrome, copper, iron ore, manganese, nickel, zinc, andalusite, asbestos, limestone & dolomite, fluorspar, sulphur and granite.

Source: Data provided by the South African authorities.

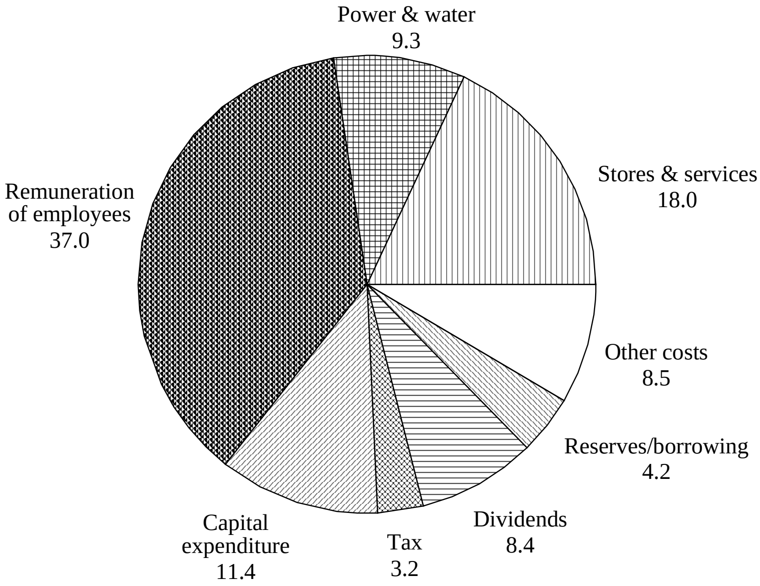
66. The fall in the volume of production results from, *inter alia*, ore depletion and declining grades (the average grade fell from 13.28g per tonne in 1970 to 5.05g per tonne in 1990 and 4.87g per tonne in 1995); increasing depths of mines; lower capital expenditure, real capital expenditure in Chamber-member gold mines fell from nearly R 80 per tonne milled in 1981 to about R 25 per tonne milled in 1996; labour unrest; and the twofold increase in the number of public holidays in 1995. South Africa has high production costs by international standards; in 1996, one third of the major gold mining companies had operating costs higher than the average London gold price. In 1996, personnel costs represented 37% of the turnover of the gold mining industry (Chart IV.9). Moreover, the high cost of imported equipment has been exacerbated by the recent depreciation of the rand.

67. In response to the difficulties experienced by the gold mining industry and the resultant decline in the production of gold, since 1995 new management and operational structures are being developed and restructuring plans have been formulated, either at the level of individual companies or at industry level. Mining time was rescheduled to minimize idle and under-productive working periods. A new shift system, the Full Calendar Operations (Fulco), was introduced at mines that offer scope for more intensive mining operations, with a view to optimizing the utilization of capital and labour; mines may be granted permission, by the Ministry of Minerals and Energy to work on Sunday. The operating companies have been restructured: acquisitions or mergers have been undertaken and certain companies have restructured their management and operations. Under a 1991 Cabinet decision, assistance is provided to "marginal" mines within approved guidelines.[36] An Interdepartmental Committee for Assistance to the Mining Industry processes the applications for assistance; its decisions are submitted to the Cabinet for approval. Companies receiving assistance must interrupt dividend payments; State aid to the industry amounted to R 44.86 million in 1996.

[36] GATT (1993).

Chart IV.9
Gold mining industry, value added statement, 1996

(Per cent)



Turnover of R 24.8 billion (100%) = Material input of R 8.9 billion (35.8%) + Value added of R 15.9 billion (64.2%)

<u>Source</u>: Data provided by the South African authorities.

68. A taxation system based on two formulae applies to profits earned by gold mining companies; profits earned by companies that opted to remain outside the dual-tax system when the Government introduced the Secondary Tax on Companies (STC) are subject to rates calculated on the basis of one formula, while a second formula is used to determine the tax rates on profits earned by the other companies. Since the gold mining companies, members of the Chamber of Mines, generally distribute all their profits in the form of dividends, they have all elected to be exempted from the STC, i.e. the dual-tax system.[37] Gold mining companies exempt from the STC and with profitability ratios lower than 32.38% are liable to taxation rates lower than the combination of the standard rate of corporate tax of 35% and the STC of 12.5%, i.e. 43.125% (Chart IV.10 and Box IV.1).[38] A minimum profitability ratio over which profits of gold mining companies become taxable has been set at 5% since 1992.

(ii) <u>Platinum group metals</u>

69. The platinum group metals (PGMs) produced in South Africa comprise platinum, iridium, osmium, palladium, rhodium and ruthenium. Ten mines located in the Bushveld Complex produce almost all South Africa's PGMs. The ore is locally processed through milling, flotation and smelting in order to form a matte containing PGMs, gold, silver and base metals such as nickel, copper and cobalt. Further refining of the matte takes place at three refineries.

[37] Chamber of Mines Newsletter, No. 2/1996.

[38] The combined rate of 43.125% results from the following calculation: [35% + 12.5%(1-0.35)] = 43.125%.

Box IV.1: The gold tax formula

The rate of company tax on profits earned by a gold mining company is calculated on the basis of the following formula:

$y = a - (ab/x) = a(1 - b/x)$,

where:

y = the tax rate (in per cent) - to be determined;
a and b are fixed parameters; and
x = the ratio of profits to revenue (the profitability ratio) in per cent.

It follows from the formula that a zero rate applies if $x = b$; profits are taxable only if they represent more than b% of the revenue of the company. Therefore, b is the ratio of profitability above which profits become taxable. The parameter a is fixed by the Government; it is the rate of taxation which pertains to a company in a full tax-paying position, i.e. with a large ratio of profitability (close to infinity). Since y is an increasing function of x, a progressive tax applies to profits derived from gold mining. This means that lower rates of taxation pertain to companies with low ratios of profitability; such companies may include those operating marginal mines as well as mismanaged companies, even if the intention of the Government is to encourage the mining of marginal ore. The gold tax formulae were amended following the lowering of the Secondary Tax on Companies (STC) from 25% to 12.5%, with effect from 14 March 1996. The new formulae are:

$y_{D96} = 43 - (215/x)$, for companies which chose not to be exempt from the STC; and
$y_{96} = 51 - (255/x)$, for companies which opted to be exempt from the STC.

The formula which was in force until March 1996 for gold mining companies exempt from the STC was:

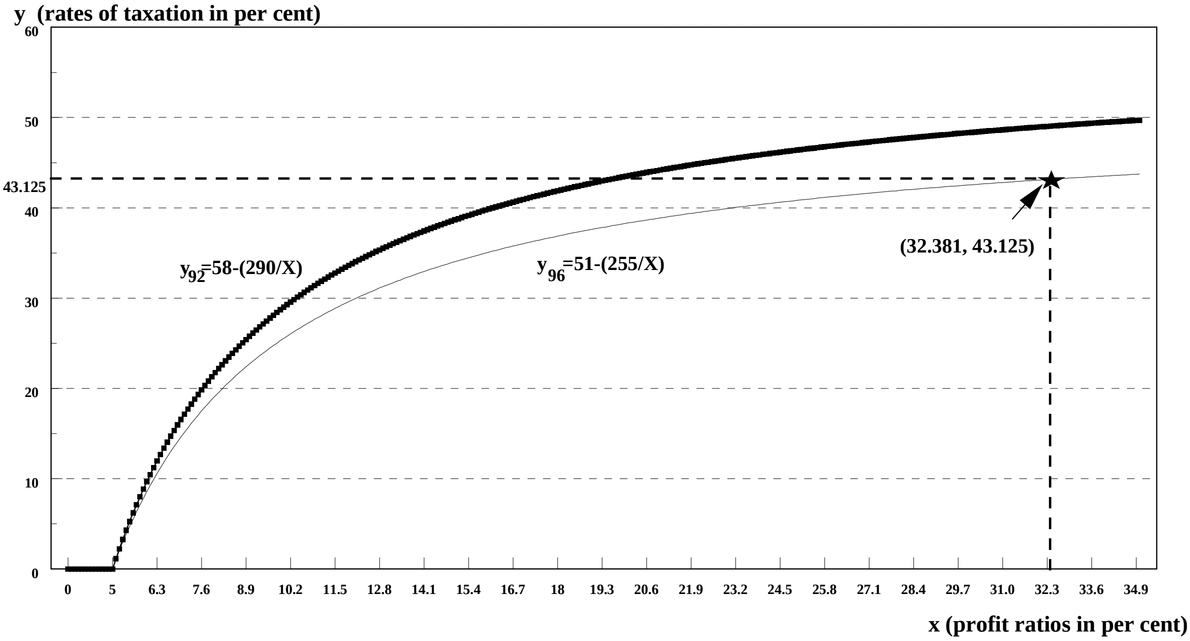
$y_{92} = 58 - (290/x)$.

The change in taxation rates experienced by gold mining companies exempt from the STC, as a result of the revision of the tax formula, amounts to:

$(y_{96} - y_{92})/y_{92} = [(51 - (255/x)) - (58 - (290/x))]/(58 - (290/x)) = -7/58$, equivalent to a reduction of 12.07% of the rate they would otherwise be liable to.

In the formulae, b has been kept constant and equal to 5, i.e. no tax is levied on profits earned by gold mining companies with profitability ratios of less than 5%. The combined tax rate on profits earned by non-gold mining companies is [35% + 12.5%(1 - 0.35)] = 43.125%, and currently corresponds to the tax rate for gold mining companies (exempt from the STC) with a profit ratio of 32.38% - the combined rate of taxation is obtained by substituting y96 with 43.125% and solving the equation in x. The average profitability ratio of the gold mining companies, members of the Chamber, has fallen below 30% since 1989. In 1992, the combined taxation rate was 51.25% and corresponded to a profitability ratio of 42.96% for companies exempt from the STC.

Chart IV.10
Gold formula tax[a]



a See Box IV.1 for the definitions of the variables.

Source: Information provided by the South African authorities and WTO estimates.

70. In 1996, South Africa produced some 47% of the world supply of platinum group metals. Production rose by some 47% between 1987 and 1996, to 188.6 tonnes, while the rand price in real terms dropped from R 27,506 to R 15,204 per kg.; the volume of production stagnated between 1994 and 1995 but due to a rise in the rand price, earnings from the metals increased by 11.6%.

71. To improve their performance, South Africa's largest PGM producers have undertaken the restructuring of their shareholding, mergers of companies and cost-reduction measures. The level of employment in the sector dropped from 106,565 in 1992 to 93,223 persons in 1996.

(iii) Coal and other energy minerals

72. The main sources of energy are coal, which provides 70% of South Africa's primary energy, followed by crude oil (about 16%). Coal ranks first (31%), followed by liquid fuel (30%), in terms of contribution to final energy use in South Africa; electricity accounts for some 21%. Other sources of energy include biomass and hydro-power. The Government provides financial support to the private sector for the development of renewable energy, including solar and wind power.

73. Coal produced by South Africa is mostly of bituminous thermal grade, with only 1.3% anthracitic and 0.9% of metallurgical quality.[39] The four largest mining groups (out of the 62 coal mining companies) produce about 88% of South Africa's saleable coal products, with Ingwe producing 36% of the total, followed by Amcoal (23%), Sasol (21%) and Iscor (7%).[40] Coal mining

[39]Government of South Africa (1996l)

[40]The shares are for 1996.

companies employed 60,500 workers in 1996 as against 116,000 a decade earlier. About 55% of production is used by Eskom, a State-owned enterprise, to generate electricity, and some 31% is used by Sasol to produce 27% of South Africa's liquid fuel requirements, as well as synthetic gas and other by-products such as waxes, phenol, ammonia, explosives and sulphuric acid.[41] The price at which coal is supplied to Eskom is among the lowest in the world.[42]

74. Coal contributed 22.8% to South Africa's earnings from mineral sales in 1996; the total value of sales increased by nearly 21% to R 15,462 million due to the depreciation of the rand against the US$ (Table IV.6). Coal is South Africa's third largest source of export earnings, after gold and PGMs. In 1996, South Africa supplied some 13% of the world exports of coal and ranked as the world's fifth-largest producer of coal; it is the world second largest exporter of steam coal (with some one fifth of world exports), which accounts for 96.3% of South Africa's exports of coal. Exports of coal were up 23% to R 8,111 million in 1996; the major destinations were the European Union (52%) and the Far East (33%). The Richards' Bay Coal Terminal, with a rated capacity of 63 million tonnes per year, is South Africa's main coal export terminal. Incentives are available to companies for the development of multi-product coal mines and higher quality (e.g. washed) coal for export.[43]

Table IV.6

South Africa's saleable coal production, local sales and exports, 1985-96

Year	Production	Local sales			Export sales		
		Volume	Value		Volume	Value (f.o.b.)	
	Million tonnes	Million tonnes	R million	Rand per tonne	Million tonnes	R million	Rand per tonne
1985	175.8	125.2	1,939.3	16	46.7	3,148.0	67
1986	176.7	127.0	2,202.0	17	46.9	3,203.8	53
1987	176.1	128.9	2,533.5	20	43.6	2,312.0	53
1988	181.8	139.4	3,112.8	22	44.2	2,839.2	64
1989	177.7	131.0	3,685.7	28	48.9	3,883.2	79
1990	175.0	134.8	4,146.4	31	49.6	4,018.6	81
1991	178.4	132.6	4,505.9	34	49.3	4,279.4	87
1993	182.3	131.8	5,193.1	39	52.2	4,520.9	87
1994	195.7	138.8	5,520.3	40	54.8	4,832.3	88
1995	206.2	146.0	6,339.0	43	59.7	6,478.8	109
1996	206.4	154.1	7,350.7	48	60.2	8,111.2	135

Source: Government of South Africa (1996), South Africa's Mineral Industry, 1996/97 , Pretovia.

75. In 1995, South Africa's electricity system had an installed capacity, including mothballed plant but excluding pumped storage systems, of 41,400 megawatts (MW), and ranked fourth in the world in terms of generation capacity. Eskom accounts for more than half of the electricity produced in Africa and with sales of 149,443 gigawatt-hours (GWh) in 1995, it ranked as the fifth-largest

[41]SASOL was privatized in 1991 but the State still holds 30% of its equity.

[42]Government of South Africa (1996m).

[43]GATT (1993).

electricity supplier in the world.[44] The electricity branch, including more than 400 local authority distributors, employs some 58,000 workers, of which Eskom accounts for nearly 70%. Electricity is supplied by Eskom to households at higher average prices than to industries and mining companies; prices of electricity supplied by the 400 local distributors, including local authorities, vary widely.

76. South Africa has small petroleum and gas deposits at Mossel Bay. Mossgas, a parastatal, processes offshore natural gas into liquid fuels, equivalent to about 5% of the total produced in South Africa. Imports of crude oil represent around 11% of primary energy demand. Liquid fuels contribute some 30% to final energy use in South Africa. Distribution, wholesale and retail marketing of liquid fuels are regulated by the Department of Minerals and Energy (DME). The Department of Trade and Industry, on the advice of the DME, controls imports and exports of crude oil and refined products. Prices of petroleum products are determined on the basis of "import parity costs", wholesale and retail margins, as well as transportation costs, import duties and fuel tax. A maximum wholesale price (determined on the same basis) and a retail margin are set for paraffin. A fuel levy is collected at the pump. An Equalization Fund levy on petroleum and diesel products is used to protect synthetic-fuel production. The Strategic Fuel Fund, a subsidiary of the Central Energy Fund (a parastatal), trades in crude oil and manages the national strategic stock equivalent to three months of demand for crude oil.[45] Petronet, a parastatal, provides port and bulk storage facilities, and transport of liquid fuels by pipeline and rail.

77. South Africa also produces uranium oxide (1,678 tonnes in 1995), mostly as a by-product of gold mining, and has a nuclear power station of 1,850 MW. The 1993 Nuclear Energy Act prohibits the import and export (without prior authorization of the Minister of Minerals and Energy) of source material to or from South Africa by anybody, except the parastatal Atomic Energy Corporation (AEC); the sole right to produce nuclear energy is vested in the AEC. The enrichment and fabrication of nuclear elements were terminated respectively in 1995 and 1996 for economic reasons.

78. A draft white paper on national energy policy is in the process of completion. Table IV.7 presents a summary of the past, present and expected future shifts in the policy focus. On the request of the Minister of Minerals and Energy, the International Energy Agency conducted a review of South Africa's energy policy in 1995. The Agency recommended, *inter alia*, that both the regulation of the liquid fuel branch and government intervention be rationalized; subsidies for liquid fuels be phased out; and competition be introduced in the electricity sector in the medium term. Issues under discussion in the energy sub-sector include: energy supply and use by the poor; energy pricing policies, including retail price maintenance for petrol; the present service station rationalization plan under which quotas are allocated to specific geographic areas; import and export controls in force on refined liquid fuel products; and government requirements on oil companies to uplift SASOL and Mossgas production.[46] The restructuring will involve commercialization but not privatization in the short and medium terms.

79. South Africa has not bound its import tariffs on petroleum and petroleum products. The modal tariff rate on imports of these products is zero per cent; the simple average tariff rate is zero

[44]Government of South Africa (1996m).

[45]The Central Energy Fund group comprises the Strategic Fuel Fund Associations, Mossgas and the Southern Oil Exploration Corporation (SOEKER), which is the state oil and gas exploration and offshore licensing agency.

[46]See Basson (1997) for full details on the recommendations of the International Energy Agency and issues under debate.

per cent on crude petroleum and natural gas, 5.4% on refined petroleum, and 7.4% on petroleum and coal products.

(iv) Others

80. South Africa produces nearly 7 million tonnes of primary steel products per annum, of which some 55% is locally consumed; stainless steel and ferro-alloys (ferrochrome and ferromanganese) are the main products. The Iron and Steel Corporation (ISCOR), a private company, is the major producer of iron and steel in South Africa. South African primary steel producers financially assist exporters of secondary steel products where at least 25% value is added to primary steel produced in South Africa (Chapter III(3)(vii)). The assistance is provided through the Fund of the Committee for Secondary Manufacture with a view to promoting exports of secondary steel products. Price rebates are also negotiated between primary steel producers and exporters of secondary products; domestic prices of steel are higher than export prices (the average destination price of South African carbon steel in 1996 was $498 per tonne in Gauteng, as against $403 per tonne in Antwerps). South Africa has participated in the negotiations on the Multilateral Steel Agreement (MSA).

Table IV.7
Focus of the national energy policy

Past (up to 1993)	Present (1993 to about 2000)	Future (after about 2000)
Security of supply	Electrification	Level playing field
Low cost of secondary energy	RDP energy actions (energy for poor)	Attention to both effective supply and use of energy
SASOL	Restructuring of electricity distribution sector	Competition in energy sector
Mossgas	Policy negotiating forums	Integrated energy policy development
Nuclear developments	Start leveling playing field	Efficient use of energy
	Stakeholder consultation	Physical environment
Secrecy	Pervasive change	Increased use of renewable energy

Source: Basson (1997), Overview of the South African Energy Sector - Primary Issues currently under Debate.

81. South Africa produces diamonds, uranium oxide, antimony, titanium, silver, chrome, copper, iron ore, manganese, nickel, zinc, andalusite, asbestos, limestone and dolomite, fluorspar, sulphur granite, and aluminium. In 1995, South Africa produced some 9.7 million carats of rough diamonds, down by 10.6% from the 1994 level. The Diamond Board established under the 1986 Diamond Act regulates the possession, buying, selling, processing, import and export of rough and polished diamonds. Sales of diamonds by De Beers' Central Selling Organization (CSO), a world leader in the marketing of this precious stone, rose by 6.6% to US$4.5 billion in 1995.[47] Exports of unpolished diamonds are subject to a 15% tax. South Africa also produces tiger's-eye, a precious stone; exports of this gemstone and articles thereof are subject to export permits issued by the Department of Trade and Industry on the recommendation of the Department of Minerals and Energy. With the exception of samples of mass not exceeding 114 grams and tiger's-eye of mass not exceeding one kilogram, which foreign guests of local mineral clubs are allowed to carry out of South Africa, exports of crude or semi-processed tiger's-eye are prohibited (Chapter III(3)(iii)).

[47] The CSO controls almost all South African and a large share of world diamond sales.

(4) Manufacturing

82. The main activities of South Africa's manufacturing sector are the processing of mineral and agricultural products (sections (2) and (3) respectively). The major branches of the sector include: the motor industry; textiles, clothing and related products; food processing and beverages; mineral-based industries; machinery and equipment; and pulp and paper. The output of the sector grew by 0.4% in 1996 as against 7.6% in 1995; its contribution to South Africa's GDP has stabilized to around 24.5% since 1992. The manufacturing sector employment stood at 1.45 million persons in the first semester of 1996. Gross domestic fixed investment (GDFI) in the sector declined from an average of 4.7% of GDP a year in the 1980s to an annual average of 4.2% during the first half of the 1990s. This relative slowdown in GDFI contributed to the downward trend of value added (in real terms) in the manufacturing sector since the early 1980s.

83. South Africa's trade in manufactured goods has been on an upward trend since 1991. Manufactured exports increased by 20.6% between the first semesters of 1995 and 1996 due to the increase in exports of non-ferrous metal basic products, ceramics and industrial chemicals. Industrial chemicals accounted for 9.3% of South Africa's manufactured exports, followed by iron and steel products (7.6%) and non-ferrous metal basic products (6.8%) in this period. Machinery and equipment represented 24% of manufactured imports to South Africa followed by motor vehicles, parts and accessories (15%), electrical machinery (12%) and industrial chemicals (9.6%).

84. Textiles, clothing and related products, tobacco and certain items produced by the motor vehicles, parts and accessories branch are the most protected products of South Africa's manufacturing sector; certain manufactured products such as textiles and clothing enjoy high protection by means of a complex tariff structure (Chart IV.2). The simple average tariff rate in the manufacturing sector (15.6%) is slightly higher than the overall average of 15.1%. The majority of formula duties apply to manufactured products such as industrial chemicals, processed food, filament lamps and syringes (Table III.2). In addition, products of the chemical or allied industries are subject to specific excise duties and a large number of manufactured goods carry *ad valorem* excise duties ranging from 6% on items such as printing machines to 15% on, *inter alia*, articles of apparel, clothing accessories, cassette players, records and sunglasses (Table III.6). The rates of *ad valorem* excise duties on motor vehicles range up to 20%. The implementation of the Tariff Rationalization Process will increase tariff escalation already present in several subsectors (Chapter III(2)(iii)(b) and Table AIII.2).

85. The Government, through the Industrial Development Corporation (IDC), provides various incentives to the manufacturing sector with a view to making the sector more export-oriented, enhancing value added and promoting labour-intensive activities such as agro-industries and small- and medium-scale manufacturing enterprises (Chapter III(2)(iii)(e); 3(v), (vi) and (vii); 4(i), (ii)). The incentives combined with the phasing-down of import duties are also aimed at reducing the costs of inputs and enhancing the international competitiveness of the sector. The largest share, 65% of the total of R 20.44 billion financial assistance, was granted to industries processing basic metals (Chart IV.1). Lack of skilled labour force and upward pressures on unit labour costs are among the problems South Africa's manufacturing sector is experiencing.[48]

[48]SARB (1996).

(i) Motor industry

86. In South Africa, motor vehicle manufacturers are either licensees or subsidiaries of foreign car-makers. Foreign firms currently operating, generally in car assembly, include BMW, Honda, Mercedes, Toyota and Volkswagen.[49] The industry employed some 93,000 persons in 1996 and contributed just over 2.3% to South Africa's manufactured exports. The number of new motor vehicles sold increased from 200,000 in 1993 to just over 393,000 in 1996; revenue from the sales increased by about 8.8% (in 1995) to some R 30.8 billion in 1996. The largest increase was recorded in sales of medium commercial vehicles; however, passenger cars still account for some 64% of the number of vehicles sold, followed by light commercial vehicles (about 33%).[50]

87. Incentive schemes available to the motor industry include the World Player Scheme (Chapter III(4)(i)) and the Motor Industry Development Programme (MIDP). The MIDP has two components, one for light motor vehicles (motor cars and light commercial vehicles) and the other for medium and heavy commercial vehicles. To be eligible for the MIDP, motor vehicle manufacturers, including motor vehicle assemblers and component manufacturers and exporters, importing original equipment components must be approved by the Department of Trade and Industry (DTI) and registered with the Commissioner of Customs and Excise for import duty rebate purposes.[51] Under the 1996 version of the MIDP, the rate of customs duty on completely built-up (CBU) light motor vehicles is to be reduced in phases from 61% on 1 January 1996 to 40% on 1 January 2002; the tariff rate on CBU medium and heavy motor vehicles is to be reduced in phases from 36% on 1 January 1996 to 20% on 1 January 2000.[52] The tariff rate on components imported for the manufacture of motor vehicles of both categories is to be reduced from 46% on 1 January 1996 to 30% on 1 January 2002.

88. Registered exporters of both categories of motor vehicles and their components may participate in the import rebate credit scheme (based on rebate credit certificates) under which the duty payable on imported components may be rebated up to the exported local-content value of the category of motor vehicles and their components; motor vehicles exported by any person other than by a registered motor vehicle manufacturer from its licensed premises do not qualify as eligible exports.[53] The issuing of rebate certificates is subject to proof of repatriation of foreign currency earnings (the export sales value); import rebate credit certificates may be transferred between participants or sold by one participant to another, but not more than once. Only new and unused items manufactured in the Southern African Customs Union (SACU) are eligible for the import rebate credit scheme. The earning of import rebate credits is subject to various criteria; for example, applications for import rebate credit certificates are only considered for catalytic converters only if exported in a welded condition and complying with the following criteria:

[49] Jeune Afrique Economie, No. 1905, 9-15 July 1997.

[50] Industrial Development Corporation of South Africa (1997).

[51] Eligible companies are licensed as special manufacturing warehouses.

[52] Light motor vehicles covered by the programme include items of HS tariff headings 87.03, 8702.10.80, 8702.90.10, 8701.20.10, 8704.21.80, 8704.31.80, and 8704.90.80, with the exception of ambulances, golf carts and prison vans; the medium and heavy motor vehicles include items of HS tariff headings 8701.20.20, 8702.10.90, 8702.99.20, 8704.21.90, 8704.22.90, 8704.23.90, 8704.31.90, 8704.32.90 and 8704.90.90.

[53] The local content is defined as the difference between the manufacturer's wholesale sales and net foreign exchange used.

(a) locally sourced platinum rhodium and/or palladium have to be used in the coating mixture;
(b) the coating mixture has to be produced in the SACU area, using the precious metals mentioned in (a) above;
(c) imported stainless steel may be used in the canning process for catalytic converters, but the value thereof must be declared as part of the foreign currency usage (for local-content calculation purposes); and
(d) the complete canning process must be undertaken within the SACU area.

89. Manufacturers entitled to the MIDP may import components up to a value of 27% of their quarterly turnover of locally sold CBU light motor vehicles as a duty-free allowance.[54] A further duty-free allowance is available to manufacturers of light motor vehicles with production costs per vehicle lower than R 40,000; the allowance is equivalent to 0.3% of the amount by which the production cost per vehicle is lower than R 40,000. The customs duty is partially or fully rebated on the following components of heavy motor vehicles (subject to a rebate permit): diesel engines, transmissions, axles, tyres and cabs or bodies imported for the manufacture of heavy motor vehicles (Table IV.8). Components of heavy motor vehicles (other than the aforementioned components) eligible for rebate of the full customs duty may be imported without a rebate permit. The MIDP is to be terminated in 2000 for medium and heavy commercial vehicles and 2002 for motor cars and light commercial vehicles. Manufacturers in the motor industry are eligible for the others incentives available to the manufacturing sector (Chapters III(3)(vi), (vii), (viii) and 4(i)).

Table IV.8
Tariff liberalization and rebate scheme for heavy vehicles under the MIDP[a], 1996-2002

	Duty		Extent of rebate	
	On components	Drivetrain components and tyres	Cabs/bodies	Other components
1 January 1996	46%	Full duty less 27.5%	Full duty less 17.5%	Full duty
1 January 1997	43%	Full duty less 25%	Full duty less 15%	Full duty
1 January 1998	40%	Full duty less 22.5%	Full duty less 10%	Full duty
1 January 1999	37.5%	Full duty less 20%	Full duty less 5%	Full duty
1 January 2000	35%	Full duty less 15%	Full duty	Full duty
1 January 2001	32.5%	Full duty less 15%	Full duty	Full duty
1 January 2002	30%	Full duty less 15%	Full duty	Full duty

a Motor Industry Development Programme.

Source: Government of South Africa (1996), Motor Industry Development Programme (Information document) , Petrovia.

90. Vulcanized rubber thread and cord, plates and strip, and new pneumatic tyres are subject to import controls. Export controls apply to motor vehicles (Chapter III(3)(iii) and Table III.13). Tariffs on imports of tyres and tubes range to 43%, with an average of 19.2%. Imports of original equipment components are subject to a tariff rate of 43%. Imports of transport equipment carry tariffs up to 57.5%, with an average of 12.3%; the rate of 57.5% applies to products such as road tractors, motor vehicles for the transport of persons and/or goods and chassis. A progressive excise duty applies to both locally manufactured and imported motor vehicles and their components: the rate of duty is calculated on the basis of a formula and increases with the value for *ad valorem* excise duty purposes, to a maximum of 20% (Chapter III(2)(iii)(d)).

[54]The duty-free allowance was reduced from 35% to its current level of 27% in 1995.

(ii) Textiles, clothing and related products

91. The textiles, clothing and related products sector employed some 260,000 persons during the first half of 1996 and contributed about 1.36% to GDP and 4% to South Africa's manufactured exports. Earnings from sales of textiles and clothing amounted to R 17.9 billion in 1995 against R 14.8 billion in 1994, with textiles accounting for more than half. In 1996, South Africa's exports of clothing amounted to R 626 million, of which some 34% was to the United States.

92. South Africa has six private ginning companies and one ginning cooperative. The Cotton Board, comprising representatives of cotton growers and ginners, oversees the marketing of cotton. The Board's pricing committee, composed of interested parties, annually sets lint prices to be paid by textile mills to gins during the following season, on the basis of, *inter alia*, the Cotlook A Index and of cotton production costs. Annual quotas of lint, based on indications of need from the industry, are allocated to each textile mill; textile mills are required to buy at least one twelfth of their allocation each month.[55]

93. In addition to incentive schemes available to all manufacturers in South Africa, textile, clothing and footwear producers are also eligible for the Duty Credit Certificate Scheme and the World Player Scheme (Chapter III(4)(i)). Introduced on 1 April 1993, the Duty Credit Certificate Scheme is available to exporters of certain prescribed textile and clothing products as a temporary kick-start measure aimed at enhancing export competitiveness. Eligible exporters must register with the Department of Trade and Industry; they are required to increase their workforce training expenditure to at least 4% of their wage bill and to participate in, and achieve targets set in terms of, a Productivity Performance Monitoring Scheme (PPMS).

94. Documentary proof of repatriation of export sales value is required for the issuance of duty credit certificates. Only export products, manufactured from locally produced textile inputs and/or imported inputs on which the full duty was paid, qualify for duty credit certificates. Yarns and fabrics manufactured in Botswana, Lesotho, Namibia and Swaziland (South Africa's SACU partners) are regarded as locally manufactured inputs. In consequence, only exports outside the SACU area qualify for the scheme. The credit certificate cannot be granted concurrently with rebate facilities provided under Schedules 3, 4 and 5 of the Tariff Book on inputs imported for production and export purposes (Chapter III(2)(iii)(e) and 3(vi)). The certificate is valid for one year; it is neither transferable nor negotiable. The certificate earned by an exporter allows him credit, to the value of the certificate, on duties payable on imports of certain prescribed textile and clothing products. Eligible import and export products include specified items of the categories of clothing and clothing accessories, household textiles, fabrics, yarn and other types of textile. Table IV.9 presents the value of duty credit certificates (as a percentage of the export sales value of proven exports) corresponding to the products that may be imported under the scheme; for example, the value of a duty credit certificate is 30% of the sales value of eligible exports of clothing and clothing accessories. Goods imported under a duty credit certificate may be sold on the domestic market. The Scheme is scheduled to be phased out as from March 2000.

[55]Towsend (1996).

Table IV.9
Conditions on imports and exports under the Duty Credit Certificate Scheme

Exporter	Product exported	Product allowed to be imported	Duty Credit Certificates[a]
Clothing and clothing accessories: Manufacturer	Clothing/clothing accessories	Fabric and clothing/clothing accessories	30%
Clothing and accessories: Knitter	Clothing/clothing accessories	Yarn and clothing/clothing accessories	30%
Household textiles: Manufacturer	Household textiles	Fabric and household textiles	20%
Fabric and other textiles: Manufacturer	Fabric/other textiles	Yarn and fabric/other textiles	15%
Yarn: Manufacturer	Yarn	Yarn	10%
Trading house	Clothing/clothing accessories	Clothing/clothing accessories	30%
	Household textiles	Household textiles	20%
	Fabric/other textiles	Fabric/other textiles	15%
	Yarn	Yarn	10%

a The percentage corresponds to the value of duty credit certificate as percentage of the export sales value of proven exports.

Source: Informations provided by the South African authorities.

95. The tariff structure that presently applies to textiles, clothing and related products generally consists of *ad valorem* duties with alternate minimum and maximum specific duties. Import tariff rates range to 72% on articles of apparel and clothing accessories (HS Chapters 61 and 62); the average tariff on textile, wearing apparel and leather products is 34.9%, with mean rates of 54.9% on knitting mills and 59% on wearing apparel. An *ad valorem* excise duty of 15% applies to articles of apparel and clothing accessories of furskin, artificial fur and articles thereof.

96. In 1995, a sectoral restructuring plan was introduced after an investigation by a Textile and Clothing Panel consisting of representatives of business/industry, labour and Government. Under this programme, the tariff rates on textiles and clothing products will be phased down up to the year 2002 and all tariffs applying to the products will become *ad valorem*; most tariff rebate concessions will be phased out by the end of 2002. The final phased-down tariff rates (the base minimum rates of duty) will be 40% on all clothing products, 30% on household textiles, 22% on all textiles fabrics, 15% on yarn and 7.5% on some synthetic fibres (polyester) and polypropylene fiber.

97. South Africa was not a participant in the Multifibre Arrangement (MFA); in accordance with Article 6 of the WTO Agreement on Textiles and Clothing, South Africa has provided a list of products to be integrated into GATT during Phases I and II (Chapter III(2)(vi)(a)).

(iii) Other manufacturing

98. South Africa's arms industry employs some 50,000 persons; its turnover from supply of goods and services was about R 4.6 billion in 1995, of which exports accounted for nearly 22%. Following the transfer of most of Armscor's manufacturing facilities to Denel Group in 1992, Armscor became the marketing and procurement branch of the industry; both Armscor and Denel are State-owned enterprises.

99. South Africa also exports electrical machinery. Local content in television manufacture is rewarded by a proportionate rebate of the excise duty on the product. Standards set by the South African Bureau of Standards on television sets require costly modifications of these products when they are imported.[56] A six-year structural adjustment programme for insulated electric machines was formulated in 1990; according to the authorities, the programme has not been implemented. Processed forest products, mostly pulp and paper, contribute around 14% to South Africa's total exports of manufactured goods; South Africa is the world's largest single producer of rayon pulp.[57]

100. Import controls apply to revolvers, pistols, other firearms and parts, ammunition and parts, and gambling machines. Import tariffs range to 35% on bombs, grenades, ammunitions, and parts and accessories thereof; 30% on television sets; and 50% on electrical appliances and housewares. Compound duties apply to imports of certain arms and ammunitions (Table III.2). Products such as cosmetic or toilet preparations, video recording apparatus and magnetic tape recorders are subject to an *ad valorem* excise duty of 15% (Table III.6).

(5) Services

101. The services sector accounts for around 53% of South Africa's real GDP. Administrative services is the largest subsector, followed by financial services and transport services. The main state-owned companies currently operating in the sector are Telkom for telecommunication services and Transnet, a holding company supplying various types of transport services. South Africa is a net importer of services.

102. Under the WTO's General Agreement on Trade in Services (GATS), South Africa scheduled commitments in several service categories.[58] These commitments exclude the presence of foreign natural persons, except (under specified conditions) salespersons, intra-corporate transferees, executives, managers, specialists, professionals and personnel engaged in establishment.[59] Table AIV.2 provides more details on South Africa's commitments under the GATS. South Africa is a participant in the WTO Negotiating Group on Financial Services and has been an observer in the WTO Negotiating Groups on Maritime Transport and Basic Telecommunications services.

(i) Telecommunications

103. South Africa is Africa's major telecommunications market and has its largest telecommunication network and traffic. In 1995, this sector employed some 60,000 persons and contributed 2.2% to South Africa's GDP. Teledensity rose from 8.73 in 1991 to 9.45 lines per 100 inhabitants in 1995 (Table IV.10); the average for sub-saharan Africa was 0.46, in 1994. The waiting period for a telephone line is about one year. South Africa's telecommunication network is relatively sophisticated, with a high degree of digitalization and an increasing percentage of optical fiber. In 1995, over 48,000 computers in South africa had direct connection to the world-wide Internet network.

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[56]GATT(1993).

[57]SADC (1997).

[58]Taxation services, engineering services, integrated engineering services, urban planning, medical, dental and veterinary services, computer and related services, real estate services, rental/leasing services without operators, courier services, distribution services, environmental services, and travel agencies and tour operators services.

[59]WTO document GATS/SC/78, 15 April 1994.

104. In October 1991, the parastatal in charge of telecommunications and postal services was split into Telkom SA and SA Post Office, both wholly owned by the Government. Telkom retains monopoly powers, except on the cellular market, where two private companies, joint-ventures between South Africans and foreign companies, operate.[60] Telkom grants licences to value-added network services (VAN) suppliers, sets standards for telephone equipment and fixes telecommunication tariffs, subject to the approval of the Minister of Posts, Telecommunications and Broadcasting; licensees and private VAN services suppliers are generally required to use Telkom infrastructure.[61] Fees charged by the two cellular companies must be approved by Telkom and then by the Minister.

105. In January 1997, Telkom increased the price of local calls from R 0.241 to R 0.307 per minute and lowered the price of international and long-distance calls by 11.5% and 11.2%, respectively. Long-distance and international calls account for 22% of earnings from communications, and provide 68% of Telkom's revenue, which amounted to US$2,797 million in 1994. Calling the European Union from South Africa is cheaper than calling African countries. At the regular 1994 rate, it was less expensive to call South Africa from Egypt, Ghana, Mauritius and Uganda than vice versa (Table IV.11). In March 1997, a 30% stake in Telkom was sold to SBC Communications Inc. and Telekom Malaysia for US$1.26 billion.[62]

Table IV.10
Selected telecommunication indicators, 1991-95 (year ending 31 March)

	1991	1992[a]	1993	1994	1995
Main telephone lines ('000)	3,315	3,435	3,524	3,660	3,919
Main lines per 100 inhabitants	8.73	8.84	8.86	9.00	9.45
Telephone stations (sets) ('000)	5,128	5,208	5,206	5,276	...
Percentage of digital main lines	47.6	52.0	56.4	60.0	66
Waiting list ('000)	125	127	120	136	136
Public pay phonesb ('000)	42.11	43.44	45.52	49.64	70.15
Cellular telephone subscribers ('000)	5.68	7.10	12.51	40.00	535.0
Facsimile machines (estimates '000)	...	...	50.00	60.00	75.00
Full-time telecommunication staff ('000)	67.67	66.21	61.99	60.17	59.90
Telecom revenue as a percentage of GDP	2.1	2.1	2.0	2.2	2.2
Annual investment in telecom (rand million)	1,659.05	...	1,436.60	2,226.70	2,790.58

... Not available.

a Estimates.
b Coinphones, Cardphones & table-mounted renter's payphone.
Source: ITU (1996), African Telecommunication Indicators; and Government of South Africa.

60 The two private companies are Mobile Telephone Networks (GSM), owned by Multichoice (25%), Cable & Wireless (25%), and Transtel, Naftel, FABCOS, Cosatu (50%); and Vodacom Group (GSM), owned by Telkom South Africa (50%),Vodafone, UK (35%), and Rembrant Group (15%).

61 Value-added network (VAN) services include electronic data exchange, e-mail, protocol conversion, access to databases, and managed data network services.

62 Financial Times, 14 August 1997; and International Herald Tribune, 17 August 1997.

Table IV.11
Telephone rates for three minutes, 1994
(U.S. dollars)

Country	Rate (from South Africa)	Rate (to South Africa)
Angola	8.7	11
Cote d'Ivoire	8.7	16
Egypt	10	8.9
Ghana	8.7	7.5
Mauritius	8.5	5
Mozambique	1.4	4
Namibia	1.3	1
Uganda	7.4	7
Swaziland	1.4	1.8
Zambia	2.2	2.6
Zimbabwe	1.4	2.6

Source: ITU (1996), African Telecommunication Indicators.

106. The expansion of the telecommunications infrastructure and the promotion of universal services are the main goals of the Government in the area of telecommunications.[63] Under its Reconstruction and Development Programme (RDP), South Africa is increasing the teledensity in the former homelands and townships; five million new lines are to be established by the year 2001.

107. Under the 1996 Telecommunications Act (Act No. 103), the Minister of Posts, Telecommunications and Broadcasting formulates policies in the areas of telecommunications and the radio frequency spectrum.[64] The Act provides for an independent regulator, the South African Telecommunications Regulatory Authority (SATRA) and Universal Service Agency. Under the authority of the Minister, all regulatory functions will be transferred to the new regulator which will also issue licences, and set and approve standards for telecommunications equipment. The Agency, established to promote universal services, will operate in synergy with SATRA which, in cooperation with the Competition Board, will address issues such as unfair competition, cross-subsidization, and access to confidential information. After a transition period (ending not later than 31 December 2003), during which Telkom will still hold exclusive rights over basic public switched telecommunication services, various telecommunication market segments will be open to competition.[65]

108. There is no legislation on call-back services in South Africa. However, call-back is addressed implicitly in the 1952 Post Office Act, the 1958 Radio Act, the 1996 Telecommunications Act and the 1996 Telkom Licence. Investigations are under-way on call-back services in line with exclusive rights held by Telkom over basic switched telecommunication services.

[63] Government of South Africa (1996n).

[64] Following the adoption of a 1993 legislation and the establishment of an Independent Broadcasting Authority, the Government control over radio and television has been terminated; all stations were required to reapply for licences, (Europa, 1996).

[65] During the period, Telkom has the "primary" role in universal access/service provision. National long-distance services, local access telecommunications services and public pay-telephone services, international services, as well as switching networks will exclusively be provided by Telkom.

(ii) Financial services

109. In 1995, financial services, including finance, insurance and real estate accounted for 15.2% of South Africa's real GDP. Since October 1996, all fee-based financial services, except certain premiums on life policies, interest, contributions to retirement funds, and unit trust charges, are subject to the value-added tax. A financial service levy of 7.5% is collected on a quarterly basis on all interest accrued to registered insurers, pension fund organizations and friendly societies, except: government and certain parastatal pension funds; private pension funds and friendly societies where interest per quarter does not exceed R 125,000; the stabilization account of the South African Defence Force Group Life Assurance Scheme; and interest received by pension fund organizations from other pension fund organizations, insurers or unit trust schemes. This tax is to be abolished with effect from January 1998.

(a) Banking services

110. In 1996, the banking subsector consisted of 40 registered (equity) banks, and four registered mutual banks.[66] There were six branches and 58 representative offices of foreign banks. The banking subsector employed 125,000 workers in 3,359 branches and agencies; its total assets amounted to R 471 billion (R 398 billion in 1995). The four major banks, namely, ABSA Bank Limited, the Standard Bank of South Africa Limited, First National Bank of Southern Africa Limited, and Nedcor Bank Limited, hold 78% of total assets. Deposits from the public provided 71% of total funding, and 79% of total assets was applied to provide non-bank loans and advances.

111. The Central Bank, namely the South African Reserve Bank (SARB), formulates and implements South Africa's monetary and exchange rate policies, and assists the Government in the formulation and implementation of its macroeconomic policy. The SARB also sets the discount rate. Although its Governor, and Deputy-Governors are appointed by the Government, the SARB enjoys a high degree of independence and has private shareholders. The Bank Supervision Department is headed by the Registrar of Banks. Banks and mutual banks are supervised in accordance with risk-management principles established under the 1990 Banks Act (Act No. 94) and the 1993 Mutual Banks Act (Act No. 124), and the recommendations of the Basle Committee on Banking Supervision.

112. Any person, whether South African or foreigner, may control a bank. However, the prior written approval of the Registrar is required for an investment above 15% of the capital of the bank; for investments exceeding 49% of the share capital, the approval of the Minister of Finance is also required. These investments cannot be made with borrowed funds. Local borrowings by non-resident-owned or non-resident-controlled firms are subject to limitations.

113. The principal approval criteria for the registration of a bank in South Africa are:

(a) a minimum capital of R 50 million for a new equity bank, and R 10 million for a mutual bank (or 8% of risk-weighted assets and off-balance-sheet exposures, whichever is the greater);

(b) the directors and management have to be "fit and proper individuals" in terms of character and expertise;

(c) the activities have to be in the public interest;

[66] Mutual banks are community-based and are owned by their depositors. Financial statistics relate to 31 December 1996.

(d) the business conducted will be that of a bank and has to be viable and conducted prudently;
(e) the proposed bank has to be registered as a public company and comply with the requirements of the 1973 Companies Act, as well as the 1990 Banks Act or the 1993 Mutual Banks Act, as the case may be; and
(f) the systems and controls have to be commensurate with the type and volume of activity.

Moreover, foreign banks applying for authorization to open a branch in South Africa must have certified net assets in excess of US$1 billion, and an investment-grade debt rating. Branches may accept deposits; however, the first deposit made by a natural person must not be less than R 1 million. A representative office must not conduct the business of a bank.

114. The Johannesburg Stock Exchange (JSE), established in 1887, is the only licensed stock exchange in South Africa. The activities of the JSE are regulated under the 1985 Stock Exchange Control Act, as amended. At 31 December 1996, the number of companies listed on the JSE totalled 626; market capitalization of all securities listed amounted to R 1.13 trillion; the JSE is the fourteenth largest equity market in the world. The South African Futures Exchange (SAFEX), created in August 1990 under the 1989 Financial Markets Control Act, is South Africa's only licensed derivatives exchange. The Agricultural Markets Division of SAFEX, Agri-marketing Exchange (AMEX), began operating in July 1995. The Bond Exchange of South Africa (BESA) was licensed in May 1996. The JSE, and SAFEX and BESA are supervised by the Financial Services Board through the Registrar of the Stock Exchange, and the Registrar of Financial Markets, respectively.

(b) Insurance

115. In March 1997, 52 insurance companies were registered for long-term business (such as life, home, industrial and funeral businesses), 62 for short-term businesses (including fire, motor, personal accidents, guarantee) and five for both long- and short-term businesses. South African insurers receive some 80% of all premia paid in Africa in terms of life insurance.

116. The Financial Services Board, an independent institution established under the 1990 Financial Services Board Act, oversees South Africa's insurance companies, which must register with it. To be eligible for registration, an applicant must be a public company incorporated and registered under the 1973 Companies Act, and its head office must be in South Africa; also, a long-term insurer must not be a mutual or private company, or a corporate body established under the provisions of any other law. The directors and management must be "fit and proper individuals", and the statutory actuary must be a resident of South Africa. A registration fee of R 5,000 is payable to the Registrar; an additional levy is payable by long-term insurers. Foreign insurers cannot open branches in South Africa but they may register subsidiaries.

117. The minimum capital requirements are R 5 million for short-term insurance companies and R 10 million for long-term insurers. Any person, whether South African or foreign, may control an insurance company in South Africa. However, if shareholdings exceeding 25% of the capital of the company are transferred, the transaction must be approved by the Financial Services Board and shareholders must be "fit and proper". The Government provides reinsurance facilities and is the reinsurer of the last resort. Insurance premia are market-determined. Since July 1995, with a view to portfolio diversification, insurance companies have been allowed to invest a portion of their assets abroad through swap arrangements with foreign investors.

(iii) Transport

118. South Africa's transport network includes airlines, cargoes, railways and roads. In 1994, transport, storage and related services employed about 460,000 persons, and contributed 5.6% to South Africa's real GDP.[67] Transnet Limited, a parastatal enterprise founded in April 1991, carries goods and passengers; it comprises a railway system handled by Spoornet, port support services supplied by Portnet, South African Airways (SAA), road transport services supplied by Autonet, pipelines managed by Petronet, and a parcel market (PX). Spoornet, Portnet and Petronet hold exclusive rights in their respective fields of activity.

119. The main goals of transport policies in South Africa are to provide safe, reliable, effective, efficient, fully integrated transport operations and a good infrastructure, with a view to supporting the objectives of the Reconstruction and Development Programme.[68] The Department of Transport (DoT) formulates and implements transport policies. In this regard, it sets guidelines, as well as service and safety standards, and controls transport prices.

(a) Maritime transport

120. South Africa has six major deep-water ports: Durban, Cape Town, Port Elizabeth, East London, Richards Bay and Saldanha Bay. The first three have large container terminals for deep-sea and coastal container traffic, and the last two were created to handle substantial tonnages of coal and mineral exports. From 1984/85 to 1994/95, the volume of merchandise transported through South African ports increased by 44%, to 130.7 million tonnes handled by 13,189 vessels. The fleet controlled by South African interests consists of 68 vessels, of which six are under the national flag. The South African Marine Corporation (Safmarine) and Unicorn and Griffin Shipping are South Africa's largest shipping lines; they provide a large number of services between South Africa and the major ports of the world. Maritime transport plays a central role in international trade, handling 109.4 million tonnes of South Africa's exports and 17.0 million tonnes of imports in 1995.

121. Portnet holds the largest share of maritime transport services in South Africa by controlling the seven largest ports; Portnet has a natural and legally structured monopoly and is its own regulator.[69] In 1994, Portnet was split into Port Management, which is in charge of port infrastructure, and Port Operations Division, which deals with the management of superstructures.

122. Both local and foreign owned vessels on the international trade-routes to and from South Africa may carry South African coastal cargoes and purchase fuel free of duties or other charges. Since February 1995, South Africa has been a full member of the International Maritime Organization; South Africa intends to increase its share of liner shipping and to monitor its options in accordance with the UNCTAD Code of Conduct for Liner Conferences. South Africa is a signatory to several international maritime agreements, including the 1974 International Convention for the Safety of Life at Sea and its 1978 Protocol, the 1966 International Convention on Load lines, the 1976 Convention on the International Maritime Satellite Organization and the 1969 International Convention on Tonnage Measurement of ships. It has also concluded bilateral shipping agreements with the Netherlands, Madagascar, Malaysia and Mozambique.

[67]SARB (1997).

[68]Government of South Africa (1996o).

[69]Government of South Africa (1996o)

(b) Air transport

123. In 1994, South Africa's airport network included 375 private airports and nine state airports. Up to 1995, the South African air transport system had 266 registered operators, including the parastatal, South African Airways (SAA), 28 operators for scheduled air services, and 237 operators for non-scheduled air services. Between 1984/85 and 1994/95, the number of passengers using commercial flights more than doubled to reach some 10.6 million passengers, of whom more than 4.5 million were carried by SAA, which also accounted for some 35% of total cargo conveyed by air. SAA has a fleet of 40 aircraft, serving both domestic and international routes.

124. The Airports Company is responsible for the planning, construction and operations of the nine state airports, including the airports of Durban, Cape Town, Johannesburg, Bloemfontein, and East London; the first three are classified as international airports. Domestic air service licences are issued by the Air Service Licensing Council (ASLC). Eligible applicants must: (i) be able to provide a safe and reliable service; (ii) adhere to prescribed requirements for insurance; (iii) have 75% of their domestic services owned by South Africans; (iv) in general, use South African aircraft to provide air services; and (v) actively and effectively control and manage the services. The cost of licensing fees ranges up to R 5,000. The Civil Aviation Authority (CAA) negotiates bilateral air transport agreements, and controls and manages South Africa's obligations in terms of ratified aviation conventions with international organizations. South Africa is a signatory to several international air transport agreements, including the 1944 Convention on International Civil Aviation, the 1944 International Air Transport Agreement and the 1929 Convention for the Unification of Certain Rules relating to International Carriage by Air.

125. The South African air transport market was deregulated in 1991; SAA has since operated in competition with private airlines such as Airlink, Comair and Sun Air. South Africa's major airports have been commercialized, but have not yet been privatized. In April 1997, the Government announced the phased privatization of SAA.[70] The Government also intends to sell a 49% stake in the Airports Company.[71]

(c) Land transport

126. Land transport includes passenger and merchandise transport services by road and rail. The South African road system covers 7,000 kilometres of national roads, of which about 660 kilometres are toll roads. Road transport accounts for approximately 8% of all freight transported by land in South Africa.[72] The railway system covers roughly 34,000 kilometres of track, of which almost half is electrified. During the period 1994-95, a total of 172 million tonnes was conveyed by rail. Land transport contributes some 5% to South Africa's nominal GDP and employs around 63,000 persons.

127. Transnet's road transport division, Autonet, is one of the largest commercial road transporters in South Africa. Autonet operates road transport services for passengers and goods; commercial transport and cartage services are also supplied by private companies. Spoornet is the largest transport business in South Africa, operating freight and passenger railway transport; it mainly transports commodities such as coal, iron-coal, iron-ore, minerals and agricultural products, of which

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[70] Africa Research Bulletin, April-May 1997.

[71] "*La Lettre Afrique Expansion*", Monday 17 March 1997.

[72] SADC (1997).

the coal line is the most profitable. The South African Rail Commuter Corporation (SARCC) provides commuter services in the six major urban centres.

128. South Africa has no "comprehensive" enabling legislation on land transport of passengers; and, according to the authorities, the enforcement of legislation on road transport of merchandise presents certain weaknesses due to the limited number of enforcement officers and coordination problems.[73] A deposit amounting to the duties which would be paid on the goods carried is required from foreign truckers to ensure that merchandise in transit does not remain in South Africa; the deposit is payable by truckers who cannot prove that the final destination of the goods is outside South Africa. The fee payable for the issuing of international road transport operations permits amounts to R 50 for permits to Botswana, Lesotho and Swaziland, and R 100 for other countries.

129. Up to 1980, transportation of products further than 80 km from a factory had to be handled by rail; road transport has since competed with rail transport. However, no regulatory mechanisms are in place to address cross-subsidization and the protection of private companies against unfair competition from enterprises controlled directly or indirectly by the State. As a result of the Government's commitment to privatize road transport services, private companies have undertaken the construction of national freeways with a toll-road system. The Government intends to regulate competition in the public passenger transport system by means of operation permission, operation contracts at a tendered price, or concessions to operate at an agreed price; contracts at tendered price will be fully implemented by 2000. Contracts, based on passenger transport plans, would be awarded by the transport authority to recognized route entities, cooperatives, associations, close corporations, companies or legal persons.

130. South Africa is an important transit point for merchandise conveyed to the southern African region, in particular the landlocked countries. The Governments of Mozambique and South Africa are implementing the Maputo Development Corridor (MDC), which includes transport and communication projects in the 550 km-long corridor running from Johannesburg in South Africa to Maputo in Mozambique.

131. In addition to its road and rail network, South Africa has a pipeline network of 3,000 km, which is managed, operated and maintained by Petronet. Products transported are crude oil, leaded and unleaded petrol, diesel, aviation turbine fuel, alcohol and gas.

(iv) Tourism

132. South Africa was the world's 25th tourism destination in terms of international arrivals in 1995, compared to 55th in 1985. South Africa's key attractions include scenic beauty, wildlife, climate, cultural diversity and the political change. In 1996, South Africa's reception capacity was 46,435 rooms with 94,366 beds. Low category hotels accounted for 56% of the total number of rooms, as against 28% for three-star hotels. Between 1991 and 1996, the number of foreign-visitor arrivals increased from 1.7 million to some 4.9 million, mainly from Africa (Chart IV.11), and the contribution of tourism to GDP rose from roughly 3.6% to 4.7%. The equivalent of R 13 billion was earned in foreign exchange from tourism, which employed some 550,000 persons in 1995.

133. The tourism industry expects growth of between 12% and 15% in foreign arrivals during the next decade, with additional earnings of foreign exchange equivalent to R 250 billion. The 1993

[73] Government of South Africa (1996o).

Tourism Act is aimed at rationalizing the industry, enhancing the standard of facilities and services hired out or made available to tourists, coordinating and rationalizing, as far as practicable, the activities of persons active in the tourism industry; it authorized the Minister of Tourism to establish a grading and classification scheme in respect of accommodation establishments, in which membership is to be voluntary.

134. The Department of Environmental Affairs and Tourism is responsible for tourism policy and promotes the development of South African tourism businesses. It established the Tourism Training Advisory Committee and the Tourism Safety Task Group to address training and crime problems. Established under the 1993 Tourism Act, the South African Tourism Board (SATOUR) aims to promote tourism, ensure that services comply with the highest attainable standards, manage information and conduct research relating to tourism. The Board advises the Minister of Tourism on issues relating to tourism in South Africa. The Board comprises between 15 and 20 members appointed by the Minister. The funds of the Board consist of money appropriated by Parliament, income derived in terms of the provisions of the Act, and donations and contributions received from other sources. The grading and classification scheme provided for by the Act may be established upon the recommendation of the Board. The Minister may also establish schemes in respect of any prescribed branch of the tourism industry (other than accommodation establishments) on the recommendation of the Board, and after consultation with persons active in the sector.

135. The Industrial Development Corporation (IDC) provides two financing schemes, at its prevailing interest rates, for the promotion of tourism in South Africa. Under both schemes, owners, members or shareholders are required to finance at least 40% of their total assets. Under the Eco-tourism Scheme, for projects in conservation areas, financing is normally provided in the form of loan facilities, and in risk participation, including equity, to promoters who are not in a position to provide sufficient equity capital. The General Tourism Scheme finances the renovation, refurbishment and extension of existing accommodation. The maximum IDC funding per project under this Scheme is limited to R 10 million, subject to the condition that turnover for accommodation represents at least 70% of the total turnover.

136. Investment and price decisions in tourism are market driven. Other than exchange control and immigration regulations, no barriers to foreign entry exist. Several international chains and travel services operate in South Africa. The total planned investment in new hotels and resorts amounted to more than R 30 billion for 1997. For example, planned investment by Sun International in the tourism branch was estimated at R 2 billion and Liberty Life was investing R 350 million in January 1997.[74]

137. South Africa values regional cooperation, through the regional Tourism Organization (RETOSA), as a means to develop its tourism industry.[75] Crime and violence, inadequate funding, lack of tourist infrastructure and poor education are among the troublesome issues the Government and the tourism industry seek to address.[76]

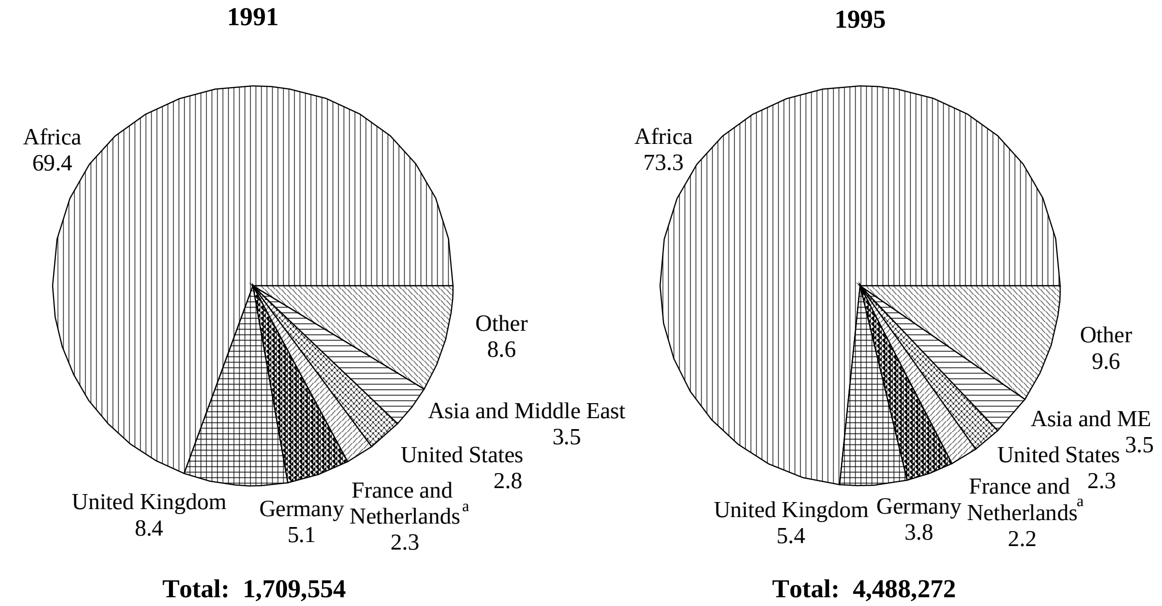
[74] Africa Research Bulletin N° 12843, December 1996-January 1997.

[75] RETOSA is an institution of SADC.

[76] SARB (1996b).

Chart IV.11
International arrivals in South Africa, by origin, 1991 and 1995

(Per cent)



a France and the Netherlands accounting for about half each.

Source: SATOUR, South African Foreign Tourism Market, 12 April 1996.

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