
The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by the Republic of South Africa. As required by the Decision, in preparing its report the Secretariat has sought clarification from the Republic of South Africa on its trade policies and practices.

Document C/RM/G/37 contains the report submitted by the Government of South Africa.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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SUMMARY OBSERVATIONS

(1) **South Africa in World Trade**

1. Following a long slowdown in its economy, South Africa is currently undergoing one of the most severe recessions for many years. Real GDP growth slowed from an average of 6 per cent in the 1960s to less than 2 per cent in the period 1981-89 (a decline in real per capita GDP of more than 1 per cent a year). Since 1990, the economy has contracted, under the influence of a severe drought, weak investor and consumer confidence and sluggish export performance; in the period 1990-92, real per capita GDP has fallen by about 3 per cent a year. Concurrently, unemployment has risen to record levels and over 40 per cent of the labour force is now estimated to be outside the formal sector.

2. Economic performance over the past decade was disappointing for a number of reasons. Exogenous factors included intermittent droughts, causing fairly wide fluctuations in agricultural production and income, and a downward trend in the price of certain metals including gold, South Africa's main export commodity. Domestically, South Africa's traditional orientation towards import substitution, combined with policy-driven restrictions on the mobility of labour, contributed to a relatively high cost structure. The trade and, especially, financial sanctions applied by trading partners against South Africa between late 1985 and the early 1990s were also significant; it is estimated that these measures may have cost South Africa as much as R 40 billion, equivalent to some 13 per cent of 1991 GDP.

3. Endowed with mineral resources which have provided a reliable source of export earnings, South Africa's industrial strategy has been guided by import replacement policies for much of this century. The cost of capital has often been kept artificially low, and this has been supported by State involvement in a number of large-scale industrial projects. Such a policy has created a highly capital-intensive industrial structure requiring a resource whose real scarcity has been exacerbated by financial sanctions,
as well as by a high direct tax burden and, since 1989, a restrictive monetary policy. At the same time, rising labour costs and persistent inflation have undermined the competitiveness of exports. Lack of competitiveness has also been critical in furthering business concentration (roughly 80 per cent of industrial activity is controlled by four corporations) which, in turn, is likely to have contributed to price rigidity.

4. The mining industry has been the backbone of the South African economy and mineral exports still account for over 50 per cent of export earnings. However, there appears to be a secular decline in the contribution of mining to GDP, partly due to the exhaustion of high grade and shallow reserves and fairly rapid increases in production costs. Similarly, the contribution of agriculture appears to be falling, although the pace of decline is difficult to determine because of the impact of periodic droughts on production. South Africa is normally a net exporter of its major agricultural commodities. The share of manufacturing in GDP has increased marginally in the past decade but, overall, manufacturing output has declined since 1981 and the sector has shed jobs. In certain sectors, including food, beverages and clothing, domestic production meets over 90 per cent of domestic demand. Overall, imports of manufactures satisfy some one-fifth of domestic requirements.

5. Between 1980 and 1991, South Africa's rank among world exporters (in value terms) fell from 16th to 30th; in 1991, its merchandise exports accounted for 0.7 per cent of the world total. The export base is still concentrated in resources and resource-based industries. As the price of gold fell, its share in South Africa's merchandise exports dropped from nearly 50 per cent in 1983 to less than 30 per cent in 1991, while the shares of coal, iron and steel products, chemicals and textiles rose. The manufacturing sector has experienced annual average export growth, in constant U.S. dollars, of somewhat under 10 per cent since 1985, partly with the aid of subsidies but also because the sluggishness of domestic demand has caused producers to direct underutilized capacity toward foreign markets. Since 1985, South Africa has also sought to diversify its export markets, particularly to Asian and African countries.
6. South Africa's rank among world importers fell from 25th in 1980 to 36th in 1991, partly as a result of a fall in the value of oil imports as prices declined and partly as additional domestic oil-from-coal capacity came on stream. Since 1986, the growth in the volume of merchandise imports has exceeded that of real gross domestic expenditure, with a resultant rise in the import penetration ratio from just under 20 per cent in 1986 to some 23 per cent in 1991. However, import growth in value terms has fluctuated around zero since 1988, reflecting the contraction of domestic demand and the effects of import surcharges. Intermediate and capital goods dominate merchandise imports, with machinery, transport equipment, chemicals and textiles accounting for more than half of the total.

(2) Institutional Framework

7. South Africa is one of the original signatories to the GATT. It has participated in all rounds of multilateral trade negotiations and has adhered to the Tokyo Round Codes on Import Licensing and Customs Valuation, as well as the International Arrangement on Bovine Meat and the International Dairy Arrangement; it has observer status in the Government Procurement, Subsidies and Anti-Dumping Codes. The General Agreement has been approved by Parliament but cannot be invoked before national courts.

8. Legislative authority is vested in the State President and Parliament. Trade-related legislation is debated before the Standing Committee on Trade and Industry. The private sector can enter the debate through its representation on the State President's Economic Advisory Council, which gives advice on the appropriate mix of policy measures to achieve priority economic goals. The recently established National Economic Forum adds the voice of organized labour to that of business and government.

9. Trade policies are formulated and coordinated by the Department of Trade and Industry. The Board on Tariffs and Trade, an independent, advisory body, and the Industrial Development Corporation contribute to the formation of trade and industrial policies through their advice to the Department.
10. The principal activities of the Board on Tariffs and Trade revolve around the processing of applications for tariff protection and tariff relief, which leads to selective support; investigation of dumping, subsidized exports or disruptive competition; and, on its own initiative or at the request of the Minister of Trade and Industry, investigations into structural adjustment in specific industries. It may recommend permanent or temporary changes in tariffs, normally following a period for public comment.

11. The Industrial Development Corporation (IDC) provides capital for industrial projects, export and import financing and small business development. It also provides policy advice. In 1990, it issued a major study on tariff protection and recommended reforms to the trade régime, including more uniformity in the tariff structure, a switch from selective to more automatic tariff protection, and a pre-announced schedule of tariff reductions. A number of the IDC's recommendations have gained official support.

12. The Department of Customs and Excise, within the Ministry of Finance, administers the Customs and Excise Act, regulating the implementation of tariffs, excise duties and other import taxes. Changes in tariff rates or import control can be introduced without Parliamentary approval, although amendments to the Customs and Excise Act require ratification. Import control is determined by the Department of Trade and Industry's Import and Export Control Directorate, in consultation with other relevant Government departments and industry.

13. Trade in agriculture is regulated principally through the Marketing Act, which gives control boards, under the supervision of the Department of Agriculture and the National Marketing Council, statutory powers over imports and exports of most agricultural commodities. Compliance with health and sanitary regulations on food products is ensured by the Department of Agriculture and the Department of National Health, while the South African Bureau of Standards is concerned with technical regulations and standards on manufactured goods.
(3) Trade Policy Features and Trends

(a) Recent evolution

14. South Africa has traditionally aimed at inward-oriented development, with trade policy serving to foster import substitution. The hallmarks of the trade system for long were a structure of selective tariff protection and binding import controls. Since the 1970s, direct import controls have, in most instances, been replaced by tariffs. Complementary to the inward-orientation of trade policy has been concessional finance for major projects; through the Industrial Development Corporation, public funds were channelled to capital-intensive projects designed to exploit the significant reserves of, inter alia, coal and iron ore and develop downstream heavy industries such as synthetic fuels and steel.

15. In the early 1970s, the costs of the import-substitution strategy to the South African economy began to make themselves apparent and various advisory groups recommended greater emphasis on exports. Quantitative restrictions were gradually eased - partly under pressure from external trading partners - during the 1970s, but the process came to a halt in the early 1980s in response to a deterioration in the external payments situation. Export incentives, to compensate for the anti-export bias implicit in import restrictions, were introduced in the 1970s and expanded in the 1980s. Nevertheless, until the early 1980s, the binding constraint on imports was an extensive system of import controls.

16. The dismantling of import control was resumed in 1983; its coverage was reduced from 77 per cent of imports in 1983 to 23 per cent in 1985, when the positive list of permitted imports was replaced with a negative list of imports still subject to control. Tariffs were increased selectively to compensate for the removal of quantitative restrictions. These developments were consistent with the cautious approach to moving away from import substitution taken by the Kleu Study Group of 1983, and with the dual approach of maintaining protection and promoting exports emphasized by the 1985 White Paper on Industrial Development.
17. Motivated both by international protest against the system of apartheid and the increased economic uncertainty inherent in South Africa's volatile political situation, many foreign governments and corporations limited their trade and investment relations with South Africa - if on a selective basis - in the period from mid-1985 to early 1990, when sanctions began to be dismantled. Disinvestment and the need for debt rescheduling put pressure on the balance of payments; to repay debt, South Africa successfully sought to generate current account surpluses. Exchange control was tightened through a dual currency system and an import surcharge, initially of 10 per cent, was imposed. In 1988, the scope of the import surcharge was broadened and financial policy became more restrictive, dampening domestic demand and, by freeing production capacity, implicitly encouraging exports.

18. There has also been increased reliance on explicit export promotion policies. In 1990, a new, more transparent General Export Incentive Scheme was introduced for non-primary products. The GEIS links subsidies to actual export sales, rather than production and marketing costs, and encourages processing and local content. In all, export subsidies amounted to some R1 billion in 1991/92 and are likely to be in the order of R2.4 billion in 1992/93, compared to R125 million in 1986/87. The GEIS is due to be phased out in 1995.

19. Thus, significant political and economic factors from the mid-1980s contributed to slowing the process of South Africa's trade liberalization. This strengthened the dualistic import substitution/export promotion character of its trade régime in the period, and increased the costs to the economy as a whole of such a policy.

(b) Type and incidence of trade measures

21. Since 1990, the removal of direct import controls has regained a certain momentum. Such controls now apply to some 15 per cent of all tariff lines, compared to 23 per cent in 1985. In consequence, the tariff has become the main instrument of protection to manufacturing industry in
South Africa. However, the tariff is complex, both in the number of items and the structure of rates applied, and its application lacks stability and transparency.

22. The South African tariff comprises over 12,600 tariff lines under the Harmonized System. The overwhelming majority of rates are applied on an m.f.n. basis, and only a minor percentage of imports enter at preferential rates. The average unweighted tariff is 7 per cent in agriculture and some 21 per cent in industry. These mask wide variations in the averages, from about 7 per cent on professional equipment to over 60 per cent on tobacco; within sectors, rates of over 35 per cent apply to such product categories as motor vehicles, yarns, clothing and footwear.

23. The tariff structure is complicated by formula duties, which apply to around one-sixth of all lines. The duties are generally applied in cases where "disruptive competition" causes, or is likely to cause, material injury. Under formula duties, the tariff collected is the higher of an ad valorem rate and a rate determined on the basis of a reference price. Thus, while ad valorem tariffs range up to 100 per cent, the ad valorem equivalents of formula duties can be several times higher.

24. South Africa's tariff displays a fairly substantial degree of escalation. In 1990, the weighted average rate for primary products was 2.5 per cent while that for manufactures was almost 27 per cent.

25. The import surcharge, in place since 1985, further increases such escalation. The surcharge currently averages 6 per cent but varies by sector, with the highest rates, up to 40 per cent, on beverages, tobacco and clothing.

26. Less than one-fifth of South Africa's tariff is bound in GATT. South Africa's offer in the Uruguay Round would raise this proportion to just over one-half. Under the offer, the simple average tariff for industrial products would also decline by a third and the percentage of
duty-free tariff lines would rise from less than 20 per cent at present to over 25 per cent.

27. Rebates or refunds of tariffs are possible under a number of different circumstances; in addition, the import surcharge is not generally charged on rebated goods. As a result, although the nominal incidence of duties collected is well below the average unweighted tariff, the frequently-applied practice of extending rebates to industry on inputs not locally available raises effective rates of protection; over one-quarter of value added in manufacturing is estimated to receive effective protection of over 50 per cent. The process of granting tariff protection, or exemption from tariffs, is often ad hoc and selective; rates are changed often, and rebate provisions adjusted, by the Board on Tariffs and Trade in response to requests from sectoral interests.

28. Under the structural adjustment programme for textiles and clothing, interim tariff quotas were introduced in 1992 followed by an increase in duties on textiles and a reduction of duties on clothing. The programme is under review, the aim being to reconcile the interests of textiles and clothing manufacturers. Exporters of clothing have been eligible for duty-free imports of inputs but this provision will be removed as the system has led to widespread abuse.

29. Import licensing remains the main instrument of control in agriculture, forestry and fisheries, covering some three-quarters of the relevant tariff lines. In addition, over 90 per cent of tariff lines are under import control in the beverages, tobacco and rubber sectors; over 85 per cent in food; and nearly 60 per cent in clothing, which has also one of the highest tariff incidences. Control boards have exclusive rights to the distribution of roughly two-thirds of farm production, fixing prices for certain commodities and exerting statutory powers over imports and exports of most agricultural products. Overall, it has been estimated that import control adds 10 per cent to the average nominal rate of protection.
30. Government procurement is conducted under conditions established by the State Tender Board. Individual government departments may award contracts of up to R 50,000, or R 500,000 for construction and engineering projects, on their own account. Normally, tenders are invited only from firms based in South Africa; preferences granted to domestic suppliers are estimated to create a margin of some 30 to 40 per cent in favour of locally-produced goods, where available. Local content incentives are also integral to export subsidies on non-primary products, and in certain industries, including motor vehicles, local content is encouraged by levying excise duty in inverse proportion to domestic value added.

31. New anti-dumping and countervail legislation was introduced in 1992 with a view to establishing clearer definitions and conditions in this field. According to the authorities, this new legislation should allow the eventual phasing-out of formula duties. The South African Government recognizes that further adjustments in the new legislation, particularly to the definition of injury, may be necessary to bring it in line with the existing MTN Codes or the outcome of the Uruguay Round.

32. To compensate for the cost-raising effects of protection on manufactures, export subsidies are available through the General Export Incentive Scheme (GEIS), averaging around 20 per cent of the export value. Exporters may also import items duty-free for export processing; subsidized interest is available on loans for expansion of export capacity; favourable export credits can be obtained and certain export promotion costs are reimbursed by the State. In addition, recent tax amendments provide advanced depreciation for approved beneficiation projects that add value of at least 35 per cent to inputs; applications for these allowances close in late 1993, by which time it is likely that they will have been granted to a number of large, capital-intensive and export-oriented undertakings.

(c) New initiatives

33. Apart from the reduction in direct import controls noted above, and moves towards a more transparent mechanism for temporary import relief,
South Africa has taken a number of steps to deregulate elements of its economy, including privatization and a strengthening of competition.

34. Commercialization, followed by privatization in some cases, has been applied to a number of public enterprises. Thus, State-owned oil and steel firms have been privatized, while enterprises in fields such as railways, telecommunications, abattoirs, postal services and forestry have been placed on a commercial footing while remaining under State ownership. Under competition law, certain widespread practices were declared unlawful in 1986, including horizontal price collusions, aspects of market sharing and collusive tendering. In addition, investigations into monopoly situations and restrictive practices have, in a few cases, resulted in market-opening measures. However, certain sectors (such as construction, cement, newspapers and retail franchising, softwood marketing and sugar) have been granted exemptions from restrictive practices provisions, as being "in the public interest". No convictions have been obtained for contravention of such provisions. Deregulatory actions in the last several years have resulted in the abolition of price control for a wide range of goods and the removal of restrictions on the establishment of black-owned businesses. More government funds are being channelled to small business development.

35. An expensive industrial decentralization policy has been streamlined and ineffective regional incentives terminated. The electricity rebate scheme, under which exporters of metal products received a discount on the cost of electricity, has been abolished. Certain local preferences for which government contractors have been eligible are being phased out and the South African Bureau of Standards quality mark has recently been made available for foreign goods.

36. Steps towards deregulation have also been taken in the farm and food sectors. Price control on staples such as bread, milk and butter have been removed, and supply management of meat and eggs has been removed. This trend towards more market-related policies is likely to be reinforced in the light of conclusions by recent public investigations into agricultural
marketing; these have recommended that the marketing system be restructured with emphasis on deregulation and the abolition of the statutory single channel marketing and price support schemes administered by the Control Boards.

(4) Trade Policies and Foreign Trading Partners

33. Since 1990, the legal provisions of apartheid within South Africa have been dismantled. Normalization of the country's international relations is also going ahead and its success depends in large part on a steady movement to majority rule. The potential of South Africa as a market, a supplier and a host for new investments, given political stability, is considerable and the stakes are, therefore, high.

34. Nevertheless, it is evident that serious social and economic problems are faced by South Africa as a new governmental structure evolves and as a programme of uplift for the mass of the population is undertaken. The immediate challenge is to regenerate growth in the context of policies aimed at social advancement. To this end, the re-orientation of production away from emphasis on satisfying limited domestic demand and more along the lines of South Africa's comparative advantage should lay the foundation for sustainable growth. More market-oriented policies would limit the diversion of scarce resources to internationally uncompetitive industrial or agricultural sectors, and would assist in lowering the underlying rate of inflation, by diminishing structural rigidities.

35. Many distortions remain within the South African economy. The past policies aimed at extensive import-substitution and self-sufficiency, combined with the rigidities in resource allocation created by apartheid, have created a high-cost structure. The authorities have recognized that the structure of the economy detracts from competitiveness and limits employment opportunities. Deregulation, privatization and macroeconomic stabilization are being cautiously pursued; and, with the lifting of sanctions, greater outward-orientation in trade policies is sought.
36. The trade régime has undergone welcome changes in the past decade; tariffs have been lowered and the extent of import controls has declined considerably. However, the tariff structure and the review mechanisms underlying it are far from stable or transparent; in this respect, greater binding of tariffs in GATT and less reliance on sectoral protection would promote a more reliable trading environment both for firms in South Africa and for its trading partners. Further steps toward achieving this would include greater uniformity in the tariff, a pre-announced schedule of tariff reductions, a phasing out of the import surcharge, and a review of the rebate system.

37. Present policies seek to restructure the productive capacity of the South African economy by increasing its export orientation. The prevalence of export subsidies illustrates the anti-export bias of import protection and fundamental lack of competitiveness of many sectors. The authorities have realised that costly export subsidies must be phased out; moreover, as greater market-orientation is brought to the trade system, its anti-export bias will be reduced, gradually obviating the present perceived need for export assistance. Other incentives for promotion of export-oriented industries still appear focused principally on capital-intensive minerals beneficiation and processing projects with limited potential for domestic employment-creation. Phasing out such assistance will also benefit the government budgetary balance.

38. International sanctions in the second half of the 1980s are likely to have contributed to inhibiting the pace of economic reforms. Their removal should be a signal to the South African authorities - in the transition to a more democratic system - to encourage conditions for the construction of an internationally competitive economy. A successful conclusion to the Uruguay Round would no doubt give an impetus to this process. However, the evidence from other countries at similar levels of development and trade-orientation to South Africa, which have undertaken economic and trade reform, gives a clear signal that autonomous trade liberalization, coupled with prudent macroeconomic and progressive social policies, can bring notable and sustained economic growth and development.
I. THE ECONOMIC ENVIRONMENT

(1) Major features of the South African economy

1. Stretching nearly three thousand kilometres from the south Atlantic to the Indian Ocean, the Republic of South Africa covers over 1.2 million square kilometres of the African continent. Its mineral wealth, well-developed infrastructure and annual per capita income of US$2,800 place South Africa among the upper middle-income countries. South Africa is the dominant economic power in southern Africa. (Table I.1)

2. South Africa's real economic growth slowed in the 1980s to less than 2 per cent per annum, compared with 3 per cent in the 1970s and nearly 6 per cent in the 1960s. Real GNP per capita fell at an annual average rate of 0.8 per cent per annum since 1975, decelerating to 1.1 per cent annually between 1981 and 1989. However, for the period 1965 to 1989 real GNP per capita grew at an average rate of 0.8 per cent a year, which nevertheless compares unfavourably with the weighted average of 2.6 per cent for the upper middle-income countries.

3. The decline in per capita GNP during the 1980s partly reflects rapid population growth, of some 2.6 per cent a year on average. In 1991, the population was in the order of 38.4 million, of which approximately eight million are residents of the four 'independent' homelands, Transkei, Bophuthatswana, Venda and the Ciskei (the TBVC states).

4. The legal provisions establishing apartheid or 'separate development', which, inter alia, created the TBVC states, have been abolished but the decades of racial segregation have had pervasive effects on South Africa's economic growth and development. As sustainable economic growth depends on an appropriate allocation of all resources, the policy of apartheid, along with South Africa's traditional use of inward-oriented industrial and trade policies, has been a constraint to development. Participation in the economic growth process by the non-white, particularly black, population was circumscribed during almost all of South Africa's recent history by laws and practices that restricted access to the acquisition of skills, higher-paying jobs, and ownership of land.

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1 South Africa accounts for 40 per cent of industrial output of the African continent. (World Bank, 1992).


3 Rough estimates of the administrative burden to support apartheid came to R 6 billion a year (Strydom, 1991, p. 378).
5. A result of apartheid is the high degree of income inequality based essentially on race. The white minority, which represents less than 15 per cent of the total population (excluding the TBVC states) earns two-thirds of the national income; the black majority earns one-quarter. Although differentials have narrowed in the last two decades, in 1985 the wage and per capita income ratios between white and black were, respectively, 3.8 to 1 and 8.9 to 1. However, within the black population, income inequality may be just as acute. Wage and income levels for the Asian and coloured populations fall between those for the black and white populations.

6. Productivity, an integral element to growth, has performed poorly for the last two decades. In manufacturing, multifactor productivity grew at an annual average rate of 0.5 per cent in the period 1971 to 1988; capital productivity, with increasing capital intensity, fell at an average rate of 2.8 per cent and labour productivity rose by an average of 1.9 per cent a year. By comparison, output per worker grew 10 per cent per annum in Korea and 4.9 per cent per annum in Italy. Restrictions on the movement of black labour have reinforced the development of a capital-intensive economic structure, and limited access to education for the majority of the population has resulted in a skills shortage.

7. By restricting the development of its human resources, South Africa relied increasingly on capital to pursue industrial development. The cost of capital was kept artificially low during the 1970s and first half of the 1980s by, inter alia, negative real interest rates, tax expenditure schemes to stimulate capital formation in the manufacturing sector and tariff protection of local industries. At the same time, labour costs rose fairly rapidly, with unit labour costs tripling between 1975 and 1986. As a result, the capital-labour ratio increased significantly in this period so that, at present, capital-labour ratios are estimated to be more than

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4Lewis (1990), p. 38.
5In 1985, the Gini coefficient of income distribution for the total population was 0.572, compared to 0.68 per cent in the mid-70s; within population groups, it was highest for blacks, at 0.535, and lowest for whites, at 0.354 (according to data provided by the South Africa authorities).
6Relative to major trading partners, South Africa's output per man-hour rose 19 per cent between 1975 and 1986: in the United States, the increase was 36 per cent; in France, 59 per cent; and in Japan, 92 per cent (du Plooy, 1988 and Levy, 1992).
double those of developing countries at comparable levels of per capita income.

8. In tandem, the labour absorption capacity of the economy declined from 72 per cent in the 1970s, to 22 per cent in the early 1980s, and to 7 per cent in 1985-1990. This contrasts with a growth rate of 3 per cent a year in the economically active black population. Employment in non-agricultural sectors grew by 1.1 per cent in the 1980s, compared to 2.5 per cent in the 1970s. Unemployment was estimated at 42 per cent in 1991; 5.4 million people were out of work compared to 2 million a decade earlier. However, these figures do not take into account work in the informal sector, which has grown considerably in the last decade, and is estimated to contribute between 6 and 8 per cent of GDP and to employ one in four of the black population.

9. Slow productivity growth and declining international competitiveness can be attributed both to the factor price distortions induced by South Africa's internal and external trade policies and to South Africa's international isolation, which has contributed to limiting both local and international competition and raising the price of imported technology.

10. The resource- and capital-intensive nature of South African industry, together with a relatively small domestic market, has led to significant over-concentration. Previous exchange controls, limits on outward investment and sales of foreign-owned assets after 1985, reinforced this situation. Approximately four-fifths of industrial activity is controlled by four corporations. In spite of progress in the area of competition policy, deregulation and privatization, economic concentration remains high in a number of sectors, with consequent strong producer pressure to safeguard vested interests.

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9 Levy (1992), p. 3.
10 Central Economic Advisory Council.
13 According to Fourie (1989), levels of concentration during the period 1972 to 1982 were high and increasing in most of manufacturing. This same study showed that foreign competition, imports, reduced the relative level of concentration in sectors where imports represented over 20 per cent of the market.

Another effect of overconcentration is the downward rigidity of prices that can result: lower levels of aggregate expenditure tend to be followed by smaller and slower price reductions than would be the case in more competitive industries. This normally delays or impedes the impact of anti-inflationary policy and may partially explain the persistence of inflation in South Africa (Fourie 1991).
11. Within the framework of a market-oriented economic structure, the Government has traditionally pursued interventionist policies, and an important rôle in industrialization has been played by State-owned corporations. In the early stages of industrial development, the public sector provided the capital for large-scale manufacturing operations such as the Iron and Steel Corporation (ISCOR), founded in 1928, SASOL, the oil-from-coal plant in operation since 1955, and FOSKOR, the Phosphate Development Corporation. The public sector generated 13 per cent of industrial output in 1990; one-quarter of the white labour force is employed in the civil service and another one-third in public corporations. Wages account for about 25 per cent of the government's budget. As part of overall economic restructuring, the Government embarked on a process of deregulation, commercialisation and privatization in the 1980s (Chapter IV(5)(iv)(d)).

12. Another pillar of apartheid, unequal access to land, created serious structural imbalances in the agricultural sector, which accounts for some 5 per cent of GDP but is an important source of employment and exports. Nearly half of the population lives in rural areas and the commercial farm sector provides employment for about 1.2 million workers, about 13 per cent of the economically active population who in turn support about 5 million dependents. The dualistic nature of the farm economy is particularly acute, divided between the commercial, partly export-oriented sector and a subsistence economy. Moreover, farm income generated by the commercial sector, which covers six times the land area of the subsistence economy, is narrowly distributed. Forty per cent of farm income is produced by 1 per cent of farmers.

13. Although only 12 per cent of its 122 million hectares is arable land, South Africa is normally self-sufficient in food production and exports between one quarter and one third of farm output. However, the past decade has been marked by long periods of drought and an overall decline in agricultural production. With the exception of poultry and fresh fruits and vegetables, gross output declined by 2.1 per cent a year on average in the period 1981 to 1991. Input prices have risen faster than product prices since 1973. Farm debt increased by an average 18 per cent a year between 1973 and 1987, and by the end of 1992 was some R 17 billion. Debt

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15 Department of Finance.


payments currently take up 36 per cent of farm income, compared with 18 per cent in 1980/81.

14. The rate of manufacturing growth has declined since 1975 and been negative since 1981. However, the share of manufacturing production in GDP rose slightly between 1985 and 1991 from 23 to some 25 per cent, reflecting the overall poor economic performance (Table I.2). The most important manufacturing sectors in 1991 were food processing, other chemicals, including oil refining, motor vehicles and parts, iron and steel, metals, and industrial chemicals.

Chart I.1
Value of manufacturing sales, 1991
Per cent


15. Due to low levels of investment and industry rationalisation, nearly 100,000 jobs have been lost in the manufacturing sector since 1982. With the exception of ferrous and non-ferrous metals, declining industries...


included the capital goods-producing sectors, which required greater levels of investment capital than were available. Expanding branches of the manufacturing sector were, inter alia, food, beverages, paper products and plastic products.

16. Although the manufacturing sector contributes nearly 25 per cent of GDP, mining is South Africa's lead sector and has traditionally been a major source of foreign exchange and tax revenues. Exports of the mining industry, mainly gold and coal, still generate well over half of export earnings, although gold's contribution has fallen considerably in the last decade while other mining products have grown in importance. Diamonds, discovered at Kimberley in 1867, and gold, first found in the Transvaal in 1887, form the basis of the South African mining economy. Additionally, South Africa is a major producer of iron ore, copper, lead and zinc, chromium, manganese, platinum, vanadium and other strategic metals. In fact, the only major mineral products which do not exist in abundance are bauxite and petroleum.

17. The relative share of mining in GDP has fallen only slightly in the last thirty years, representing some 11 per cent in 1991 compared to 13 per cent in 1960. This slight decline can mainly be attributed to lower levels of gold production as the richer ores have been depleted.

18. Gold production has been on a downward trend since 1970 when 1,000 tons were mined. South Africa's share in world output of gold (excluding the former Soviet Union) has dropped from 64 to 34 per cent in the past decade, partly because other gold producers, notably the United States, Canada and Australia, have boosted their output. World supply (excluding the former Soviet Union) has grown from 1,037 to 1,782 tons since 1982.

19. Between 1975 and 1990, the average amount of gold extracted per ton of ore milled dropped from 9.46 grammes to 5.05 grammes. At the present gold price, due to the exhaustion of high grade and shallow mine reserves, a number of mines are considered marginal and currently close to

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20. In the 1980s, there were discoveries of exploitable offshore petroleum deposits and natural gas conversion is expected to supply 10 per cent of liquid fuels requirements. (Source: Europa Publications, Africa, South of the Sahara (1991)).

21. World Gold Council; including the former Soviet Union, which accounted for 11 per cent of 1991 world output, South Africa's share drops to 27 per cent. (The Economist, 23 May 1992, p. 75.)

20 per cent of all mining production is incurred at a loss. 23 Wage increases in the mining sector, where labour accounts for 50 per cent of production costs, have led the economy-wide rise in hourly earnings. Production costs, higher than the average in other producing countries, have risen, largely due to the increased cost of mining lower grade and deeper ores; consequent rationalisation has reduced employment in the gold mining industry from 532,000 in 1986 to 392,000 in 1992. Concurrently the sectors' relative contribution to Government revenue has also declined; direct taxes from mining sources have fallen to 4 per cent of Government revenues in 1991, from an average of almost 15 per cent in the period 1980 to 1988.

(2) Recent Economic Performance

20. Real growth of South Africa's GDP slowed to an average rate of 1.5 per cent a year in the 1980s, compared to 3.4 per cent in the previous decade. The year 1985 was a turning point for the economy. Real GDP contracted by over 1 per cent during the year; in September, following the freezing of foreign bank credits, the Government imposed a standstill on repayment of principal on almost 60 per cent of the country's foreign debt (US$13.6 billion out of US$23.7 billion). International trade sanctions were increasingly, if selectively, applied against South Africa, under U.N. resolutions, by a number of trading partners (Note I.1 and section (3) below). In spite of, or to some extent because of, these economic and political constraints, South Africa experienced export-led growth of just over 2 per cent a year in the second half of the 1980s.

21. In the first years following 1985, policy focused on maintaining output and employment. In spite of high nominal interest rates, real rates were low. This, together with sharp wage increases, did little to discourage inflation and contributed to an escalation of operating costs. The growth in unit labour costs, and increases in consumer prices, were well above that for industrialized countries (Charts I.2 and I.3). Between 1985 and 1989, unit labour costs in manufacturing rose 65 per cent in South Africa, compared to 19 per cent in Canada and 3 per cent in the United States. 25 Although hourly compensation remains below that in

23 The Economist Intelligence Unit, South Africa, 1992-1993, p. 29.


developed economies, the average wage in South African manufacturing is above that in the newly industrialized economies.

**Chart I.2**

Unit labour costs: South Africa compared to industrialised countries, 1985-90

![Chart showing unit labour costs comparison between South Africa and industrialized countries from 1985 to 1990.](chart)

**Source:**

For South Africa, S.A. Reserve Bank Quarterly Bulletin, S-98. 2) For industrialised countries, IMF, World Economic Outlook, May 1992, Table A10. 3)

1) Industrialised countries include the EC, EFTA, Australia, Canada, Japan, New Zealand and the United States

2) SARB: remuneration per worker and real GDP per worker.

3) Unit labour costs in manufacturing as measured by the rate of change in monthly earnings relative to output per hour.

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22. Traditionally a net importer of capital, South Africa became a net exporter in 1985, as it sought to generate a current account surplus to meet short-term capital needs. With divestment of foreign capital, following the imposition of sanctions, the authorities focused on suppressing domestic demand and promoting exports. Depreciation of the rand raised the domestic price of imports and exacerbated the downward trend in import-intensive investment expenditure. While savings remained adequate to finance capital outflows and the repayment of international debt, domestic savings and capital formation declined sharply. (Table 1.3)

23. Gross domestic investment as a share of GDP has contracted steadily throughout the past decade. Civil strife, political uncertainty, the threat of nationalization, strikes, prevailing inflation and one of the higher tax burdens amongst industrialized countries contributed to a relatively unfavourable investment climate.

24. Domestic savings fell throughout the 1980s to roughly 19 per cent of GDP in 1991, compared to an average of 23 per cent in the 1980s and
25 per cent over the past thirty years. Private savings shrank both as a result of lower corporate profits and growth in personal consumption expenditure in order to maintain living standards (Table I.3). Personal savings fell from 12.7 to 1.3 per cent of personal disposable income between 1979 and 1990.

25. Annual growth of government consumption has exceeded the increase in private consumption continuously in the last two decades (Table I.3). During the 1980s, the proportion of government spending to GDP rose from 13.5 per cent in 1980 to 19.2 per cent in 1990, led by increased public spending on social services. Transfers to the TBVC states (including customs union payments) represented roughly 6 per cent of the budget, and the central government wage bill a further 25 per cent. With the dismantling of apartheid, there has been a basic shift in spending priorities, to greater emphasis on social welfare, the encouragement of labour-intensive industries and the designation of public savings for black "upliftment". The 1992/93 budget, stipulated a 24 per cent increase in education expenditure, to 18.9 per cent of total government expenditure and an estimated 5.4 per cent of GDP.

26. Since 1984 the government budget has been in consistent deficit, amounting to 4.3 per cent of GDP in 1992. With the onset of a protracted recession in late 1989/early 1990, revenue growth has slowed sharply, from 24 per cent in fiscal year 1990 to 10.5 per cent in 1992. As public investment has dwindled, public debt, most of which is domestic, has remained relatively constant as a share of GDP, at between 30 and 35 per cent (Chart I.4); interest on the debt amounts for some 15 per cent of budget expenditure.


31 Central Economic Advisory Service.
27. Since 1989, in line with the slowdown in world growth and less expansionary macroeconomic policies, the South African economy has undergone the longest recession in its history. Although the agriculture sector emerged from a six-year drought to enjoy a bumper year in 1989, more recently South Africa has experienced the worst drought in 50 years, becoming an importer of maize in 1992. An estimated one million jobs have been lost in the past three years and corporate profits are at their lowest level in 20 years.

28. Except for exports, the major components of GNP have fallen. Real gross domestic fixed investment receded in both 1990 and 1991 and private investment has continued its downward trend. Investment in machinery and

\[32\text{Africa Economic Digest, Vol. 13, No. 17, September 1992.}\]
equipment has returned to the level of the early 1970s and its share in GDP has fallen from 10.7 per cent in 1982 to 7.3 per cent in 1989.

29. Restrictive monetary policy since 1989, with positive real interest rates has had some success in curbing inflation; the annual rate of increase in consumer prices dropped from 18.8 per cent in the first half of 1991 to 12.8 per cent in the first half of 1992. Further, for some time, the increase in consumer prices has outstripped that of producer prices, mainly because of the larger import component of production goods; the weighting of the CPI basket, with a possibly disproportionate weight given to meat; generally higher food prices, partly because of the drought; and the introduction of a value added tax (VAT). The extension of the VAT, introduced in October 1991, to previously exempt basic foodstuffs and services put further upward pressure on consumer prices.

30. Over the past two years, fiscal policy has become more expansionary, giving explicit priority to restructuring from the supply side. Import surcharges have been progressively lowered and the corporate income tax rate has been reduced from 50 to 48 per cent. The elimination of differentiated tax concessions has added greater neutrality to the tax structure. The replacement of the 13 per cent general sales tax with VAT at 10 per cent, is expected to broaden the tax base and reduce fiscal drag.

(3) External Performance

31. In spite of the pursuit of import substitution since the 1920s and the imposition of selective, trade embargoes in recent decades, the share of South Africa's merchandise trade in GDP has been in the vicinity of 50 per cent since the early part of this century.

32. South Africa's position in world trade fell considerably in the 1980s, in part because of a decline in world commodity prices (Table A1.1 and A1.2). Between 1980 and 1991, South Africa fell from 16th to 30th in world exports, accounting for 0.7 per cent of world merchandise exports in 1991. As an importer, South Africa's share has also shrunk, from 25th to 36th; its merchandise imports represent 0.5 per cent of the 1991 world

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35 Reserve Bank discussion.
36 Counting EC member states individually.
33. Beginning in 1979, South Africa dropped its practice of pegging the rand to a major international currency and adopted active exchange rate management. The significant depreciation of the rand, starting in 1983, has been a factor in the strong export growth that occurred in South Africa between 1985 and 1991. With domestic demand curtailed, particularly since 1988, and assisted by lower oil prices, the current account remained strongly positive (Table I.4). The current account surplus enabled South Africa to reduce its external debt, which decreased from 43 per cent of GDP in 1985 to 17 per cent in 1991; total foreign debt amounted to US$18.1 billion, a 24 per cent reduction from the 1985 level of US$23.7 billion. At the end of 1991, US$5.5 billion remained outstanding under the standstill agreement, which runs until the end of 1993.

34. From 1985-1986 onwards, the leading industrialized nations intensified official trade sanctions to South Africa (Note I.1). These covered import bans on iron and steel, gold coins, coal, and in some cases agricultural products and textiles and clothing. Existing bans on exports of oil and military equipment were also reinforced. Under the Comprehensive Anti-Apartheid Act, the United States exempted strategic minerals and metals from the import ban.

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#### Note I.1

Tabular history of the imposition and removal of official sanctions on South Africa

<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
<th>Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td></td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>U.N. Resolution 181 calling for a voluntary embargo on arms sales to South Africa.</td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>Total ban on trade.</td>
<td>India</td>
</tr>
<tr>
<td></td>
<td>Ban on direct investment but allows licensing</td>
<td>Japan</td>
</tr>
<tr>
<td>1973</td>
<td></td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>Oil embargo.</td>
<td>OAPEC</td>
</tr>
<tr>
<td>1977</td>
<td>U.N. resolution calling for mandatory arms embargo.</td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>Embargo on exports of North Sea oil.</td>
<td>United Kingdom</td>
</tr>
<tr>
<td></td>
<td>Ban on new investment.</td>
<td>Sweden</td>
</tr>
<tr>
<td>1985</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>Ban on imports of fruit and vegetables ban on exports of crude oil.</td>
<td>Norway</td>
</tr>
<tr>
<td></td>
<td>Cancellation of air traffic agreements with South Africa.</td>
<td>Denmark, Norway, Sweden</td>
</tr>
<tr>
<td>July</td>
<td>U.N. Security Council Resolution calling for suspension of new investment, prohibition of sale of Krugerrands, restrictions on sporting and cultural relations, suspension of guaranteed export loans, prohibition of new nuclear contracts and of sales of computer equipment that might be used by police or armed forces.</td>
<td>Canada</td>
</tr>
<tr>
<td></td>
<td>Restrictions on sale of &quot;high-tech&quot; equipment.</td>
<td></td>
</tr>
</tbody>
</table>

(cont'd)
<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
<th>Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>August</td>
<td>Commercial and cultural sanctions.</td>
<td>Brazil</td>
</tr>
<tr>
<td></td>
<td>Limited sanctions.</td>
<td>Australia</td>
</tr>
<tr>
<td>September</td>
<td>Ban on sale of arms and para-military equipment, oil and cooperation in nuclear development.</td>
<td>European Communities</td>
</tr>
<tr>
<td></td>
<td>Ban on exports of computer equipment for law enforcement agencies, exports of nuclear technology, new loans except for projects benefitting all races, and imports of Krugerrands; limitations on export assistance.</td>
<td>United States</td>
</tr>
<tr>
<td></td>
<td>Suspension of new insurance on exports to South Africa.</td>
<td>Netherlands</td>
</tr>
<tr>
<td></td>
<td>Enforcement of limited sanctions, including tighter rules on investments.</td>
<td>Sweden</td>
</tr>
<tr>
<td></td>
<td>Voluntary ban on sale of crude oil and on new bank loans; termination of air transport links.</td>
<td>Canada</td>
</tr>
<tr>
<td>October</td>
<td>Ban on sale of oil, nuclear fuels, material and technology; ban on sale of computer equipment to SA military and security forces; ban on imports of arms military and para-military equipment; elimination of Government funding for trade missions and fairs.</td>
<td>Commonwealth</td>
</tr>
<tr>
<td></td>
<td>Prohibitions of sales of computers for use of police; discouragement of Krugerrand sales.</td>
<td>Japan</td>
</tr>
<tr>
<td>November</td>
<td>Ban on imports of coal.</td>
<td>France</td>
</tr>
<tr>
<td>December</td>
<td>Registration of all shipping visits to South Africa.</td>
<td>Norway</td>
</tr>
<tr>
<td>1986</td>
<td>January Ban on imports of all agricultural products. Introduction of trade licensing system.</td>
<td>Sweden</td>
</tr>
</tbody>
</table>

(cont'd)
### Note I.1 (cont'd)

<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
<th>Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>Ban on imports of fruit and vegetables (to take effect from 1 January 1987).</td>
<td>Ireland</td>
</tr>
<tr>
<td>May</td>
<td>Trade boycott.</td>
<td>Denmark</td>
</tr>
<tr>
<td>[mid-year]</td>
<td>Promulgation of law terminating imports of coal by end-year.</td>
<td>Denmark</td>
</tr>
<tr>
<td>July</td>
<td>Ban on exports of refined petroleum. Introduction of licensing on all other trade.</td>
<td>Norway</td>
</tr>
<tr>
<td>August</td>
<td>Ban on imports of agriculture produce and of coal, iron, steel and uranium.</td>
<td>New Zealand</td>
</tr>
</tbody>
</table>
| September | Ban on imports of iron and steel, excluding ferro-alloys.  
Ban on imports of Krugerrands. | European Communities |
|          | Ban on imports of iron, steel, including ferro-alloys.                | Japan            |
| October  | The adoption of the CAAA (Comprehensive Anti-Apartheid Act), which prohibited the importation of Krugerrands, military articles, coal, uranium, iron and steel, textiles, agricultural products and food from South Africa. It also prohibited the export of computers, items on the U.S. munitions list, crude oil and petroleum products to the Government of South Africa and any organization in South Africa supporting apartheid. | United States    |
| November | Closure of all South Africa tourism and airline offices.              | Canada           |
| 1987     |                                                                        |                  |
| August   | Ban on new investment, bank loans and imports of coal, uranium, textiles, agricultural products and steel; and one-year further extension of other sanctions. | United States    |
**Note I.1 (cont'd)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
<th>Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>Lifts sanctions on new investments.</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>1991</td>
<td></td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>Repeal of the CAAA but certain States* still restrict South African products.</td>
<td>United States</td>
</tr>
<tr>
<td>October</td>
<td>Ending of five-point sanctions programme.</td>
<td>Japan</td>
</tr>
<tr>
<td></td>
<td>Sanctions lifted.</td>
<td>U.N.</td>
</tr>
<tr>
<td>1992</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>Renewal of diplomatic links.</td>
<td>Japan</td>
</tr>
<tr>
<td>October</td>
<td>Oil embargo lifted.</td>
<td>Italy</td>
</tr>
<tr>
<td>1993</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* 28 States and 126 local authorities

35. Embargoes on oil and military equipment had already been in effect for several years. Without indigenous petroleum reserves but with extensive reserves of low-sulphur coal, South Africa pursued an expensive strategy of stockpiling and import substitution to meet part of its liquid fuel requirements. In early recognition of its vulnerability to an oil embargo, the first oil-from-coal plant had been established in 1955; capacity was increased in response to the oil embargo. Similarly, the arms embargo led to the development of a sophisticated indigenous arms industry.

36. Trade sanctions are designed to worsen the target country's terms of trade, thus reducing its purchasing power on world markets and economic welfare. Many studies have attempted to assess the effects of economic sanctions on the South African economy. The general evidence would appear to be that trade sanctions per se had relatively little impact on economic growth, whereas financial sanctions and the disinvestment campaign may have had more severe repercussions. Between 1985 and 1989, it is estimated that trade sanctions reduced export earnings by 7 per cent, while the estimated combined cost of sanctions and disinvestment amounted to roughly R 40 billion. One reason why trade sanctions would have had a limited impact on South African trade is the high share of gold in South Africa's exports, a scarce, but fairly easily transportable commodity and one whose value would be expected to rise with an escalation in regional or domestic political uncertainty. Furthermore, trade sanctions did not apply to all commodities; nor were sanctions implemented by all countries.

37. Although the "sanctions premium" may have cost traders some 10 per cent for goods in which South Africa is not a principal supplier, currency depreciation may have acted to at least partly counter the effect on exports, while reinforcing the effect on imports. Furthermore, intra-firm trade may have been reinforced by sanctions. Export volume, during the period of more extensive sanctions, from 1986 to 1991, increased fairly rapidly, as South Africa located new markets and improved its expertise in sanctions-busting. By 1988, exports of all products affected by sanctions were again at their pre-sanctions level. Sanctions gave additional impetus to import-substitution and led to policies designed to curb import demand and reduce capital flight, such as the introduction and

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38. The annual cost to South Africa of higher import prices due to the boycott and the cost of stockpiling and coal gasification has been estimated at between US$1 to 2 billion.


40. South African coal is said to have been sold at a discount of $2 to $4 per ton to the world price.

41. Department of Trade and Industry.
subsequent broadening of an import surcharge and the reintroduction of a
dual exchange rate. According to the Reserve Bank, net capital outflows
since 1985 reduced GDP growth by 2.5 per cent per annum.

(i) Commodity pattern of trade (Note I.2)

(a) Exports

38. Minerals, mainly gold, have historically dominated South Africa's
merchandise exports. A structural change appears to be emerging as the
rate of export growth of the mining industry slowed considerably in the
second half of the 1980s. Non-gold exports contributed nearly 40 per cent
to economic growth in the 1980s, compared to 7 per cent in the 1960s.
The terms of trade, including gold, have fallen by 7 per cent since 1985,
and since 1987 the price of gold, in U.S. dollars, has dropped 26 per cent
(Table I.4). Gold exports as a share of total merchandise exports, in
local currency, have dropped from nearly 50 per cent in 1983 to less than
30 per cent in 1991 (Chart I.5). Total mineral exports amounted to
R 29.7 billion in 1990, of which R 19 billion was gold.

39. South African coal production has quadrupled in the last two decades.
South Africa is the world's third largest exporter of hard coal, with
five per cent of the world market. Exports, ranging between one-quarter
and one-third of local production, have averaged between 45 and 50 million
tons in recent years, to value R 4.2 billion in 1991 or roughly 7 per cent
of merchandise exports. Diamonds are not recorded separately in export
data.

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43 IFO (Institut für Wirtschaftsforschung), *Ifo Schnelldienst*, 14 September 1992, p. 34.
44 Department of Trade and Industry.
Note I.2 Trade Data

As for all countries, there is a number of sources of international trade data. The GATT Secretariat has, in the course of the TPRM exercise, normally used international sources, at least as a starting point, for reasons of comparability. A principal source has been COMTRADE data, compiled by the United Nations Statistical Office and based on the Standard International Trade Classification (SITC) classification. However, with the adoption of the Harmonized System by most Contracting Parties in 1988, trade and tariff data is readily concorded and there is thus justification for using customs-based data. Further, as the link between trade policies, trade flows and domestic resource allocation has been explored, use of production-based data (e.g. International Standard Industrial Classification (ISIC)) has become appropriate. In sum, the presentation of trade data needs to serve multiple and often conflicting objectives. In the case of South Africa, the picture is complicated by a large share of unclassified trade and the absence of partner data for several years. U.S. dollar denominated SITC-based trade data, available only until 1989, is presented as background material while ISIC-based data provides the main reference point.
With gold and other minerals for long the mainstay of export earnings, industrial development has traditionally aimed to satisfy the domestic market under policies of import substitution. The inward orientation tended to make industries less competitive, and South Africa's share of developing country manufactured exports fell from 12.6 per cent in 1955 to 1.9 per cent in 1985. The cost disadvantage of South African manufacturing has been calculated as 15 per cent compared to the OECD average.

Although manufacturing output stagnated during the 1980s, manufactured exports increased from 27 to 35 per cent of South Africa's total merchandise exports. The share of manufacturing production that is exported rose from 8 to 13 per cent, as domestic demand contracted and manufacturers directed their underutilized capacity towards export markets. Between 1985 and 1990, the average annual rate of growth of manufacturing

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exports, in constant (1985) U.S. dollars, was 9.5 per cent a year. The share of semi-processed manufactured exports has grown through minerals beneficiation.

42. Four highly capital-intensive sectors account for close to half of the manufacturing export total: iron and steel, with South Africa, the world's largest exporter of ferrochrome; chemicals; non-ferrous metals; and pulp and paper (Table I.5). However, final goods represent a very small share of South Africa's exports. Machinery and equipment, which accounts for one-third of global trade, represents less than 3 per cent of South Africa's exports.

**Chart I.6**

Exports according to stage of processing, 1980, 1985 and 1989

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>20</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>20</td>
<td>15</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>15</td>
<td>10</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: SACOB (1991), Table 5.3.1, for list of industries by processing stage see Annex I.1.

48 Bell (1992), Table 5.

49 Beneficiation encompasses all the processes whereby value is added to mineral ores, including ore dressing, mineral processing (smelting and refining), the transformation into intermediate mass products and the final manufacturing of finished mineral-based products.
43. Traditionally, South Africa has been one of the world's few net exporters of agricultural products. Normally, between one-quarter and one-third of agricultural output is exported, although agricultural exports, led by wool, sugar, maize, fruit and hides and skins, usually make up less than 10 per cent of total merchandise exports. During the 1980s southern Africa was badly affected by recurrent droughts and production of staple crops fluctuated widely; partly as a result, only exports of fresh fruits and vegetables, among South Africa agricultural exports, have exhibited substantial growth.

(b) Imports

44. South Africa's import-substitution policies have led to a change in the composition of imports. Import replacement of consumer goods, well advanced by the 1960s, has been virtually exhausted and imports of capital goods have gained in importance. Tax incentives and low effective tariff levels fostered growth in this sector and strengthened the use of capital-intensive production and the promotion of heavy industries. Between 1971 and 1988, 76 to 82 per cent of imports consisted of intermediate and capital goods, essential for domestic production. The level of import dependence in machinery and transport equipment has remained high.

45. Notwithstanding the depreciation of the rand and the consequent rise in the nominal price of imports, the relative price of imported goods fell sharply after 1986 (Chart I.7). The growth in the volume of merchandise imports exceeded growth in real gross domestic expenditure, with a resultant rise in the import penetration ratio from 19.7 in 1986 to 23.3 in 1991. (Chapter III(2)). Imports have fluctuated around zero growth since 1988, following on the contraction of domestic demand and the effects of import surcharges.

46. Some 50 per cent of manufactured imports are in four broad categories: textiles; chemicals; machinery and equipment; and motor vehicles. These sectors, except for motor vehicles, have increased their import dependence over the past decade, although overall the share of manufactured imports in the domestic market (at ex-factory prices) remained fairly stable during the 1980s.

52 Bell (1992), p. 5.
53 Reserve Bank, unpublished document.
47. Manufactured imports rose from 67 to 85 per cent of total imports between 1980 and 1991. However, much of this increase can be ascribed to a fall in the value of oil imports, as well as to further import replacement as additional oil-from-coal capacity came on stream. Precise data on South African imports of oil are not available, being included in unclassified imports. The share of unclassified imports in total imports has fallen from 30 to 11 per cent between 1980 and 1991 (Table I.6).

48. South Africa is normally self-sufficient in most grains and other staple foods. Agricultural imports represent a small share of total imports, less than 3 per cent in 1990. These consist principally of rice, oil cake and vegetable oils. Due to the severe drought, South Africa presently imports both maize and wheat.
(ii) **Regional pattern of trade**

49. Commodity trade by destination and by source is not available for the period 1986 to 1991, the sanctions period. Furthermore, trade data is obfuscated by the fact that South Africa's trade figures include all of the Southern African Customs Union, i.e. imports and exports of Botswana, Lesotho, Swaziland and Namibia. An additional complication is that some sources of information include trade with the TBVC states as external trade of South Africa.

50. Nevertheless, it is reasonably clear that South Africa's regional pattern of trade has changed since 1985/1986. Trade with the United States and Canada has tailed off. By 1990, as a result of intensified sanctions, the share of South Africa's exports to the United States had fallen from 8 to 4 per cent while increases were registered in exports to several European and African countries. The largest market for South Africa in 1980, the United States has been replaced by the United Kingdom (Table I.7). Exports to European countries, particularly those of coal, iron and steel declined, but such exports rose to Asian and African markets (Chart I.8). Turkey became the third largest buyer of iron ore and the fourth for steel. Trade with Taiwan has grown quite rapidly, with Taiwan now South Africa's sixth largest trading partner. Germany has outstripped the United States as South Africa's main supplier (Table I.8).

51. Manufactures tend to have a higher importance in regional, intra-African, trade than in total trade. Africa accounts for close to one-third of South Africa's manufactured exports, although Africa is a market for just 7 per cent of South Africa's total exports. Nevertheless, South Africa's exports to the rest of Africa have doubled since 1988. Trade with South Africa is important for its northern neighbours, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe. For many of these smaller and land-locked countries, South Africa's sophisticated and reliable transportation network provides the only conduit for trade with the rest of the world. The four other members of the Southern Africa Customs Union, Botswana, Lesotho, Namibia and Swaziland, import roughly R 10 billion from South Africa annually. Zimbabwe, with whom South Africa shares a long border, is the leading African supplier to South Africa.

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Chart 1.8
Regional pattern of South African imports and exports, 1975 and 1991

**Imports**

<table>
<thead>
<tr>
<th>Region</th>
<th>1975</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>48.3%</td>
<td>45.8%</td>
</tr>
<tr>
<td>Asia</td>
<td>12.9%</td>
<td></td>
</tr>
<tr>
<td>America</td>
<td>16.4%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>11.2%</td>
</tr>
<tr>
<td>Africa</td>
<td>3.9%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

**Exports**

<table>
<thead>
<tr>
<th>Region</th>
<th>1975</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>31.5%</td>
<td>26.7%</td>
</tr>
<tr>
<td>Asia</td>
<td>10.2%</td>
<td></td>
</tr>
<tr>
<td>America</td>
<td>8.5%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Other</td>
<td>43.4%</td>
<td>43.0%</td>
</tr>
<tr>
<td>Africa</td>
<td>6.5%</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

Source: Industrial Development Corporation.
52. The long-term economic objectives of the Government are the restructuring of the economy and income-redistribution through growth. Specific economic policy goals include: the creation of a stable macroeconomic environment, focusing on price and exchange rate stability to allow private investment to flourish; sound fiscal policy, consistent with a redirection of expenditure to improve conditions for the non-white population; and the transformation of the industrial base toward the production and export of manufactured goods.

53. Medium-term objectives of fiscal policy include reducing government expenditure from 21 to 16 per cent of GDP, by reducing defence expenditure, with the goal of limiting the budget deficit to less than 3 per cent of GDP. Supply-side policies will stress the commercialization and privatization of public enterprises and the rationalization of industrial-protection policies. Fostering competition and preventing monopolistic cartels and restrictive practices is seen by the authorities as integral to a market-oriented, investment-driven growth strategy, with clear implications for trade and import liberalization.

54. The Government's policy objectives are premised on the view that sustainable growth can only be achieved through increased investment in internationally competitive export industries. Major investments planned for the next years are in stainless steel, aluminium, and in minerals beneficiation projects, as a way to replace lost export earnings from gold. With the normalization of international relations, previously closed markets are opening to traditional South African exports, such as coal and fruit. However, there may be increased competition, particularly from the republics of the former Soviet Union, in minerals and metals markets. Reorienting the export sector toward manufacturing has made headway, as suggested by trends in manufactured exports in the last several years, although balance of payments pressures, excess capacity and export incentives have probably played a more significant rôle than industrial restructuring. In this regard, competitiveness has been adversely affected by inward-oriented industrialization and high domestic inflation. Productivity, measured by unit labour costs, compares poorly with competitors', as does the cost of capital. Further, the secular decline in domestic savings has negative implications for fixed investment and job creation.

55. At present growth rates, the population is expected to double by the year 2010, and the labour force to increase by 400,000 every year. Not only will there be additional demands on public spending for social services but also for major investments in job creation and training. The elimination of disparities in the provision of social services, would have
raised the share in the 1990 budget from 32 to 80 per cent. Export-led growth, while beneficial to the balance of payments, is unlikely to immediately affect levels of unemployment, given the capital-intensity of the export sector unless labour-intensive downstream industries can be developed.

56. The Reserve Bank of South Africa has estimated that the current drought will reduce agricultural value added by 14 per cent and lower GDP by 1.8 per cent. A normal rainfall in the next season would boost the economy by 2 per cent. Should recovery in developed markets gather steam and world income grow, exports such as gold and diamonds, dependent on private consumption, and cyclical goods, such as steel and pulp, will benefit. Domestic political stability remains the key indicator of future growth potential. A smooth transition to a new Government, accompanied by stable and transparent, market-oriented policy measures, will give positive signals to local and foreign investors and the international trading community.

56 SACOB (1991), Table 9.
### ANNEX I.1

**Industries Classified by Stage of Processing**

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Material Production</td>
<td>Materials Beneficiation</td>
<td>Material Type Products</td>
<td>Manufactured Type Products</td>
</tr>
<tr>
<td>Farming</td>
<td>Meat</td>
<td>Food</td>
<td>Leather</td>
</tr>
<tr>
<td>Fishing</td>
<td>Hides</td>
<td>Textiles</td>
<td>Clothing</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Skins</td>
<td>Tobacco</td>
<td>Footwear</td>
</tr>
<tr>
<td>Forestry</td>
<td>Wool</td>
<td>Beverages</td>
<td>Furniture</td>
</tr>
<tr>
<td>Mining</td>
<td>Grains</td>
<td>Spirits</td>
<td>Metal Products</td>
</tr>
<tr>
<td></td>
<td>Sugar</td>
<td>Wood products</td>
<td>Machinery</td>
</tr>
<tr>
<td></td>
<td>Tobacco</td>
<td>Paper and Board</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cotton</td>
<td>Metal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vegetable oils</td>
<td>sheets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Timber</td>
<td>plates</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wood pulp</td>
<td>tubes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Metals:</td>
<td>sections</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ingots</td>
<td>wire</td>
<td></td>
</tr>
<tr>
<td></td>
<td>anodes</td>
<td>castings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>cathodes</td>
<td>Chemical products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>billets</td>
<td>Pharmaceuticals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>concentrates</td>
<td>Fertilizer</td>
<td></td>
</tr>
<tr>
<td></td>
<td>alloys</td>
<td>Cosmetics</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chemicals</td>
<td>Resins</td>
<td>Motor Vehicles</td>
</tr>
<tr>
<td></td>
<td>organic</td>
<td>Plastics</td>
<td>Printing &amp;</td>
</tr>
<tr>
<td></td>
<td>inorganic</td>
<td>Rubber</td>
<td>Publishing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Glass and Glassware</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ceramic Products</td>
<td></td>
</tr>
</tbody>
</table>

*Source: SACOB.*
II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

(1) General Framework

57. South Africa is an original signatory to the General Agreement. It became a Republic in 1961, withdrawing from the Commonwealth. The existing Constitution, in effect since September 1984, provides for a State President, with executive powers, a tricameral Parliament that excludes the black population, a central Cabinet, Ministers' Councils, and a President's Council. At present, the Republic of South Africa is in the process of constitutional reform aimed at achieving a fully representative Government.

58. Legislative authority is vested in the State President and Parliament. Parliament is the sovereign lawmaker, with no court of law able to question the validity of the substance of primary legislation (Acts of Parliament). All subordinate legislation, however, is subject to judicial scrutiny in regard to both substance and procedure. Judicial review vests power in the Supreme Court to ensure that public authorities act within the boundaries of their jurisdiction.

59. Membership of the three Houses of Parliament is based on separate voters' rolls, respectively for Asians, mixed races (coloureds) and whites, but not blacks. The white House of Assembly consists of 178 members, the coloured House of Representatives has 85 members, and the Asian House of Delegates has 45 members; in each case the vast majority of the members are elected. Each house is responsible for its "own" affairs, mainly social services such as education, culture, housing and welfare for its population group.

60. The executive branch of Government includes the Cabinet, comprising the State President and Ministers, and Ministers' Councils. Each of the three houses of Parliament appoints its own Ministers' Council to handle the affairs of the population group concerned and administer the government departments established for that group.

61. Bills on "general" affairs, such as foreign relations and external trade matters, are normally approved by the Cabinet before being submitted to Parliament for passage by all three houses. A joint committee, comprising members of all three houses and opposition parties, considers any general affairs bill, before its second reading in Parliament.

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1 The State President appoints a small number of members to each house, and a few others are co-opted by the members themselves.

2 Members may also introduce private bills directly to Parliament.
Following second reading, the bill is presented to the State President for his assent, which cannot be withheld unless he ascertains that the bill has not been dealt with according to the provisions of the Constitution (Sec. 33(1) of the Constitution). After the President's signature the bill is gazetted, entering into operation as an Act of Parliament from its date of publication or on the date specified in the Act. The President's Council acts as an advisory body and can rule on legislative issues on which the houses have failed to agree. The Council comprises 60 members, 25 appointed by the State President, 20 by the House of Assembly, ten by the House of Representatives and five by the House of Delegates.

62. In addition to the national government, there are six self-governing territories and four national "independent" states. In 1976, the Transkei was the first "homeland", followed in 1977 by Bophuthatswana, Venda in 1979, and Ciskei in 1981 (known as the TBVC states). The six self-governing territories are KwaZulu, KaNgwane, KwaNdebele, Lebowa, Qwa Qwa and Gazankulu. Under constitutional reform, these national states and self-governing territories are likely to be reintegrated into South Africa.

63. Local government is provided by municipal councils and, at supramunicipal level, by a system of regional services councils, the latter authorized under the Regional Services Councils Act of 1985. The councils, representative of all local municipalities, including those in the self-governing territories and those serving black residential areas provide some of the services and finance for development projects of different local municipalities and communities; explicit priority is given to improving facilities in the less-developed communities.

64. Past constitutional reform included a commitment to transfer administrative functions to the lowest levels of Government, a policy endorsed by Cabinet decision on 1 May 1985. Accordingly, the Provincial Government Act of 1986 replaced provincial legislatures with provincial executive committees and administrators appointed by the State President. As a result of this Act there are a number of black members on some of the provincial executive committees. Overall responsibility for local and provincial affairs is vested in the Minister of Local Government and Local Affairs who, inter alia, pilots provincial budgets through Parliament.

65. Steps are being taken to establish a non-racial democracy. Within the last four years, the policy of apartheid, officially adopted in 1948, has been dismantled. In addition, a multi-party conference, the

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3In July 1986, a uniform identity document for all races came into official use, (Footnote Continued)
Convention for a Democratic South Africa (CODESA), has been established as a forum for negotiations.\(^4\)

66. At CODESA's first plenary session, in December 1991, a declaration of intent committed parties to a multi-party political system with "freedom, equality and security for all", an independent judiciary, a bill of rights, and proportional representation in a future legislature. On 17 March 1992, a whites-only referendum voted to proceed with negotiations toward a new Constitution.

67. In May 1992, CODESA held a second formal round of talks to confirm in plenary the decisions reached in the different Working Groups. The Conference accepted that a multi-party executive body, to be called the Transitional Executive Council (TEC), should be established as a first phase in the transitional process, to manage the levelling of the political playing field and to make preparations for the first general elections for the body (transitional/interim parliament) that is to write the new Constitution. The TEC would function alongside the existing legislative and executive structures and would have competence in matters relating to regional (provincial) and local government, finance, law and order, security, defence, home affairs and elections. Although consensus was reached in the relevant Working Group on a number of constitutional principles, agreement could not be achieved on the size of certain of the majorities to be required in the transitional/interim parliament for the drafting and adoption of some of the provisions of a new Constitution.

68. Following the suspension of multi-party negotiations for some months, bilateral discussions continued between various parties. In this regard, the State President and the President of the ANC on 26 September 1992 arrived at a Record of Understanding. Multi-party negotiations resumed in April 1993.

(Footnote Continued)

replacing the pass laws. On 6 September 1989, President F.W. de Klerk legalized peaceful demonstrations and desegregated public beaches. On 2 February 1990, the ban on the exiled liberation movement, the African National Congress (ANC), was lifted and in June Parliament repealed the Separate Amenities Act, opening public facilities such as libraries, pools and parks to all races. On 1 February 1991, the President announced the repeal of the Land Acts, the Group Areas Act and the Population Registration Act. The Population Registration Repeal Act contains a transitional provision to maintain existing classifications until the new Constitution has been negotiated. (Lansing and Crane, 1991)

\(^4\)The concept of a conference was first put forward in mid-1990 by President de Klerk, and agreed to some months later. Nineteen political parties participate in CODESA, which has set up a network of committees to develop principles for a new Constitution, to facilitate the levelling of the political playing field and to decide on the future of the TBVC States and the transition process to a new, democratic, constitutional dispensation.
(2) Structure of Trade Policy Formulation

69. The General Agreement was approved by an Act of Parliament in 1948. According to the authorities, the GATT is not part of South African domestic law and its provisions cannot be invoked before national courts. The Agreement on Implementation of Article VII of the GATT (the Customs Valuation Code) has legal status in South Africa, under the Customs and Excise Act. According to the authorities, the provisions of the GATT are generally respected when trade laws and amendments are contemplated.

70. South Africa's trade and industrial policies are formulated and coordinated by the Department of Trade and Industry. The Department acts on its own initiative, that of other departments, such as Finance, or the proposals and recommendations from public and private sources, including the Board on Tariffs and Trade, the Industrial Development Corporation and, for example, the South African Chamber of Business and the Afrikaanse Handelsinstituut.

71. The Department, together with the Board on Tariffs and Trade and the Industrial Development Corporation comprises the Department of Trade and Industry Group. The DTI Group is responsible for tariff protection, anti-dumping and countervailing actions, export and investment incentives, import and export control, multi- and bilateral trade agreements and industrial development (Chart II.1). Other government bodies involved in trade policy include: the Department of Finance, for tariff implementation; the Departments of Agriculture, National Health and Mineral and Energy Affairs, for export and import control; and the South African Reserve Bank, for exchange rate policy.

72. Proposals on trade and industrial policies are subject to debate within the Department of Trade and Industry Group, in consultation with other relevant departments and private sector interests. The private sector can also enter the debate through its representation on the State President's Economic Advisory Council, which gives advice on the appropriate mix of policy measures to achieve priority economic goals.

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5The newly established National Economic Forum, which under the aegis of the Minister of Finance draws from all racial groups and is composed of government, business and labour representatives, is also expected to bring extra-parliamentary interests into trade and, more generally, economic policy debates.
Chart II.1
Structure of the Department of Trade and Industry Group

Minister of Trade and Industry

Industrial Development Corporation

Department of Trade and Industry
Director-General

Board on Tariffs and Trade

Internal and foreign Trade

Chief Directorate: Internal Trade

Directorate: Internal Trade and Consumer Affairs
Directorate: Liquor Affairs
Directorate: Africa Trade Promotions and Relations
Directorate: New Markets and Counter Trade

Chief Directorate: Foreign Trade

Directorate: Export Trade Promotions
Directorate: Foreign Trade Relations

Industry

Chief Directorate: Technology and Industrial Strategy

Directorate: Policy and Strategy
Directorate: System Co-Ordination
Directorate: State Purchases
Directorate: Industrial Development and Investment Centre

Directorate: Business Economic Investigations
Directorate: Industrial Promotion
Directorate: Industry I
Directorate: Industry II
Directorate: Industry III

Directorate: Import and Export Control

Directorate: Financial Management
Directorate: Administration
Directorate: Communications

Source: Government of South Africa.
73. Policies implemented through laws normally require passage by Parliament, although changes in tariff rates or import controls can be introduced without prior Parliamentary approval. Before its second Parliamentary reading, a trade or industry bill is debated before the Standing Committee on Trade and Industry. Once enacted by Parliament, legislative measures are implemented by the appropriate executive branch of Government. Thus, for example, the Department of Finance, through its Commissioner for Customs and Excise, is responsible for administering the Customs and Excise Act, regulating the implementation of tariffs, excise duties and other import taxes.

(i) Advisory bodies

74. South Africa has two bodies for trade and industry matters, the Board on Tariffs and Trade and the Industrial Development Corporation. The Board on Tariffs and Trade, until May 1992 the Board of Trade and Industry and in operation since 1921, is an independent, investigative and advisory body. The Board consists of at least four members, appointed by the State President. The primary objective of the Board is the promotion "... of industrial growth within the framework of the economic policy of the Republic by conducting investigations into any matter which affects the trade and industry of the Republic or the common customs area (of the South African Customs Union) ...". In order to achieve this objective, the Board may:

"of its own accord investigate dumping, subsidized exports or disruptive competition...;
of its own accord investigate the development of industries...;
by order of the Minister investigate any other matter which affects or may affect the trade and industry..."

75. The Board's principal responsibilities and activities revolve around the processing and evaluation of requests for tariff protection and tariff relief, the continuous review of tariff and excise rates and investigative reports concerning general adjustment and development. Changes in tariffs resulting from requests may be temporary or permanent in nature. If on initial inspection there appear to be grounds for a tariff change, applications are published in the Government Gazette, to allow six weeks for public comment. Requests for interim protection, used in urgent cases,

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6Previously, under the Board of Trade and Industry Act of 1986, the Board's primary objective was to promote economic development within the Republic and the common customs area of the South African Customs Union, a mandate that allowed the Board to investigate a large array of policy issues. As explained in Chapter II(5)(ii) the common customs area includes Botswana, Lesotho, Namibia, South Africa and Swaziland.
are not subject to the same advance public scrutiny; however, any imposition of interim duties is followed by an investigation to determine the merit or otherwise of more permanent protection. The Board issues a report on its findings in respect of each application, with all reports tabled in Parliament and available to the public.

76. Producers requesting protection are generally required to complete a questionnaire, allowing the Board to assess both the need and justification for measures. An evaluation of need is based on factors such as loss of market share; justification is determined in terms of the overall benefit to the economy. More generally, criteria for evaluation include factor intensities, productivity, job creation potential, the development of skills and technology, and the extent of competition in the market. On completion of its investigation, the Board makes its recommendation - which may be a rejection or modification of the application or a proposed tariff change - to the Minister of Trade and Industry. Should the latter concur to a tariff change, the Minister of Finance gives it effect. All changes are gazetted and reported annually to Parliament.

77. Meetings between the Board and business organizations are arranged periodically and the Board is available to any interested parties on subjects of relevance to the Board's mandate.

78. The Board also conducts investigations into economic development problems of members of the South African Customs Union. Such investigations can be self-initiated, or undertaken at the request of any member of the Union or the Minister of Trade and Industry. Past investigations have focused on structural adjustment in specific industries, including the need for, or desirable reduction of, protection.

79. The state-owned Industrial Development Corporation (IDC) was founded in 1940, to further investment in industrial projects. It offers an extensive range of financing facilities for the promotion of new industries and schemes for the expansion and more effective performance of existing undertakings.

80. As part of the Department of Trade and Industry Group, the IDC assists in formulating and implementing industrial policy. In a widely publicized report, issued in June 1990, the IDC proposed significant reforms to move South Africa to a more outward oriented trade régime (Chapter II(3)(i)).\footnote{IDC, \textit{Modification of the Application of Protection Policy}, June 1990.} Both the Board on Tariffs and Trade and the
Department of Trade and Industry have agreed to the principles underlying the IDC's recommendations.

(ii) Review bodies

81. South Africa has no statutory, fully independent body to conduct reviews of government trade and industrial policies. In the last decade, policies were reviewed in light of reports by the Kleu Study Group (1983) and the Industrial Development Corporation. According to the authorities, when investigations are undertaken by government departments the fact is published and private sector comment is invited. In addition, on their own initiative, universities and research institutions can and do approach the Government, particularly via the Department of Trade and Industry Group, with ideas and proposals regarding trade and industrial policies.

(3) Trade Policy Objectives

(i) General trade policy objectives

82. South Africa has traditionally aimed at inward-oriented development, with trade policy serving by and large to foster import substitution. The limitations of the approach have been evident to the Government since the early 1970s, when the Reynders Commission advocated a strategy placing greater emphasis on exports while continuing import protection. Subsequently, increased reliance on tariffs, rather than direct import controls, gradually emerged and the promotion of exports took on more importance. The inward-looking strategy was originally rooted in South Africa's relative geographic isolation and justified on infant industry grounds, but was reinforced by the application of sanctions against the Republic in the mid-1980s. With the emergence of a changing political climate, South Africa looks to greater integration into the world economy, and shows signs of moving toward more outward-oriented policies.

83. The Pact Government of 1924 is generally considered to have begun the promotion of industrial development through import substitution. Subsequently, a system of selective, albeit moderate, tariff protection was set in place. However, prior to the early 1980s, the binding constraint to imports would appear to have been an extensive system of import controls;

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8 It has been suggested that up to the mid-1950s import substitution was an important source of growth, as imports were replaced in the consumer and intermediate goods sectors; thereafter, the smallness of the domestic market limited growth benefits of import substitution (Scheepers (1969) as quoted in Holden (1992), p. 5). Similarly, by the end of the 1960s, the scope for import replacement of consumer goods was virtually exhausted, according to Black and Stanwix (1987), p. 48.
these were tightened or relaxed according to the balance of payments situation.

84. In 1972, partly under pressure from trading partners in the GATT, South Africa decided to phase out the use of direct import controls as a protective mechanism. Quantitative restrictions were gradually eased during the 1970s, but the process came to a halt in the early 1980s in response to a deterioration in the external payments situation. During the same period, in line with the report of the Reynders Commission, export incentives were introduced, with a view to compensating for the anti-export bias implicit in import restrictions; the system was expanded in 1980.

85. The process of dismantling quantitative controls resumed in 1983, following the recommendation of the Interdepartmental Import Control Committee, with complete elimination foreseen. By 1985, the process was sufficiently advanced that South Africa switched from a positive list of permitted imports to a negative list of imports requiring approval. Concurrently, through this period, tariffs were increased selectively to compensate for the removal of quantitative restrictions. These actions were in line with the cautious approach to moving away from import substitution taken by the Kleu Study Group of 1983. This approach was subsequently endorsed by the 1985 White Paper on Industrial Development Strategy, which stressed a dual approach of maintaining protection and promoting exports.

86. The balance of payments implications of sanctions from the mid-1980s slowed the removal of direct import controls and strengthened the quest for economic self-sufficiency. For foreign exchange and fiscal reasons a 10 per cent import surcharge was introduced in 1985, rising to 60 per cent on some items in 1988. Since 1990, surcharges have been lowered, the scope of direct import controls has narrowed to some 15 per cent of all tariff lines - compared to 77 per cent in 1983 and 23 per cent in 1985 - and the export incentive system is being replaced by a more transparent scheme, which in turn is intended to be phased out by 1996.

87. Present government policy looks to restructuring the productive capacity of the economy, particularly by increasing investment in internationally competitive industries. Trade policy supports this objective, mainly with the use of the tariff as an instrument of selective

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9Bell(1992), p. 5.


11Department of Trade and Industry, Directorate for Foreign Trade Relations.
In this respect, the authorities stress that only those industries should be encouraged that, inter alia, will strengthen the balance of payments, contain the rate of increase in South Africa's cost structure, employ labour efficiently and are technologically dynamic. In this connection, an industry qualifies for protection if it meets, or has the potential to satisfy 60 per cent of local demand. Within these guidelines, it is the Government's view that effective rates of protection should not exceed 30 per cent, although rates of up to 50 per cent can be condoned if an industry contributes significantly to the economy, particularly in terms of employment or the growth of technology.

In general, in considering levels of nominal tariff protection, the Board on Tariffs and Trade regards as appropriate maximum duties of 25 per cent on consumer goods, 20 to 25 per cent on intermediate goods, and 15 to 20 per cent for basic materials.

In 1990, with the changing political climate and anticipating a removal of sanctions, the Government instructed the Industrial Development Corporation to review South Africa's tariff protection policy with a view to moving toward a more liberal system. The IDC recommended a package of liberalization measures over five to six years, an increase in transparency and reduced selectivity. These measures were to be set within a coherent macroeconomic framework, including prudent fiscal policies and a realistic, stable real exchange rate. In particular, the main elements of the IDC's trade reform proposals were:

- a pre-announced schedule of tariff reductions, moving to maximum rates of 30 per cent on manufactured consumer goods and no more than 15 per cent elsewhere;
- the elimination of import surcharges;
- the introduction of more uniformity in the tariff structure, particularly by the eventual elimination of formula duties and their replacement by an effective system for dealing with dumped or subsidized imports;
- a switch from the selective approach for granting tariff protection to a more automatic system that would function in accord with an overall lowering of protection. The more automatic system would imply the lapsing of the condition that

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14 Board on Tariffs and Trade, Manual.
15 Board on Tariffs and Trade, ibid.
protection be considered only if 60 per cent of local demand can be satisfied, which induces uncompetitive production; and a review of the system of rebates.

As compensation for lower protection, the IDC recommended a reduction in the corporate tax rate, to less than 40 per cent.

89. The IDC's report has given rise to an extensive debate, leading to a degree of consensus among the authorities in support of the IDC's proposals, at least in a modified form. Specifically, the Board on Tariffs and Trade, acting in an advisory capacity, favours an outward orientation but notes that this cannot be achieved as long as import replacement remains a policy objective. The Board favours simplifying and stabilizing the tariff and eliminating formula duties.

90. In general, the present Government agrees that trade liberalization is desirable, but the authorities urge a cautious approach. The lowering of tariffs raises concern about the potential effect on the balance of payments, employment and fiscal revenue. Nevertheless, to encourage resource allocation in line with international price signals, the authorities are pursuing the elimination of remaining quantitative import controls. They also propose gradual tariff reform, including implementation of the Uruguay Round tariff agreements as well as the eventual elimination of duties on items not produced domestically; and a phasing out of export incentives. Formula duties are to be abolished as more effective anti-dumping and countervail mechanisms came into place. Concurrently, the Government intends to promote greater market orientation on the part of producers, including by deregulation and the commercialization of state enterprises.

(ii) Sectoral trade policy objectives

91. South Africa's traditional inward-oriented policies resulted in a relatively high domestic cost structure, making South African manufacturers less than fully competitive on world markets. Although the policy emphasis slowly began to evolve toward providing producers with more balanced incentives, sanctions effectively halted moves to outward orientation, leaving the economy largely directed to self-sufficiency. With sanctions mostly eliminated, the focus is changing and some emphasis is now laid on

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developing the small business sector, promoting innovation and achieving a more competitive, less-sheltered business environment.

92. The energy and arms sectors are particular examples of a changing policy orientation. Both industries were originally developed to ensure self-sufficiency, as a safeguard against foreign trade policies. With the dismantling of sanctions and reduced defence spending, major divisions of the arms manufacturer have been privatized, and the technological skills redirected to the development of an infant electronics industry. The strategic oil supply is being reduced, with the revenue from sales channelled to improvements in housing and education for the poor; and the privatization of SASOL, the principal oil from coal producer, has been completed, although it still receives significant assistance. Similarly, ISCOR, the steel producer, is now a private entity and some large scale utilities have been commercialized.

93. In less strategic sectors, protection focuses on motor vehicles and textiles, the former mainly through local content schemes and the latter through high tariffs. Both sectors are considered uncompetitive and their assistance schemes are under review.

94. In agriculture, output of basic items has traditionally been safeguarded, particularly through the operation of control boards. Except for the internationally competitive, export-oriented sector, including the fruits and wines cultivated in the climatically favourable Western Cape, farming has suffered from recurrent droughts and high input costs. Greater market orientation has been encouraged by removing State guarantees on debt and replacing direct import controls on a number of products with tariffs, although often in the form of formula duties.

95. In all sectors, direct export subsidies are linked to value added. Moreover, new tax incentives favour metals and minerals processing, in response to the declining value of gold exports.

(iii) Objectives in the Uruguay Round

96. South Africa has taken an active rôle in the Uruguay Round, and looks to its results to support its own restructuring efforts, especially in improved market access for processed mineral products, light manufactures and agriculture. It also views the Round as an avenue for cementing the emerging change in policy direction, particularly with respect to lowering and binding tariffs.

97. In support of the multilateral system, South Africa joined other GATT members in implementing tariff cuts on a range of tropical products following the Round's mid-term review. As of 1 January 1989, duties were
eliminated on a variety of products including plants, nuts, certain fruits and most spices. 18

98. In the Round's negotiations on agriculture, South Africa has stated that it intends to adopt a tariff-based system for all agricultural products, initially to be applied to tobacco, vegetable oils and oilcake. Further, the Government is in the process of replacing fixed prices with a variable, more market-oriented pricing structure, one that is already in effect for maize, wheat and oilcake; and consumer subsidies on maize and butter have been eliminated. As an additional step towards reducing support, marketing subsidies are to be phased out. 19

99. In the market access negotiations, South Africa's offer on tariff reductions will reduce tariffs on 4700 items, about 40 per cent of all lines. 20 Under its current offer, South Africa will lower the average industrial tariff to less than 14 per cent, with all but a few items dutiable at 35 per cent or less and a maximum rate of 100 per cent. In addition, tariff rates on over half of all industrial products will be bound, almost all at existing levels, compared to less than 20 per cent of industrial tariff bindings before the Round. 21

(4) Trade Laws and Regulations


101. The Customs and Excise Act provides the enabling legislation for tariffs, other import charges, including surcharges and anti-dumping and countervailing duties, and duty refunds and rebates. The Minister of

19 MTN.GN6/NG5/W/141.
21 GATT Tariff Study.
Finance may amend the relevant Schedules to the Act with amendments published in the Government Gazette and reported once a year to Parliament, where they are subject to ratification. The Act also makes provision for appeals, to the Supreme Court if necessary, on customs valuation and tariff decisions. The Import and Export Control Act provides statutory authority for quantitative border controls, with regulations issued by the Department of Trade and Industry, acting in consultation with the Department of Agriculture on products of concern to the latter.

102. The new Board on Tariffs and Trade Act changed the name of the Board from the Board of Trade and Industry and specified its functions more clearly. The Act defines dumping and subsidization with respect to imports, as well as disruptive competition, and provides that regulations relating to anti-dumping and countervailing action be issued by the Minister of Trade and Industry. Previously, the Board made recommendations to the Minister of Finance. Under the amended Act, the Minister of Trade and Industry assumes responsibility for the determination of action against unfair trading practices, in effect giving the Ministry greater authority and allowing for coordination with overall trade policy. However, Customs and Excise Act still provides for the implementation of the relevant duties by the Minister of Finance.

(5) Trade Agreements and Arrangements

(i) Multilateral agreements

103. South Africa was a founding member of the GATT and has participated in all subsequent rounds of multilateral trade negotiations. South Africa has accepted the MTN Tokyo Round Agreements on Customs Valuation and Import Licensing. It has observer status in the MTN Agreements on Government Procurement, Subsidies and Countervailing Action and Anti-Dumping. South Africa also participates in the International Dairy Arrangement and the Arrangement on Bovine Meat, but not in the Multifibre Arrangement.

104. South Africa accords m.f.n. treatment to all contracting parties, except Egypt and India and to those countries that apply the GATT on a de facto basis (Table II.1). Egypt, India, Morocco and Tunisia do not apply the GATT to South Africa, under GATT Article XXXV.22

105. In addition to commodity arrangements in the GATT, South Africa is a member of the International Wheat Council and the International Cotton

Advisory Committee. It has also acceded to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and the Montreal Protocol on Chlorofluorocarbons.

(ii) Regional agreements

106. The Southern African Customs Union, the only customs union in Africa, was formed in 1910, linking the former British protectorates of Botswana, Lesotho and Swaziland with South Africa. Namibia was a de facto member, during the time that it was administered as part of South Africa; it became a de jure member of the Customs Union on 10 July 1990.

107. Members of the Customs Union implement the South African tariff as a common external tariff and do not impose duties or quantitative restrictions on goods imported or exported within the common area. However, Botswana, Lesotho, Namibia and Swaziland (the BLNS states), but not South Africa, may, following consultation, apply additional duties for protection of new industries under Article 6 of the Agreement. Such protection is normally allowed for eight years. To date, the only cases have involved Botswana, which introduced a 100 per cent duty on soap products in 1985 and a 75 per cent duty on wheat flour in 1991. Members participate in marketing arrangements for agricultural products.

108. Virtually all the external trade of land-locked Botswana, Lesotho and Swaziland, as well as much of Namibian trade, is directed through South Africa, which collects the applicable customs duties and excise taxes. Estimates are made of goods entering each country. Using a formula, revenue is redistributed to the other customs union members, from a pool administered by the Consolidated Fund of South Africa.

109. The original revenue-sharing formula, negotiated in 1969, included a higher than pro-rata share for Botswana, Lesotho and Swaziland to compensate for regional polarisation of economic activity and the price-raising effects of South African tariffs and quotas (Note II.1). The formula was renegotiated in 1975, in order to stabilize revenues for planning purposes. Since 1984/85, the applicable rate for Botswana, Lesotho and Swaziland, and since 1990/91, Namibia has been stabilized at the minimum of 17 per cent. The 17 per cent is applied to the value of imports (which includes cost, insurance, freight and customs duties) plus

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23 Since each member's share in the revenue pool is determined before the start of the financial year and the relevant statistics become available only later, there is a time lag of two years between the date of payment and the statistics on which it is based. Amounts have been underestimated which from a cash-flow point of view may be regarded as an interest-free loan to South Africa.
the value of excisable goods produced and consumed in those countries plus the excise duties paid thereon. The introduction of the stabilization factor has had the effect that the shares of South Africa's customs union partners have been enhanced to a much greater extent than the 42 per cent enhancement factor which was agreed upon in 1969. The formula also provides for stabilization at a maximum rate of 23 per cent, a situation which has yet to arise.  

110. Payments have nearly doubled in the last five years: in 1990, nearly R 3 billion was paid to non-South African customs union members, rising to over R 4.5 billion in 1991. These payments generally account for a high proportion of government revenue in the smaller members. This fact complicates any tariff reductions contemplated by the South African authorities.

111. In the preamble to the current (1969) agreement, the desire is expressed for the maintenance of free trade in order to advance economic development, in particular in the less-developed areas. According to the South African authorities, the contracting parties have come to the conclusion that the Customs Union Agreement has become an outdated instrument for economic co-operation and development in the region; it is the members' viewpoint that economic co-operation should possibly take on a different character and involve more countries in the Southern African region.

\[24\text{South Africa contributes 90 per cent to the revenue pool and retains 43 per cent (EIU, South Africa Country Report, No. 4, 1992).}\]

\[25\text{Reserve Bank, Quarterly Bulletin.}\]

\[26\text{For example, J.P. Hayes has estimated that the payments account for 70 per cent and 65 per cent of budget revenue in Lesotho and Swaziland, respectively (Hayes (1987)).}\]
Revenue sharing formula of the Southern African Customs Union

The formula whereby the member countries, other than South Africa (RSA), share in the pool is as follows:

\[ Y = \frac{(A + B + C)}{(D + E + F + G)} (H)(1.42) \]

Where:
- \( Y \) = the amount allotted to the specific member country;
- \( A \) = CIF value (at the border) of imports into the country irrespective of their origin and including all duties paid or payable thereon; imports from the common customs area (in particular the RSA) are thus included;
- \( B \) = value of the excisable and sales duty goods produced and consumed in the country;
- \( C \) = excise and sales duties paid on \( B \);
- \( D \) = CIF value of imports into the common customs area, excluding intra-regional trade in the common customs area;
- \( E \) = customs and sales duties paid on \( D \);
- \( F \) = value of excisable and sales duty goods produced and consumed in the common customs area;
- \( G \) = excise and sales duties paid on \( F \);
- \( H \) = the total revenue pool of customs, excise and sales duties, i.e. \( E + G \).

Member countries therefore receive a (variable) percentage of the total revenue pool, to which a surcharge of 42 per cent is added.

If the formula yields a revenue rate of less (more) than 20 per cent an additional amount is added (subtracted) equal to 50 per cent of the difference between the amount calculated and the amount commensurate with a 20 per cent revenue rate, provided that the resultory rate is not less (more) than 17 (23) per cent; thus, the formula is applied subject to:

\[ 0.23 \geq \frac{Y}{A + B + C} \geq 0.17 \]

where \( Y \), \( A \), \( B \) and \( C \) have the same meanings as in the formula.

South Africa's share is the residual after the BLNS countries have been paid.
(iii) Bilateral agreements

112. In addition to the Southern African Customs Union, South Africa has trade agreements with Zimbabwe (since 1964) and Malawi (1990, replacing a 1967 agreement). It also grants unilateral tariff concessions on certain imports from Mozambique and Turkey. In addition, tea from Mauritius is not subject to the import surcharge.

113. The agreement with Zimbabwe applies only to imports into the Republic. Botswana and Namibia, however, have recently concluded bilateral agreements with Zimbabwe. The goods specified in the South African agreement with Zimbabwe are not subject to the South African import surcharge, but any possible increases in customs duties would apply.

114. The Malawi agreement allows duty-free imports of all goods grown, produced or manufactured in Malawi. South African rough and uncut diamonds may be exported to Malawi exempt from export duty, provided they are to be used for industrial purposes. For duty-free imports of manufactures, the agreement requires 25 per cent Malawian content, unless otherwise specified, and that final processing has been performed in Malawi. The parties may impose anti-dumping and countervailing duties, and take recourse to safeguard actions on imports from the other member. Any excise duties applied to domestic and imported goods may be levied on bilateral imports. While not specified in the agreement, South Africa waives the import surcharge on Malawian goods.

115. Tariff preferences have also been established under trade agreements with Turkey in 1988 and Mozambique in 1989. In both cases, specified goods are admitted duty-free, within annual quota limits, if the m.f.n. rate is 3 per cent ad valorem or less, or at a ceiling rate of duty of 3 per cent if the ad valorem m.f.n. rate is more than 3 per cent.27 Imports from Turkey must be accompanied by a certificate of origin stating that Turkish content is 50 per cent or more. The agreement with Turkey expires on 31 December 1993 and will not be renegotiated.

116. Goods imported from Mozambique (Table II.2) under the preferential tariff are only for consumption in South Africa or Botswana. In order to qualify, 35 per cent of the production cost (materials and labour) of goods must have been incurred in Mozambique (Chapter IV(2)(ii)(f)).

27 Products from Mozambique eligible for preferential treatment, subject to annual quotas, include fish, shrimps prawns, rock lobsters, cashew nuts, citrus fruit, wooden furniture, coconut oil, wooden furniture, cigarettes, tyres and tubes, clothing, textiles, and cotton seed oil cake.
117. In the course of 1990 and 1991, South Africa concluded bilateral trade agreements with Hungary, Romania, Poland and Czechoslovakia. Imports of goods produced, grown or manufactured in these countries are exempted from the import surcharge.
III. TRADE-RELATED ASPECTS OF EXCHANGE RATE AND FOREIGN DIRECT INVESTMENT POLICIES

(1) The Exchange Rate Régime

118. The Reserve Bank of South Africa, the central bank, is in charge of monetary policy and, along with the Department of Finance, exchange rate policy.

119. Monetary policy is guided by the objectives of the Reserve Bank, formulated in 1990, to protect the internal and external value of the currency, the South African rand.

120. Historically, South Africa operated a fixed but adjustable exchange rate, with the currency linked closely to the British pound or the U.S. dollar. From 1975, the rand was pegged to the dollar. In 1978, the report of the de Kock Commission recommended the liberalisation of capital flows and financial markets. Starting in January 1979, a managed float of the rand was phased in gradually and a fully floating system was in effect by September 1983.

121. Starting in 1985, the imposition of financial sanctions, the disinvestment campaign and the compulsory repayment of debt imposed a balance of payments constraint on the economy (Chapter (I)(iii)). Various exchange control measures were introduced with the intention of protecting South Africa's gold and other foreign reserves (Note III.1).

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1The Department of Finance has conferred to the Reserve Bank the powers assigned to it by the Exchange Control Regulations, but may withdraw or amend any decisions so taken. (Section 22 E of the Exchange Control Regulations 1961).

2South Africa administers exchange control for the other members of the Common Monetary Area, which includes Lesotho, Swaziland, Namibia and the TBVC states (the Transkei, Bophuthatswana, Venda and the Ciskei). On 1 April 1986 the Trilateral Monetary Agreement replaced the Rand Monetary Area Agreement of 1974. The Agreement relates mainly to the free movement of funds in the area, access to the South African money and capital markets, and common exchange control arrangements. The rand is legal tender in Namibia and Lesotho but not Swaziland.


4In 1985 in response to foreign creditors demands for repayment and suspension of credit, the South African Government declared a moratorium on foreign debts arising from loans taken out before 28 August 1985 and from amounts due in respect of goods and services received before 1 January 1985. All foreign debt caught in this "standstill net" is retained in a special restricted foreign currency account and is administered by the Public Investment Commissioners. Debt frozen in terms of this moratorium is subject to repayment terms incorporated in the First, Second and Third Interim Arrangements negotiated with foreign creditors.
Note III. 1 Exchange Control

South Africa's present exchange control measures are based on regulations, issued in terms of the Currency and Exchanges Act 1933, that came into effect in 1961. Exchange control is the responsibility of the Treasury, which has delegated this authority to the South African Reserve Bank. In turn, the Reserve Bank has authorized commercial banks to act as foreign exchange dealers, although there are limits on the banks' foreign exchange holdings. In 1992, the ceiling on working balances for all authorized dealers was doubled to an overall total amount of US$632 million.

Importers are automatically granted the foreign exchange to pay for current imports upon presentation of the necessary documents to an authorized bank. Forward exchange cover, in U.S. dollars only, on imports may be obtained for periods of up to twelve months. Export proceeds must normally be surrendered within six months of the date of shipment and within seven days of receipt; exporters are required to cover forward their export proceeds within seven days of shipment. Preferential rates on forward exchange cover, aimed at encouraging trade financing, were available from 12 December 1988 but terminated on 16 September 1991 to reduce excess liquidity.

Individuals are also subject to strict exchange controls, although allowances have been increased in recent years. Allowances for personal and business travel are granted in foreign currency. Residents are entitled to an annual tourist allowance equivalent to R 19,000 per adult and R 9,500 per child under 12 years. Business allowances are R 1,800 a day, with an annual maximum of R 28,000. An emigrant family unit is entitled to take out R 200,000 through the financial rand mechanism. The export of domestic currency is restricted to R 500.

122. South Africa maintains a dual exchange rate system under which capital controls are exercised through the "financial rand" mechanism, while the commercial rand is used for current transactions involving the flow of goods and services to and from South Africa, foreign loans and remittances of dividends and interest payments.

123. The external value of the commercial rand is determined in terms of a basket of currencies of South Africa's six main trading partners. Currency weights for the basket are not disclosed, to deter speculation. There are no taxes or subsidies on purchases or sales of foreign exchange.

124. As part of the intensified exchange control policy, the financial rand system, which had been abolished on 7 February 1983, was re-introduced on 2 September 1985. The financial rand, for capital transactions, is a non-resident investment/disinvestment currency and can be viewed as a pool of funds owned by non-residents. South African companies wishing to invest abroad must also use the financial rand mechanism. In the view of the authorities, the financial rand, being transferred between non-residents, should not directly affect the balance-of-payments position and has helped to protect the economy from the adverse effect of disinvestment.

125. The financial rand, whose value is mainly determined by non-residents' demand for and supply of South African assets, largely reflects the degree of confidence foreign investors have in South Africa. Since its reintroduction, it has traded at a discount from the commercial rand. Developments in the financial rand market have tended to follow the behaviour of capital outflows, with the discount widening during periods of increased outflow and narrowing when outflows slowed. From the end of 1986 the discount narrowed from 53 per cent to a low of 7 per cent in November 1991. In 1992, the gap widened as constitutional talks stalled (Chart III.1).

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5 Since the 1960s, there had been restrictions on the withdrawal of capital under which those who wished to disinvest had to sell their securities in a secondary market. In 1979, the "securities rand" was renamed the "financial rand".

6 There are however no restrictions on non-residents wishing to invest using commercial rand.

7 The financial rand is quoted against the U.S. dollar but can be settled in any currency. The pool is currently estimated at between R 4 and 5 billion.
Chart II 1.1
Financial rand rate and discount to commercial rand, 1985–October 1992

a) U.S. dollar per rand

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b) Discount to commercial rand

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Source: South African Reserve Bank, Quarterly Bulletin, various issues.
126. The financial rand mechanism does not permit the repatriation of foreign equity investments from South Africa at the expense of the country's official gold and other foreign reserves. This system, in place to contribute toward the protection of the balance of payments and the domestic economy against the adverse effect of disinvestment transactions, has also caused considerable administrative problems. Because the financial rand trades at a discount to the commercial rand, illegal arbitrage opportunities could be very profitable.

127. An eventual elimination of the dual currency system is foreseen once South Africa's international financial relations have been fully normalized. Since 23 March 1992, the Reserve Bank, in order to stabilize the financial rand and gradually reduce the supply, has intervened in the financial rand market. Foreign creditors holding claims within the debt standstill net have the right to convert these claims, at the commercial rand rate of exchange, for investment in South African equities or property or may sell the financial rand to other non-residents against foreign currency. Between January 1988 and December 1991, US$1 billion of foreign debt had been converted for investment via financial rands.

(2) Exchange Rate Movements and Trade

128. For the past eight years, South Africa has generated a current account surplus, necessary to finance its capital outflows. Contributory factors in generating these surpluses were the sharp depreciation of the rand in the period 1983 to 1985, an intensified search for new markets once trade embargoes affected exports to traditional destinations and, after 1988, restrictive policies aimed at suppressing domestic demand, curbing imports and releasing production for export.

129. The growth in the volume of merchandise imports has exceeded the growth in real gross domestic expenditure since 1986 with a consequent rise in the import penetration ratio from 19.7 per cent in 1986 to 23.3 per cent in 1991. Because prices of imported goods rose at a slower rate than those of domestically produced goods, the value of merchandise imports increased more slowly than the growth in nominal gross domestic expenditure over the

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9 South African Reserve Bank, Quarterly Bulletin, op. cit.
same period. Consequently, the nominal import penetration ratio declined from 20 per cent in 1986 to 17.1 per cent in 1991.  

130. In nominal terms, the commercial rand has depreciated by over 70 per cent against the U.S. dollar since the early 1980s. The rand's nominal effective rate has declined continuously since that time, by about 75 per cent in the period 1981 to 1992, but the rate of depreciation slowed from 1989 to 1992. The real effective exchange rate of the rand fell by about 40 per cent between 1983 and 1985, appreciated by some 15 per cent in the following two years and has since been relatively stable (Chart III.2). Inflation differentials with South Africa's major partners led to a slow appreciation of the rand's real effective exchange rate, by some 8 per cent since 1989.

Chart III.2  
Nominal and real effective exchange rates of the rand, 1981-September 1992 ¹)

![Chart](image)

1) Downward movement indicate depreciations.
2) Rate at end September 1992.

Source: South African Reserve Bank.

¹ South African Reserve Bank, "The real external balance", unpublished. Note that these ratios differ from those in Chapter V due to differences in data series.
131. In the first years following sanctions, monetary policy focused on maintaining output and employment. In 1988, increased domestic demand was reflected in a surge in imports, leading the authorities to more contractionary policies to safeguard the current account. At the same time, as the contribution of gold to merchandise exports dropped, greater emphasis was placed on providing relative price stability to the manufactured export industries.

Chart III.3
Dollar gold price and the real exchange rate, 1981-September 1992

132. Since 1989, monetary policy has been restrictive with the Reserve Bank making a long-term commitment to fighting inflation, strengthening reserves and maintaining the stability of the exchange rate. While restraining inflation has proved difficult, given the escalation in wages and the more recent rapid rise in retail food prices (Chapter V(8)(iii)), the Reserve Bank has succeeded in maintaining a positive real interest rate and reducing the rate of growth in money supply.
133. Since December 1988, the central bank has paid for gold in U.S. dollars, at 90 per cent of the average of the previous two fixings on the London market. Gold mines are required to sell their U.S. dollar proceeds to local authorized foreign exchange dealers within seven days. As can be seen from Chart III.3, the relationship between the real effective exchange rate and the international gold price changed at about that time, with the exchange rate no longer giving the appearance of acting as a protective tool for the mining industry.

134. Since 1985, external debt ratios have been reduced and the level of reserves increased, with the cost of capital up and a sharp drop in fixed investment. Capital outflows in 1985 and 1986 totalled roughly R15.5 billion, absorbing some 17 per cent of export earnings. Net capital outflows declined from R 6.2 billion in 1988 to R 4.3 billion in 1989 and R 2.9 billion in 1990 but rose to R 6 billion in 1991. In total, between 1985 and 1991, R 36 billion has left South Africa via the capital account, mainly to repay debt.

135. South Africa reduced its foreign debt from US$23 billion in August 1985 to US$18 billion by the end of 1991 cutting the ratio of external debt to GDP from 42 to 17 per cent. Within the standstill net, US$5 billion remains to be repaid compared with US$13.6 billion at the end of August 1985 (Chart III.4). Concurrently, as sanctions have been largely lifted and international capital markets reopened to South Africa, its gold and foreign exchange reserves position has improved. At the end of June 1992, gross reserves amounted to R 11.8 billion up from R 6.9 billion at the end of 1989. However, reserves cover less than two months of imports. Gold reserves increased from 3.1 million fine ounces at the end of 1989 to 6.7 million ounces in July 1992.

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12 The de Kock Commission (1978) had suggested that the Reserve Bank, which buys all unwrought gold, pay gold mines for their production in U.S. dollars rather than rand in order to develop the local foreign exchange market. Between September 1983 and January 1985, the Reserve Bank introduced an interim arrangement whereby half of gold production was paid for in U.S. dollars.

(3) **The Foreign Investment Régime**

(a) Inward investment

136. No South African sectors are excluded from foreign investment but, in certain "sensitive" areas (e.g. armaments, electronics) authorisation may be required. In a few sectors, ceilings have been placed on foreign shareholdings. Foreign equity holdings in newly established banks are limited to 15 per cent.

137. At present, financial rand may be used by non-residents to invest in securities quoted on the Johannesburg Stock Exchange or may be placed to the credit of a financial rand account within the banking sector. With the prior approval of the exchange control authorities, financial rand may be invested in unquoted securities, industrial and commercial property, and may be used as well for the acquisitions of fixed assets, but not

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14Ernst and Young (1990).
intangible assets. Investments in South Africa by non-residents through the commercial rand do not, as a general rule, require prior exchange control approval. Where required, approval is based on the extent to which the foreign equity investment will expand manufacturing production, labour-intensive industries, introduce foreign know-how and promote exports. Since August 1989, non-residents may no longer purchase residential and farming properties with the financial rand but the commercial rand may be used for this purpose.

138. Foreign companies wishing to establish a new industry or a subsidiary in South Africa must present their proposal to the Department of Trade and Industry. Criteria for approval by the Department of Trade and Industry include the extent to which local manufacturing would reduce imports and conserve foreign exchange and the export potential of the goods concerned. Revised industrial incentives include an establishment grant for foreign-owned companies (Chapter IV(4)).

139. Prior exchange control approval is required for the transfer of loan capital in commercial rand for the financing of a local enterprise. Management and royalty fees payable to foreign companies are subject to approval by the exchange control authorities. The Department of Trade and Industry acts in an advisory capacity to the Reserve Bank in connection with royalties involved in the local manufacture of goods.

140. Certain restrictions can apply to borrowing on local financial markets by non-residents and foreign-controlled companies. The regulations stipulate that local borrowing, other than normal trade credit, may not be granted, without exchange control approval, to any non-resident or legal person operating in South Africa with 25 per cent or more of its voting securities, capital or earnings held or controlled, directly or indirectly by a person resident outside South Africa. Local borrowing is generally limited to a percentage of the effective shareholders' funds employed in a South African concern. The percentage local borrowing allowed increases as the South African participation in equity increases. As a rule, a 100 per cent foreign owned company is limited to 50 per cent local

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15 Coopers Theron du Toit, op. cit.
19 Shareholders' funds include share capital, approved shareholders' loans, reserves created from trading profits and undistributed profits.
borrowing. The formula used to determine the amount is: \((50 \text{ per cent} + \text{[South African share/non-resident share]} \times 50 \text{ per cent})\). Companies that are owned 25 per cent or more by non-residents and avail themselves of local borrowing facilities must obtain prior exchange control approval before effecting the remittance of dividends or profits.

141. Direct foreign holdings in South Africa have declined only slightly since 1985 and were estimated by the Reserve Bank to have been at the level of R 26.7 billion at the end of 1988 (Charts III.6 and III.7). In addition about 15 per cent of mining shares, to a value of R 6 billion, is thought to be foreign-owned. According to a private firm, foreign investment has reached R 72 billion, about 70 per cent of which is from Europe.

<table>
<thead>
<tr>
<th>Chart III.5</th>
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<td>Stock of foreign direct investment in South Africa, 1982–88</td>
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20 More recent data on foreign direct investment in South Africa is not available although the Reserve Bank is completing a survey of the situation in 1989.


Chart III.6
Origin of foreign direct investment in South Africa, 1988

Source: South African Reserve Bank, Quarterly Bulletin, various issues.

(b) Outward investment

142. In 1988, the latest year for which data is available, foreign direct investment by South Africa totalled over R18 billion, led by assets owned in the EC followed by North and South America and then Africa (Charts III.8 and III.9). The stock of outward investment tripled between 1982 and 1985 but there has been little increase since.23

Chart III.7
Foreign direct investment by South Africa, 1982-88

Source: South African Reserve Bank, Quarterly Bulletin, various issues.

Chart III.8
Destination of foreign direct investment, 1988

Source: South African Reserve Bank, Quarterly Bulletin, various issues.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

143. The customs tariff is the main instrument of South African industrial and trade policy, although quantitative restrictions appear to have been the binding constraint on many imports until the middle of the last decade. In the early 1980s, a process of replacing import control with tariff protection was begun. In 1985 a "positive list" of goods importable without licensing control was replaced by a clearer "negative list" of goods requiring licensing. While the majority of agricultural products still require an import permit, in 1992 less than 15 per cent of tariff lines overall were subject to import control.

144. The South African customs tariff, classified according to the Harmonized System, is complex, comprising over 12,600 tariff lines, with ad valorem duties ranging as high as 100 per cent. Bindings are relatively few, accounting for less than one-fifth of tariff lines, and tariffs may be changed relatively easily under a request process involving the Board on Tariffs and Trade. Formula duties, based on minimum import or reference prices, have raised ad valorem equivalents on certain products by several orders of magnitude. An import surcharge, in place since 1985 and modified several times since, adds 6 percentage points to the nominal average rate of tariff protection.

145. Exemption from the surcharge, and rebates or refunds on tariffs, are possible under a number of different circumstances; as a result, the ratio of duties collected to imports is well below the nominal average. A system that explicitly allows for individual tariff adjustment leads to wide variations in levels of assistance within and between sectors. Tariff escalation is pronounced in a number of manufacturing sectors. Tariff concessions on imported inputs, accorded when no comparable local product is available, further raise the degree of tariff escalation and, hence, the level of effective protection.

146. South Africa has not resorted extensively to anti-dumping or safeguard action. Instead, formula duties and, on occasion, interim duties have served the purpose of protecting industry from "disruptive competition". Recent trade legislation has established a clearer mechanism for anti-dumping, countervailing and safeguard action.

147. Protection of local industry is also inherent in local content schemes adopted for various industries and explicit, albeit temporary, preferences for domestic suppliers granted under government procurement. In the farm sector, the Department of Agriculture has the authority to control imports and exports, with marketing boards delegated the sole right to issue import and export permits for certain products.
148. To counteract the effects of protection on industrial costs, extensive export incentives have been available for many years. A new incentive system (the General Export Incentive Scheme or GEIS) rewarding actual export performance was introduced in April 1990. The export subsidy, not available for primary products and limited to a maximum 25 per cent of export value, but in practice about 20 per cent on a category of products, is geared towards increasing value added and local content of the export sector. Exporters may also import items duty-free for export processing, and interest-rate subsidies are available to expand export production capacity. Export credit is made available on favourable terms and certain export promotion costs are reimbursed by the State. Advanced depreciation allowances have reduced tax revenues by several billion rand, and have recently been granted to export-oriented beneficiation industries. While difficult to quantify, concessional finance by state agencies has played an important rôle in assisting economic sectors in an environment characterized by high cost of capital.

149. Competition law, tightened during the 1980s, has helped to limit the most blatant restrictive practices and deregulation has eliminated price control on a wide range of commodities. Previously generous but ineffective regional development incentives have been streamlined by applying stricter performance criteria to industrial projects. Commercialisation and privatization of major public enterprises are, in addition, aimed at improving economic efficiency.

(2) Measures Directly Affecting Imports

(i) Registration and documentation

150. All importers and clearing agents must register with the Department of Trade and Industry in order to receive a customs code number. Persons importing goods under licence or permit must be registered with the Department's Directorate of Import and Export Control.

151. A declaration of origin form must be used in all cases where the rate of duty is lower than the general rate. This applies to m.f.n. imports, preferential imports, goods liable to anti-dumping or countervailing duties and to goods eligible for duty rebates or surcharge exemption.

(ii) Tariffs

152. The Customs Tariff of South Africa, containing over 12,600 9-digit tariff lines classified under the Harmonized Commodity Description and Coding System (the Harmonized System or HS), is divided into a number of Schedules, which list customs duties, import surcharges, anti-dumping and
countervailing duties and duty rebates and refunds (Annex IV.1). The overwhelming majority of customs duties are applied on an m.f.n. basis; some 20 9-digit lines, mainly for radio equipment and iron and steel products, specify both m.f.n. and higher general tariff rates, with the latter applying to imports from countries to which South Africa does not grant m.f.n. treatment (Chapter II(5)(i)). Preferential rates extended under bilateral trade agreements are not identified in the tariff but are published in the Government Gazette.

153. The average unweighted m.f.n. tariff for all products in 1988 (as calculated for the GATT Tariff Study) was 22.0 per cent, 22.5 per cent for industrial products and 12.6 per cent for agricultural products. According to the Industrial Development Corporation of South Africa (IDC), 1992 tariff averages were 20.6 per cent for manufacturing, 7 per cent for agriculture and 2.7 per cent for mining. These averages mask wide variations in sectors and subsectors: sectoral averages in 1988 ranged from 7 per cent on professional and scientific equipment to over 60 per cent on tobacco (Table IV.1). Within sectors, high rates, of over 35 per cent, apply to such product categories as motor vehicles, yarns, clothing, and footwear.

154. Once the tariff cuts proposed by South Africa in the Uruguay Round have been implemented, the simple average tariff for industrial products will, it is estimated, fall to 13.9 per cent.

155. The ratio of duty collected to merchandise imports has averaged roughly 5 per cent in the last several years, providing some R 2.7 billion to the State Revenue Fund in fiscal year 1992 (Table IV.2). Additional charges on imports, including the import surcharge and certain excise duties, with only ad valorem excise duties recorded separately from other customs duties, bring the average effective collection of taxes on imports to between 8 and 12 per cent since 1987.

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1Prior to the introduction of the Harmonized System, the customs tariff numbered 8,507 tariff lines. On the introduction of the Harmonized System, there were 13,027 tariff lines. This number has since been reduced to 12,681, as of September 1992.

2According to the authorities, the general rates will be eliminated soon, with all imports then to receive m.f.n. tariff treatment.

3The calculation of tariff averages is distorted by the ad valorem equivalent of the formula duties. In the Tariff Study, duty collected was used to calculate the AVEs; these can be calculated only if imports occur and, moreover do not take rebates into account.

4The IDC used the lowest recorded import prices to calculate ad valorem equivalents of formula duties, a method that can give an upward bias to the ad valorem equivalents.

5GATT Tariff Study.
Note IV.1 Formula and Specific Duties Applied in South Africa

Formula duties and, in a number of instances, specific duties, are applied in cases where "disruptive competition" is causing or is likely to cause material injury. Examples of disruptive competition include dumping, export subsidies, distress selling in cases of temporary surplus, arbitrary pricing in non-market economies and price manipulation in inter-group transactions. Current policy guidelines define disruptive competition from imports as occurring when imported goods are sold for export from the supplying country at prices lower than the actual net transaction prices in that country or lower than production costs.

The formula duty applies the higher of two rates, based on the relationship between the f.o.b. import price and a defined reference price: either the ad valorem duty, or a rate normally calculated as the reference price minus the inverse of the ad valorem rate.

For example, an item has a reference price of 50 $ts/kg. The formula duty applied is: the higher of 30 per cent ad valorem or 50 $ts/kg minus 70 per cent ad valorem. If the import f.o.b. price is 40 $ts/kg, i.e. lower than the reference price, then 30 per cent ad valorem renders 12 $ts/kg but the alternative, (50 $ts - (.7 x 40 $ts) = 28 $ts), 22 $ts is higher. If the import f.o.b. price is for example 60 $ts, the formula duty would amount to 8 $ts and the ad valorem rate to 18 $ts, therefore the ad valorem rate is applied.
156. Most imports are subject to ad valorem duties; however, "formula" duties apply to over 1,900 9-digit tariff lines, approximately 15 per cent of all lines, and specific duties to close to 500 lines (Note IV.1).

157. The large majority of formula duties carry an ad valorem equivalent of over 40 per cent. For 44 per cent of items subject to formula duties, the ad valorem equivalents amount to 100 per cent or more (Table IV.3).

158. In urgent cases, where immediate action is required, e.g. in order to avoid stockpiling by importers, interim duties may be introduced without the application having been made public in advance (Chapter II(2)(ii)). Once the duty has been introduced, the application is published and the level of protection reviewed by the Board on Tariffs and Trade. New industries seeking interim protection must provide detailed information to the Board before it can make a recommendation. In the case of an established industry seeking increased protection to avoid disruptive competition, the speedier procedure for interim duties is justified as a means to avoid serious injury to the industry. Normally, fewer than a dozen cases are handled yearly. Under new anti-dumping legislation (Chapter IV.(2)(x)), anti-dumping duties are likely to replace both formula and interim duties.

(a) Tariff range

159. Over one-fifth of tariff lines are duty-free, and more than two-thirds of all tariff lines carry a duty of less than 20 per cent. However, at present ad valorem duties on a few industrial products range as high as 100 per cent (for example, on certain televisions, motor cars and chassis, which compete with locally assembled goods), while the ad valorem equivalent of formula duties may be several times higher (Chart IV.1 and Table IV.4). This range is slightly misleading in that tariffs on agricultural products are not usually the principal protective instrument. In this latter area, although South Africa has embarked on a tariffication process, import control is normally the binding constraint. In the textiles and clothing and leather and footwear sectors, over half of all tariff lines are dutiable at more than 20 per cent. Under South Africa's Uruguay Round tariff offer, it is estimated that over a quarter of all tariff lines will be duty-free.

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Chart IV.1
Tariff ranges on industrial products
in South Africa, 1988

Source: GATT Tariff Study.

(b) Tariff escalation

160. Tariff escalation, whereby the rate of duty rises with the degree of processing or value added, is an indicator of the effective level of protection. As Table IV.5 shows, there is significant tariff escalation in South Africa; the weighted tariff for primary products in 1990 was 2.5 per cent while for manufactures the rate was 26.9 per cent. Escalation increases still further when the effect of the import surcharge is taken into account. Within the manufacturing sector, over 25 per cent of sectoral value added receives effective protection of more than 50 per cent.

(c) Tariff bindings

161. Currently, some 18 per cent of South Africa's tariff is bound under GATT (2,293 out of a total 12,812 tariff lines in 1988). Eight hundred and seventy lines are bound at zero. By principal economic sectors, nearly one-third of agricultural tariff lines are bound, whereas this is the case
for less than one-fifth of industrial products. About 13 per cent of tariff lines are fully bound and five per cent are partially bound (Chart IV.2). When the results of the Uruguay Round are implemented, the share of bindings in the tariff is expected to rise to just over half.

Chart IV.2
Bound rates of tariffs in South Africa, 1988

Source: GATT Tariff Study.

(d) Tariff preferences

162. At present, South Africa extends preferences to a few trading partners. In addition to free trade in goods with other members of the Southern African Customs Union, preferential trade agreements have been concluded with Malawi, Mozambique, Turkey and Zimbabwe (Chapter II(5)(iii)). The agreement with Turkey terminates at the end of 1993.

163. Imports from Malawi and Mozambique have grown considerably in the last five years. In 1991, imports from Zimbabwe, whether eligible for duty refunds or not, amounted to R 472 million. Imports from Turkey rose from R 51 million in 1988 to R 436 million in 1991. However, the share of imports from Turkey treated preferentially fell between 1990 and 1991 from
32.7 to 4.6 per cent, as either quota levels were exceeded or other commodities gained in importance.

(e) Tariff concessions

164. Customs duties are reduced or waived for various purposes under Schedules 3, 4 and 5 to the Customs and Excise Act, which provide for both temporary and permanent rebates and drawbacks of duty. Rebates are automatic for imports of intermediate inputs for specified industries, including a number of foodstuffs, chemicals, textiles, footwear, paper and motor vehicles, and for the production of some exports, such as the preparation of vegetables and glass. In other cases, including imports of materials and components for the manufacture of goods exclusively for export, rebates are subject to a permit, which is rarely refused. More generally, rebates are available on goods for free distribution by welfare organisations; goods for outward processing; in the context of structural adjustment and local content programmes for specified industries (inter alia motor vehicles, textiles and clothing, television monitors); on fabrics for various purposes; on plastic polymers and copolymers; on vehicles and vessels; and on certain components for vehicles.

165. In addition to rebates under Schedules 3, 4 and 5 of the Customs and Excise Act, applications can be made to the Board on Tariffs and Trade for tariff relief via rebates and duty reductions. These require an investigation by the Board. Applications for permanent drawback provisions are published in the Government Gazette in order to allow all interested parties to comment within a period of at least six weeks. Subsequently, applications are considered by the Board on Tariffs and Trade which decides whether to recommend the amendment of the relevant schedule (Chapter II(2)(ii)).

166. The principal criterion for granting tariff concessions to industry is that the product is not available from South African sources. However, in considering the application, the Board attempts to limit the effective rate of protection on the applicant's end product to 30 per cent. A rebate is usually recommended only if the duty represents an important share of production costs, tariff relief would increase the price competitiveness of the final product in relation to comparable imported products and the loss of tariff revenue can be justified by increased economic activity.

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8 Board on Tariffs and Trade, Manual on the Policy and Procedure Relative to Customs Tariff Protection and Tariff Relief, Pretoria.
167. In 1986, the latest year for which the relevant, complete data is available, some R 3.5 billion, or 13 per cent of total merchandise imports of R 26.9 billion, entered under duty rebates. Of over 1,100 applications for permits under existing provisions in 1991, more than twice the number of applications in 1990, the majority were for duty and surcharge exemptions on goods for welfare organisations, rebates of duty on goods used for export purposes, and exemption from duties and surcharges under the structural adjustment programme for textiles and clothing (Chapter IV(3)(vi)).

168. In the last five years, in addition to the requests for permits under existing provisions, a few hundred applications for tariff amendments have been processed each year. A little less than half were typically requests for tariff relief, either duty reductions or rebates. In 1991, only a third of those requests were approved. This low rate of approval has been the trend for the last few years (Table IV.6).

(f) Tariff quotas

169. Tariff quotas are applicable to specified goods imported under preferential trade agreements with Zimbabwe, Mozambique and Turkey.

170. Tariff quotas on imports of textiles and clothing from all sources were implemented on 1 May 1992 as an interim measure to allow the industry and relevant labour unions, in cooperation with the Government, to investigate a long-term strategy for the textile and clothing industry. The tariff quotas were set at the 1989 level of imports. The ad valorem rates of duty applicable to imports of these items above the quota level were generally double the duty applied to imports within the quota. The tariff quotas were terminated on 31 October 1992.

(g) Customs valuation

171. South Africa implemented the Tokyo Round Agreement on Customs Valuation on 1 July 1983. Domestic legislation on customs valuation is incorporated in Sections 65 to 67 of the Customs and Excise Act. On the basis of Section 66 of that Act, the value for customs duty purposes is the transaction value, the price actually paid or payable. Customs value is calculated on an f.o.b. basis.

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172. The transaction value will be accepted in the case of related buyers and sellers if, in the opinion of the Commissioner for Customs and Excise, the relationship does not influence the price, or if the importer shows that the transaction value approximates to the value of identical or similar goods imported at or about the same time.

173. In cases where the transaction value cannot be ascertained, the price actually paid for similar imported goods, adjusted for differences in costs and charges based on distance and mode of transport, is regarded as the transaction value. If more than one transaction value is ascertained, the lowest value applies. Alternatively, a computed value may be used based on production costs of the imported goods.

174. If the transaction value cannot be ascertained in terms of Section 66, the Commissioner can determine a value, subject to right of appeal to the Supreme Court.

175. Dutiable weight for the assessment of specific duties is the legal weight of the merchandise, plus the weight of the immediate container in which the product is sold, unless specified otherwise in the tariff.

(iii) Variable import levies

176. No variable levies, per se, apply to agricultural products; however, these products are often liable to specific or formula duties with similar effects.

(iv) Other levies and charges

(a) Import surcharge

177. With effect from 23 September 1985, an import surcharge of 10 per cent was imposed on all imported goods not bound under GATT (Table IV.7). Imports for use by the agricultural sector, raw materials for the manufacturing sector and essential foods were not subject to the import surcharge. Goods imported under rebate provisions, imports from Hungary, Poland, Romania and Czechoslovakia, Malawi and specified goods from Zimbabwe, imports for export production, and imports of capital goods not available locally are also exempt from the surcharge.

178. In 1988 and 1989 the scope of the surcharge was broadened, including to some bound items, and certain rates were raised, to 20 and 60 per cent.

\[10^\text{Dun's Exporter's Encyclopaedia.}\]
This was followed by surcharge reductions in 1990 and 1991. Since fiscal year 1990, when revenues from the surcharge were greater than from customs duties, the contribution of the surcharge to customs revenues has been declining (Table IV.2). Currently, the rate of surcharge, averaged across all products, is 6 per cent; the various exemptions mentioned above reduce the effective (trade-weighted) rate to less than 3 per cent. (Table AV.1 presents surcharge rates by sector.)

179. In September 1992, the United States raised the issue of the import surcharge in the GATT Council, requesting that South Africa update its notification and consult in the GATT Committee on Balance-of-Payments Restrictions. South Africa notified the import surcharge and agreed to consult in the Committee.

(b) Excise duties

180. Specific and ad valorem excise duties are levied on a number of imported and locally produced goods. Specific excise duties (Part 2A of Schedule 1) have been amended periodically since 1988 and are applied to alcoholic and non-alcoholic beverages, tobacco and motor vehicles. The excise duty on motor vehicles, which is 40 per cent, including 2.5 per cent fiscal duty, acts to promote local content, being refundable above a certain level of local content (Chapter V(3)(iv)). The excise duty does not apply to imported motor vehicles, which are, instead, subject to customs duties ranging to 100 per cent. The specific rates on imported mineral waters, cigars and certain alcoholic beverages are slightly higher than on the domestic equivalents.

181. Ad valorem excise duties (Part 2B of Schedule 1) range from 10 to 37.5 per cent. The incidence of ad valorem excise duty on imports has averaged 1 per cent of total merchandise imports in recent years. However, ad valorem excise duties collected on imports have generated more revenue than the same duties collected on locally produced goods (Table IV.2).

(c) Fuel levy

182. A fuel levy, applied to petrol and distillate fuels (diesel) manufactured locally or imported, was introduced on 22 June 1987 and

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12 These were raised by 2.5 per cent (1 per cent for sorghum beer) as of 1 October 1991. A 10 per cent excise tax applies to office machinery, 17.5 per cent to motor cycles, 32.5 per cent to film, watches and firearms and 37.5 per cent to personal products, furs, consumer electronics, tapes and photographic and optical equipment.
periodically increased, generating R 5 billion in revenues in fiscal year 1992. Until 31 March 1988, levies on petroleum products were paid into the Central Energy Fund; subsequently they have been paid to the Exchequer, according to information available to the Secretariat. Since SASOL refines imported crude, the fuel levy acts as a consumption tax rather than an import charge.

183. Various users are eligible for a partial or full refund on the fuel levy, primarily in the agricultural and forestry sector. According to the authorities, rebates normally account for no more than 5 per cent of collected levies.

(d) Value added tax

184. The general sales tax, applied to both imports and locally produced goods, was raised to 13 per cent in March 1990. On 1 October 1991, a 10 per cent value added tax (VAT) replaced the general sales tax. The VAT on imports is collected on the duty-paid value plus 10 per cent of the customs value, with the latter correcting for the fact that the customs value is f.o.b not c.i.f.

185. Exports are exempt from the value added tax. Nor is VAT payable on imported capital goods, temporary imports and imports for export processing. Agricultural inputs, animal feed, seed, fertilizers, pesticides and animal remedies, are zero-rated for VAT purposes, as are certain basic foodstuffs. Two basic foodstuffs, brown bread and mealie (maize) meal, are permanently zero-rated and ten other basic food items are temporarily zero-rated but are not exempted on importation. The VAT is destination-based except in the case of goods from the "TBVC states" where it is origin-based. A revenue-sharing agreement has been established to compensate for this tax on the exports of the "TBVC states".

(v) Import licensing

186. South Africa is a signatory to the Tokyo Round Agreement on Import Licensing Procedures. The licensing system is intended mainly to monitor imports of certain "sensitive" commodities. All used goods, waste and

13 In late March 1992, the fuel levies were 54.9 cents a litre for petrol and 47.4 cents a litre for distillate fuels, such as gas oil and diesel oil; in June 1987, the rates were 22.5 cents a litre for petrol and 22.7 cents a litre for distillate fuels. Imported petrol and diesel are subject to specific import tariffs of 9 and 18 cents a litre, respectively.

14 Imports of petrol and diesel in 1991 were R 307 million and R 46 million, respectively.

15 Department of Customs and Excise.
scrap require an import permit. Goods subject to import control require licences, which are issued by the Directorate of Import and Export Control within the Department of Trade and Industry. Some imports may also require permission from the Departments of Agriculture, Health or Environment Affairs. Some goods imported for export processing or under other rebate provisions require a rebate (not import) permit to benefit from duty rebates and export incentives.

187. South Africa has not maintained any formal import quotas since 1980. In 1983, the Government began to phase out import licensing controls. At that time, 77 per cent of imports were subject to import control; by 1984, the share had been reduced to 55 per cent and by 1985 to 23 per cent. By September 1992, less than 1,900 tariff lines (15 per cent of the tariff) were still subject to import control (Chart IV.3 and Table IV.8).

Chart IV.3
Percentage by value of total manufactured imports affected by quantitative import controls

Source: IDC.
188. The coverage of import controls varies considerably by sector. The controls tend to apply to products already liable to high tariffs, although in the case of agriculture only 16 per cent of items subject to import controls have a tariff rate higher than 20 per cent ad valorem. Import controls apply to 74 per cent of tariff lines in agriculture, forestry and fishing. Over 90 per cent of tariff lines are under import control in the beverages, tobacco and rubber sectors, and over 85 per cent in the food sector. In textiles, a very low proportion of tariff lines is under import control, but almost 60 per cent of clothing items are subject to such control. No import controls are in force for leather, footwear, furniture, plastics, pottery, glass and other non-metallic minerals, motor vehicles and other transport equipment. According to some sources, import controls are applied in certain sectors, such as medicines, mainly for reasons of compliance with approved standards rather than for protection.

189. Applicants for import permits must submit information on the level of existing imported stocks, balances remaining on the import permit and monthly sales figures. Applications are dealt with on the merits of each case. As a rule, licences are made available to existing importers; the amount allocated is based on past sales performance. New importers, who must register as such, receive an initial import allocation on the understanding that further allocations will be made available for stock replenishment purposes. Different application forms are required for registered importers of capital goods, raw materials and manufactured goods.

190. Licences are valid for the calendar year in which they are issued and may be used for customs clearance of goods shipped before 31 December of that year. Licences cannot be extended or transferred. There are no licensing fees or import deposits.

191. The imposition or withdrawal of import control does not require legislative approval, but is determined by the Department of Trade and Industry in consultation with other relevant departments. The Industrial Development Corporation has estimated that import control adds ten per cent

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17 Bell (1992), p. 35.
18 However, import permits issued under the structural adjustment programme for textiles and clothing, allowing for duty rebates, are negotiable; a sizeable secondary market existed when quotas were in effect.
to the nominal rate of protection. According to the authorities, the controls are to be phased out, except for secondhand goods and for items subject to social, health and cultural considerations; in agriculture, according to the authorities, tariffication is to precede, where necessary, the removal of controls.

(vi) **State trading**

192. There are 21 Control Boards involved in the marketing of agricultural commodities, ranging from potatoes to wool. The system of regulated marketing of agricultural products was originally introduced under the Marketing Act of 1937, amended in 1968, in order to secure price stability and narrow the gap between producer and consumer prices.

193. Article 87 of the Marketing Act, 1968, allows for the prohibition of import and export of specified agricultural products, except on the authority of a permit issued by the Director General of Agriculture or the control board concerned, or by any person authorized by the board.

194. Most of the Boards have direct or indirect control over imports and exports either for their own account or through private firms. Certain boards, including those for wheat and maize have the sole right to import; in other cases, importers must market the regulated products through the boards. For most commodities, the board fixes minimum producer or selling prices for surplus production.

195. Oil was until recently imported exclusively by the Government via the Strategic Fuel Fund, placed under the control of the IDC in 1984. Autonomy in oil imports is being turned over to the refiners in stages, with the process to be completed, according to the authorities, in mid-1993.

(vii) **Countertrade**

196. The Government permits the private sector to engage in countertrade when circumstances do not permit conventional trade. A Secretariat for Non-Conventional Trade was established during the period of trade sanctions. With the normalization of South Africa's international trade the activities of this Secretariat are now performed by the Directorate for Export Trade Promotion, in the Department of Trade and Industry. In a 1988

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21 The authorities have indicated that the Banana Board would be inoperative as of 31 March 1993, with the elimination of the Banana Scheme.

policy document, the Board on Tariffs and Trade suggested that countertrade could facilitate imports of capital goods while conserving foreign exchange. Rules for cash-based transactions apply and countertrade transactions are not recorded separately from other trade. An independent source estimated that private countertrade deals were worth $80 million in 1988.

(viii) Government procurement

197. South Africa has had observer status to the MTN Agreement on Government Procurement since 1984.

198. The State Tender Board, an autonomous statutory government body whose members are appointed by the Minister of Finance, determines procedures, practices and general contract conditions for procurement, co-ordinates State procurement and is responsible for the adjudication of tenders.

199. Impartiality and objectivity are regarded as essential prerequisites in the determination of policy. To ensure impartiality, users and suppliers are approximately equally represented on the Board.

200. The State Tender Board and three Regional Tender Boards are responsible for the purchases of the central Government and the provincial administrations. As a rule, the State Tender Board deals with general period contracts for bulk supplies used by many government departments, and the Regional Tender Boards call for tenders for specific period or ad hoc contracts particular to their area of jurisdiction. The homelands and self-governing states have their own tender boards but may participate in general period contracts. The State Tender Board may reverse decisions of the Regional Tender Boards. The State Tender Board, but not the Regional Boards, has the power to delegate authority.

201. The administrative work of the Boards is performed by the Chief Directorate: Procurement Administration in the Department of State Expenditure. The Directorate calls for tenders and submits recommendations to the Board, which makes the final decision regarding the awarding of contracts. However, for contracts up to a value of R 100,000 the Chief

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24 Directorate for New Markets.
26 The Board consists of not less than 16 and not more than 20 members; five members constitute a quorum for a meeting; members of the Regional Tender Boards are appointed by the Minister for State Expenditure.
Director may award contracts on his own responsibility. Individual government departments may do so on contracts up to a value of R 50,000 (up to R 500,000 for construction and engineering contracts).

202. The General Conditions and Procedures drawn by the State Tender Board apply to all purchases in excess of R 3,000. Where the contract value exceeds R 30,000, tenders are advertised in the State Tender Bulletin, with certain exceptions; unless the Board directs otherwise, tenders are invited only in South Africa. Closing dates are at least four weeks from the date of publication if stocks are locally available and at least five weeks in other cases. Rules allow for selective tendering; for certain supplies or services, lists of approved tenderers are compiled. In comparing tenders, prices are brought to a comparable level by deducting preferences, adding delivery and other costs as applicable and adjusting implied contract prices (where prices are not firm). The decision to award a contract is then taken on the basis of the lowest tender price. In non-competitive tenders, the reasonableness of the price must be determined to the Board's satisfaction; its judgement is based on comparison with market prices or production costs. Decisions by the Board are final; it is not obliged to give reasons for acceptance or rejection.

203. Government procurement provides for a number of preferences to domestic suppliers. These are estimated to create to a 30 to 40 per cent preferential margin in favour of local goods. Tender price preferences are determined by the Cabinet, not the Tender Board.

204. Under the local-content preference, a certain percentage is deducted from the bid price depending on the degree of local content. This preference ranges from 1 per cent, if local content is 5 per cent or less, to 10 per cent if local content is more than 80 per cent (Table IV.9).

205. Regional preferences, operated under the previous Regional Industrial Development Programme, grant an additional price preference of either 5 or 10 per cent, depending on the "industrial development point" at which the tenderer is located, and railage rebates of up to 60 per cent. These are to be phased out by 30 June 1993.

206. In addition, for electronic equipment, the price preference can be up to 35 per cent for locally-produced components, or 20 per cent for local design plus 25 per cent for local electronic systems provided that the two together do not exceed 35 per cent. As of 1 April 1993, this preference is...

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27 Director: Procurement Administration, Department of State Administration.
being phased down, to bring it into line, by April 1994, with the more general local-content preference scheme described above.

207. A preference of 2.5 per cent is also allowed for products that bear the South African Bureau of Standards' (SABS) Standardization mark. These marks are available to foreign manufacturers, provided they meet the relevant SABS standards, use an approved quality assurance scheme and reach an agreement on product surveillance with the SABS.

208. A preference may be given on an ad hoc basis where the local product receives little or no tariff protection and the price difference is marginally in favour of the imported product. In this case, the State Tender Board may decide to refer the matter to the Board on Tariffs and Trade for consideration of an additional preference. Where tenders are equally priced, even after deduction for preferences, the Board gives priority to supplies manufactured in South Africa. Furthermore, a contractor needs approval from the Board if he wishes to substitute imported goods for domestic goods.

209. Foreign tenderers must operate through local agents and procurement goods shipped from overseas should be carried by South African vessels or by conference lines with which South Africa has an agreement.

210. No information is currently available on the total, domestic or imported, value of State or local procurement or on the shares of open, selective and single tendering. Official sources estimate that government contracts are in the order of R 6 to 8 billion (3 per cent of GDP) annually.

(ix) Local content requirements

211. In a number of industries, starting with the motor vehicles industry in the 1960s, local content is encouraged by levying an excise duty in inverse proportion to the level of domestic value added. While establishment by foreign businesses does not require participation in local content programmes, non-participants may find themselves unable to compete, in that they will then not be eligible for cost-reduction incentives, such as excise or other duty rebates, tariff concessions and export subsidies.

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28 As of 1 April 1993, the maximum preference for locally produced electronics will be 20 per cent, to be reduced to 10 per cent on 1 April 1994.

29 State Tender Board, General Conditions and Procedures (ST36) para. 26.

30 Ibid. para. 41.
212. Imported inputs to which 25 per cent value has been added locally may qualify as local input.

(x) Standards and other technical requirements

(a) Standards, testing and certification

213. South Africa is not a signatory to the MTN Agreement on Technical Barriers to Trade.

214. The South African Bureau of Standards (SABS), established in 1945, was a founding member of the International Organisation for Standardization (ISO) and is a member of the International Electrotechnical Commission (IEC).

215. The principal activities of the Bureau include the preparation of specifications, codes of practice and standard methods, the setting up of test facilities and the administration of quality certification systems such as the SABS mark on products, for which it charges fees. The SABS mark is voluntary and was limited to domestically-manufactured goods until 9 January 1992. Where the SABS mark is not applicable, the Bureau annually publishes a bulletin listing suppliers whose quality management complies with the SABS-ISO 9000 requirements, identical with the ISO 9000 series. During the year, additions and deletions are published in the official journal of the SABS. The Bureau also maintains a list of accredited civil engineering test facilities whose technical competence meets South African standards. As yet, no foreign test facilities have been accredited by the SABS, but none have applied, according to the authorities.

216. The Minister of Trade may declare standards compulsory, for safety and health reasons, when the standards deal with commodities not dealt with under specific Acts. These standards apply to all products, irrespective of their origin. At present such compulsory standards exist for 43 categories of products, including electrical appliances, electronic products, motor vehicles, processed marine products and canned meat. The standards tend to comply with internationally accepted norms: for example, motor vehicle safety standards are equivalent to the relevant EC regulations, electrical safety standards are equivalent to those of the IEC, and standards for processed marine products and canned meats are

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31 South Africa is the only country that has adopted the IEC standard for electrical plugs.

32 The accreditation scheme for civil engineering laboratories includes all laboratories except calibration laboratories, which are accredited by the National Calibration Service.
similar to the relevant FAO Codex Alimentarius, EC and U.S. Food and Drug Administration requirements. In general, the setting of standards follows international norms, but allowance is made for geographic, social and financial differences.

217. The public telecommunications company, Telkom, is charged with setting standards for telephone equipment. These are reported to exceed those set in many other countries, obliging overseas manufacturers to meet special requirements.

(b) Sanitary and phytosanitary regulations

218. A number of Acts relate to health and sanitary regulations on international trade in agricultural commodities and goods destined for human or animal consumption. These include, inter alia, the Agricultural Products Standards Act of 1990, effective as of 1 September 1991, and the Agriculture Pests Act of 1983.

219. The Foodstuffs, Cosmetics and Disinfectants Act of 1972 is designed to control the sale, manufacture, and importation of foodstuffs, cosmetics and disinfectants and any appliances used for, in, or in connection with these goods.

220. Like many countries, South Africa regulates the manufacture, sale and import of foodstuffs and certain products such as hides and skins, animal hair and bristles. Regulations apply to the use of natural and artificial sweeteners, colourants and other additives in foodstuffs.

221. The sale of foodstuffs containing more than a prescribed level of aflatoxin and other fungus-induced toxins is prohibited, as is the sale of cereals in which the datura seed content exceeds certain specified limits.

222. There is a compulsory standard specification relating to the manufacture, production, processing or treatment of canned meat products.

(c) Marking, labelling and packaging

223. The Agricultural Product Standards Act of 1990 provides the enabling legislation for regulations governing packaging and marking of commodities

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33 The paragraph is based on information supplied by the South African Bureau of Standards.

for local sale (including imported goods) and for exports. The country of origin must be identified on imported commodities. Cheese, butter and honey, and almost all agricultural products destined for export, must be graded, packed and marked in a prescribed manner.

224. Special labelling requirements apply to drugs, wine, toothpaste, powders and mouthwashes containing fluoride, foodstuffs and cosmetics; certain products require labels in both English and Afrikaans. The Merchandise Marks Act provides that imported goods may not bear marks giving the impression that they originate in South Africa.

225. Textile goods containing sheep's wool require special labels; products containing at least 35 per cent wool must be labelled to show the percentage.

226. Packaging made from natural materials and fibres must be accompanied by an official certificate stating that the material has been fumigated.

227. In preparing fresh fruits and vegetables for export, South Africa conforms to EC regulations with respect to packaging and chemical treatment.

(xi) Anti-dumping and countervailing duty actions

228. South Africa has observer status in the MTN Agreements on Subsidies and Countervailing Measures and on Anti-Dumping Practices.

229. The Board of Trade and Industry Amendment Act of 1992, also known as the Board on Tariffs and Trade Act, includes definitions of disruptive competition, dumping and subsidized exports.

230. Under the Act, dumping occurs when the export price to South Africa or the common customs area is (i) less than the price at which identical or comparable goods are sold in the ordinary course of trade in the country of origin, or (ii) where the export price is less than the highest comparable price when exported from the exporting country to any third country, or (iii) when exported from any other country to the Republic, or (iv) when the export price is lower than a price determined by the Board based on costs or estimated costs of production and any other costs or profits which the Board deems "reasonable." On the basis of the Board's guidelines, any anti-dumping duty shall not exceed the lower of (a) the margin of dumping

35 The Code states that it may be the highest export price but should be a representative price.
or (b) the difference between the price of similar products produced in the Customs Union and the landed cost of the dumped product, inclusive of normal duties.

231. The Board on Tariffs and Trade is entrusted with determining dumping, subsidized exports and disruptive competition. While regulations have not been issued, the Board follows a set of published guidelines.\(^{36}\) Before an anti-dumping duty can be imposed the Minister of Trade and Industry must be satisfied (i) that dumping has occurred, is occurring or is likely to occur; (ii) that its effect will be to cause or threaten to cause material injury to an established industry in the common customs area or materially retard the establishment of an industry; and (iii) that it would be in the public interest to impose an anti-dumping duty.

232. If the initial examination of an application discloses the existence of substantiating evidence regarding dumping, injury and the public interest, a full investigation is initiated. The allegation of dumping is published in the Government Gazette and known importers, the exporter and the Government of the country of export are notified. To prevent serious injury during the course of the investigation, a provisional anti-dumping duty may be applied, generally for four months, with a maximum of six months; the duties are refundable if the determination is ultimately negative. If, during or at the conclusion of the investigation, the supplier agrees to a price undertaking (or ceases to export) to eliminate dumping or injury, such an undertaking may be accepted as an alternative to the imposition of a definitive duty. (For anti-dumping actions taken by South Africa since 1980, see Table IV.10.)

233. Subsidized export is defined as "the export or proposed export to the Republic or the Common Customs area .... from any country where the authority of that country or any other country provides any form of financial aid or other assistance in respect of those goods, including assistance in respect of the production, manufacture, transport or export thereof." The requirements and procedures for the imposition of countervailing duties to counter subsidisation are similar to those for anti-dumping. A countervailing duty cannot exceed the lower of (a) the amount of financial or other assistance per unit of the product or (b) the difference between the price of similar goods produced in the Customs Union

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\(^{36}\) The Government recognizes that its anti-dumping legislation is not in line with the provisions of the Code. It is conferring with certain trading partners on their own legislation particularly with regard to the determination of injury. South Africa is also prepared to review its law in light of the outcome of the Uruguay Round.

\(^{37}\) Board on Tariffs and Trade, Manual on the Policy and Procedure Relative to Customs Tariff Protection and Tariff Relief.
and the landed duty-paid cost of the subsidised product. A countervailing duty cannot be imposed on imports only for the reason that they are exempt from duties or taxes in the country of origin.

(xii) **Safeguard actions**

234. Notifications under Article XIX concern only safeguard actions taken on GATT-bound items. During the 1980s, South Africa took Article XIX actions between 1984 and 1988 typically by applying formula duties (Table IV.11). Apparently, since 1988, no new actions have been taken.

235. In May 1992, the Board on Tariffs and Trade Act and the Customs and Excise Act were amended to include a definition of "disruptive competition" and provisions for safeguard actions. In the case of disruptive competition, any action is notified in advance to the countries concerned, although in critical cases, action may precede notification. Since the purpose of safeguard action is to enable domestic manufacturers to adapt to the new situation, the Board will attempt to establish a timetable for phasing out the action.

(3) **Measures Directly Affecting Exports**

(i) **Registration**

236. To benefit from export incentives, firms must be registered with and approved by the Department of Trade and Industry. Approval depends, inter alia, on the firm supplying data on exports for the past three years; anticipated exports, and their destination, for the next three years; and an accurate breakdown, by H.S. tariff line, of exports and prospective exports. Firms that are service-related and agents who export on behalf of manufacturers do not qualify for incentive schemes.

(ii) **Export taxes**

237. On the basis of the Diamond Act 1986, an export tax of 15 per cent on rough, unpolished diamonds is levied, except where the diamonds were first offered to local diamond cutters at market prices.

(iii) **Export control**

238. A number of products are subject to export control and licenses, including strategic goods (exhaustible resources), agricultural products administered by the control boards, metal waste and scrap. Diamonds for export must be registered with the Diamond Board. No price-controlled petroleum product produced at local synfuel plants may be exported. (Details by Tariff Study category are provided in Tables AV.3 to 11.)
239. Metal scrap produced by scrap dealers must first be offered to downstream manufacturers of metal products at a discount to the price at which it can be exported. The discount is 15 per cent for non-ferrous scrap and 7.5 per cent for ferrous scrap. If manufacturers turn down the offer, an export permit may be issued to the dealer.

240. Only ostriches and their fertilized eggs are subject to complete export prohibition. For any products, however, export prohibitions are difficult to enforce, due to leaky borders.

(iv) Export cartels

241. South African competition law does not prohibit export collusion.

242. The Central Selling Organisation, a subsidiary of de Beers, which markets 80 per cent of the world's diamond output, is clearly an export cartel.

243. The agricultural boards, particularly the fruit boards and their marketing agents, would also seem to fit the definition applicable to an export cartel.

(v) Export subsidies

244. During the 1980s, a variety of incentives to promote manufactured exports were introduced. Incentive categories were: A - input compensation, whereby the exporter could receive 50 per cent of the cost of protection afforded to imported inputs; B - value added compensation, whereby the exporter could receive 10 per cent of the value added of the export sales; C - marketing development scheme; and D - marketing allowance provided for under the Income Tax Act. Export incentives under Categories A and B on agricultural products amounted to an annual average of R 37 million in the period 1987 to 1989. Other schemes unrelated to export performance included: a subsidy for exporters of final manufacturing goods of either 25 per cent of the rental costs of foreign warehousing facilities or a cash grant based on the value of exports; an electricity rebate scheme, under which exporters of "beneficiated" metals, mainly ferro-alloys, could receive a 30 per cent subsidy on the cost of electrical power; and an air freight rebate on perishable agricultural products (Table IV.12).

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\[38\] GATT, Negotiations on Agriculture, Country List.
245. Since 1990, there has been a revision of schemes to promote exports and a phasing out of those unrelated to performance. The warehousing subsidy was discontinued in April 1990; the air freight rebate was terminated on 31 March 1991, and the electricity rebate scheme on 31 December 1992.

246. In April 1991, a subsidy scheme was implemented for the wool and mohair industries whereby the Government funds 25 per cent of the annual cost of membership in the respective international associations.

247. The General Export Incentive Scheme (GEIS), replacing Category A and B assistance, was introduced on 1 April 1990 for non-primary products. Under GEIS, the level of subsidy is linked to the export value rather than to production and marketing costs (Note IV.2). The GEIS is primarily aimed at increasing the share of higher value-added manufactures in South Africa's total exports and stipulates a minimum local content of 35 per cent in order for manufacturers to be eligible for a tax-free cash payment or promissory note.
Note IV.2 The General Export Incentive Scheme

The degree of assistance provided to exporters is a function of the degree of processing and local content. The following formula is used:

\[ Z = U \times (M \pm E) \times P. \]

where

- \( Z \) = The tax-free cash subsidy provided to exporters
- \( U \) = Export sales value (f.o.b.)
- \( M \) = Manufacturing level factor (or Marketing Assistance Factor)
- \( E \) = Exchange rate factor through which \( M \) is adjusted to inflation and exchange rate fluctuations
- \( P \) = Local content factor.

Products are classified according to the following four categories according to their degree of transformation:

<table>
<thead>
<tr>
<th>Category</th>
<th>Manufacturing Level</th>
<th>M Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Primary products</td>
<td>0.0%</td>
</tr>
<tr>
<td>2</td>
<td>Beneficiated primary products</td>
<td>7.5%</td>
</tr>
<tr>
<td>3</td>
<td>Material intensive products</td>
<td>12.5%</td>
</tr>
<tr>
<td>4</td>
<td>Manufactured products</td>
<td>25.0%</td>
</tr>
</tbody>
</table>

Primary products (Category 1) are products which have not been beneficiated (processed) significantly and include basic raw material and resources, e.g. slaughter animals, plants, mineral ores, clays, coal, stone, fibres, logs. Beneficiated primary products (Category 2) are products which have undergone at least the first stage of processing but for which the value added relative to raw material input is still low, e.g. carcasses, sawn timber, gutted fish, threads, hides, fruit, chemical compounds, billets and ingots. Material intensive products (Category 3) are category 1 and 2 products that have been processed to such an extent that further addition of value can occur only if these products are either incorporated in or transformed into category 4 products, or where the material content predominates in the selling value, e.g. tinned meat, planed planks, tinned fish, sheet metal, leather, woven textiles, metal profiles and pipes. Manufactured products are those which have been fully manufactured and to which any further value added prior to use is either physically impossible or economically unjustifiable, e.g. furniture, steel cabinets, footwear, ready-to-wear clothing, tools, domestic appliances and fully manufactured components.

The value of the exchange rate factor (\( E \)) is determined by the Reserve Bank in advance for six-monthly periods. The factor is adjusted by 0.5 per cent for every 1 per cent the rand depreciates or appreciates relative to its 1979 trade-weighted value. The value in September 1992 was minus

\[ * \]

* A minimum subsidy of 2.5 per cent is guaranteed.
5.5 per cent. Manufacturers with long production periods may apply for a fixed E-factor.

The local content factor, $P$ is calculated as $U-I/U$, where $U$ is export sales and $I$ is value of imported inputs. If $P$ is less than 35 per cent, the factor is 0. If $P$ is 75 per cent or more, the factor is 1. If $P$ is 35 per cent or more but less than 75 per cent, the actual percentage is used in the calculation. Imported inputs with 25 per cent domestic value added qualify as local production.

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248. Exports to other members of the Customs Union and to the TBVC states do not qualify for GEIS; nor do products exported from these areas.

249. A number of products are excluded from the GEIS, including motor vehicles, unworked precious metals and stones, re-exports and second hand goods, maize and other grains, ferrous and non-ferrous ores, and certain primary petrochemicals (Annex IV.2).

250. A registered exporter may appeal against its category classification. The Director-General of Trade and Industry is the sole arbitrator in the determination of the classification of products under the four categories. Claims must be submitted within three months after the end of the claimant's financial year or half-year, and must be accompanied by a certificate substantiating the export sales value and the value of imported inputs. In fiscal year 1992, claims approved by category were: R 75 million for Category 2, R 225 million for Category 3 and R 415 million for Category 4. The value of claims approved was lower in all categories than in the preceding year.

251. Table IV.12 shows disbursements on export subsidies since fiscal year 1986/87. These will amount to over R 2 billion in 1992/93, with GEIS accounting for over half. At present, the plan is to abolish GEIS by 31 March 1995; according to the authorities, the Government and the private sector are aware that export subsidies contravene GATT rules. Changes from past export assistance brought about by the GEIS include greater focus on actual export performance as opposed to simple alleviation of production costs, a formula approach based on objective criteria and adjustment for exchange rate effects. Like all export subsidy programs, negative aspects include the selective nature of measures biased towards the manufacturing sector, the difficulty of estimating the value of imported inputs to determine local content, and the very real possibility of exports, which benefit from financial assistance, remaining uncompetitive. While the new system would seem to be less likely to be abused because the criteria for application and for controlling claims appear stricter than with the previous subsidy system, there is a corresponding increase in the administrative and fiscal burden. Representatives of the private sector argue that lower tax rates and elimination of duties on imported capital equipment could produce higher export performance without burdening the taxpayer, as a result of lower production costs.

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(vi) **Duty and tax concessions**

252. Provision exists for rebate or refund of the import tariff on raw materials/components used in the manufacturing, processing, finishing, equipping or packing of goods for export. There are standing provisions for duty rebates on selected materials, not available locally, used for specified products as long as finished goods are exported within twelve months.

253. Permanent provisions for drawback (refund) of duty are used where exportation takes place on a fairly regular basis or exporters enjoy established export markets and South African inputs are either not available or domestic inputs are not competitive with external supplies. Exporters requiring permanent drawback assistance may apply to have a provision introduced.

254. As part of the structural adjustment programme launched in April 1989, clothing and textile manufacturers who export at least 2.5 per cent of their turnover are eligible for duty-free imports of yarns, fabrics and clothing. Clothing manufacturers may import textiles and clothing duty-free up to 70 per cent of the value of their exports in the preceding year; textile manufacturers may import fabrics and yarns up to 50 per cent, and yarn manufacturers may import yarn and fabrics up to 40 per cent. Exporters may also import duty-free fabrics representing 10 per cent of locally purchased inputs. As exports increase as a share of turnover, the proportion of duty-free imports to local purchases rises.

255. Since 10 May 1989, manufacturers who export at least 15 per cent of their production may be exempt from the import surcharge on capital goods subject to certain requirements and conditions, for example, that local value added should not be less than 40 per cent. Exemption from the surcharge may be also obtained in the case of certain reciprocal transactions.

256. Tax concessions, through advanced depreciation and the write-off of machinery, property and pre-production interest, are available under Section 37E of the Income Tax Act to beneficiation projects. The write-off in the case of depreciation, at the normal rate of 20 per cent a year over five years, may be initiated from the date on which the expenditure is incurred rather than when assets are taken into use. These tax credits are

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41 A rebate is the reduction or exemption of duty at the time of import; a refund or drawback is paid upon exportation.

negotiable and can be sold to other companies. Applications are likely to be approved where the process adds at least 35 per cent to the value of the raw material or intermediate product processed, and if the process will be carried out on a scale that makes it internationally competitive. A further consideration, that at least 60 per cent by value of the intermediate or final product produced will be exported, is being disregarded and is to be removed from Section 37E with retroactive effect.

257. Exports are zero-rated for purposes of VAT and the double taxation aspects of the previous general sales tax have been eliminated, reducing the tax cost element of South Africa's exports by an estimated 5 per cent.

(vii) Export processing zones

258. There are currently no legal provisions for export processing zones, although goods may be temporarily admitted, for up to six months, for processing. The establishment of EPZs has been recommended by both the Industrial Development Corporation and the Development Bank of Southern Africa.

(viii) Export finance and insurance

259. Export finance facilities, in the form of suppliers' or buyers' credits, are available to foreign buyers of capital goods and services at competitive rates of interest. Buyers' and suppliers' credits will be granted up to a maximum of 85 per cent of total contract value if South African content is 70 per cent or more; at less than 70 per cent, maximum finance is 125 per cent of the value of local content. Conditions of credit are laid down according to the guidelines of the Berne Union and interest rates are reviewed regularly to ensure they stay in line with the OECD consensus rates. Current rates are 4 per cent below the prime rate. The financing is medium-term in nature, with credits for periods of between 2 to 10 years. The scheme is not available to exporters using the GEIS.

260. The Export Credit Guarantee and Insurance Scheme operates in accordance with the Export Credit Re-insurance Act of 1957, as amended.


44Department of Trade and Industry, Directorate: Export Trade Promotion. To accommodate large turnkey projects, the Industrial Development Corporation can conclude lines of credit with banks in some countries. These lines usually take the form of a blanket offer of medium to long-term credit facilities to foreign banks to finance purchases from South Africa.
The scheme is operated by the Credit Guarantee Insurance Corporation of South Africa Limited (CGIC) on behalf of the Department of Trade and Industry. The Government reinsures the political as well as a portion of the commercial risks underwritten by the private CGIC. Premiums paid by exporters finance the Export Credit Re-insurance Fund. Expenditure by the Fund has grown in the last ten years, to R 168 million in fiscal year 1992; there was also direct assistance amounting to R 11 million in fiscal years 1991 and 1992 (Table IV.13). The expenditure of R 168 million was in the form of subsidized interest rates, for exporting capital projects, to enable South African exporters to offer credit, according to the authorities, at comparable terms with other Berne Union members. The assistance of R 11 million was paid into the Fund to meet the payment of certain claims against the Fund.

261. In 1991, the Industrial Development Corporation began to make available R 500 million, at the rate of R 100 million a year, to promote new investments directed at exports. Financing is at an interest rate of 9 per cent a year for the first three years of the loan, provided 60 per cent or more of the expected sales from the project will be directed to exports. For projects partially complying, half of the financing is made available at the preferential rate of 9 per cent for the first three years, and the remainder of the financing is available at the normal IDC interest rates.

(ix) Export promotion and marketing

262. The Directorate of Export Trade Promotion, in the Department of Trade and Industry, manages the Export Centre which, in conjunction with the South African Foreign Trade Organisation (SAFTO), services the exporting community. Services include trade publications, market research and assistance on trade disputes.

263. During the 1980s, export marketing allowances under Section 11(bis) of the Income Tax Act were introduced to promote exports (Table IV.14). The tax deduction amounted to 175 (or 200) per cent of marketing expenditure. As of 9 March 1990, it was announced that this allowance would be partially replaced by a new Export Marketing Assistance Scheme and that Section 11(bis) would cease to apply on 31 March 1992. Qualifying marketing expenditure, not in excess of 20 per cent of export sales, may be carried forward until 31 March 1993. On the basis of only partial

45 Department of Trade and Industry.
corporate income tax returns. R 1.2 billion of allowances were claimed in 1990 under Section 11(bis).

264. The new Export Marketing Assistance Scheme (EMA), applicable since April 1, 1990, replaces the previous Category C scheme and compensates exporters for costs incurred in developing new export markets. For control purposes, only registered exporters and participants in the GEIS qualify for EMA Schemes. The EMA makes available the following schemes: primary export market research; outward selling trade missions; inward buying trade missions; and exhibition assistance. Compensation is confined to one representative and to market research aimed at establishing new outlets for a particular product in a defined marketing area. Under these schemes, the Government covers the cost of part of the air fares, subsistence allowances, and exhibition assistance (Annex IV.3). Prior approval of the Department of Trade and Industry must be obtained before expenditure is incurred. Permission is required two months before departure on a market research mission, before an inward buying mission, and for exhibition assistance and four months prior to departure on an outward selling mission. Claims must generally be submitted within one month.

265. Films produced in South Africa may receive an export marketing allowance up to a maximum of 2.5 times the production cost and post-production cost incurred in South Africa less the sum of costs incurred outside the country, but within the 20 per cent limit of total export sales.

(x) Voluntary export restraints

266. Iron and steel export quotas to the European Communities (EC) were in effect between 1982 and 1986, then renegotiated but terminated when sanctions were imposed. Similarly, a voluntary restraint arrangement on iron and steel exports to the United States was in effect from September 1984 until October 1986. After the lifting of the Comprehensive Anti-Apartheid Act in 1991, an interim arrangement, from September 1991 until 31 March 1992, was negotiated limiting steel exports to the United States to 126,000 metric tons per three-month period.

267. South Africa is not a signatory to the Multifibre Arrangement. Under an export quota, South Africa may export to the United Kingdom

46 Department of Finance.
47 Coopers (1991), p. 44.
48 Government of South Africa.
1,012,000 square metres, made up of 60 per cent cotton textiles and 40 per cent cotton clothing with a minimum content of 50 per cent cotton. An arrangement with France limited imports of clothing from South Africa to FF550,000 in 1992. Since 1 January 1988, imports of specified fabrics and apparel have been subject to volume restraints in the Canadian market. Negotiations on export quotas on textile and clothing were held with the United States in 1986 but were interrupted by sanctions. In addition to these export restraints in textiles and clothing, South Africa's exports of apples are restrained to the EC.

(4) Measures Affecting Production and Trade

(i) Structural adjustment assistance

268. Structural adjustment usually refers to policies aimed at altering the use of resources within, or among, sectors to encourage greater efficiency. As such, selective measures to improve competitiveness may fall under the definition of structural adjustment.

269. The textiles and clothing and the motor vehicles industries are assisted under specific structural adjustment programmes. No government programmes exist for facilitating occupational, sectoral or regional mobility, nor are there provisions for uneconomic firms wishing to leave an industry. However, funding is provided to the Small Business Development Corporation, which plays a rôle in developing labour-intensive industries (Chapter IV(4)(vi)(b)).

(ii) Tax concessions

270. While the statutory corporate tax rate was 50 per cent until 1991, the effective rate for many industries was nearer 30 per cent as a result of numerous concessions. In recent years, the general trend has been towards the removal of special, industry-specific tax concessions, so that the differentials in effective corporate tax rate have narrowed.

271. Mining companies were historically taxed at a higher rate than industrial companies, but the tax rate has been lowered over the past few years. Gold mining companies are taxed according to a formula that, for fiscal year 1993, caps the tax rate at 58 per cent; no tax is payable

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50 Department of Trade and Industry.
below a 5 per cent rate of return. Until fiscal year 1992, in order to encourage the mining of marginal ore deposits, companies producing lower grade ore were taxed at a lower rate.

272. The rate of depreciation (wear and tear) allowances for industry in general is subject to the discretion of the tax authorities and is usually calculated according to the declining balance method. In order to stimulate new investment, in 1988 and 1989 allowances were introduced for accelerated capital depreciation on plant and machinery to manufacturing, to the hotel industry and for farming purposes, including equipment for storing, handling or processing farm products. An annual depreciation allowance of 5 per cent of cost is available for buildings constructed or improved for these purposes. All of these allowances replace a variety of previously applied allowances. Based on a review of some but not all tax returns, manufacturers claimed nearly R 6 billion in depreciation allowances in fiscal year 1990, nearly the same amount as claimed by farmers and cooperative societies.

273. Ships and aircraft may qualify for a special initial allowance of 40 per cent in the year of acquisition and for accelerated depreciation. Farmers may depreciate plant and equipment by 50 per cent in the first year and cooperatives may claim a 5 per cent allowance for storage buildings.

274. Scientific research undertaken for the development of a business is fully tax deductible, as is 25 per cent of capital expenditure incurred for scientific research.

275. The mining sector is allowed an immediate 100 per cent deduction against income for capital expenditure, except for the cost of land and mineral rights. As of 1985 the write-off could be deducted only against the income of the mine concerned, but in 1990 a provision, (Section 36(7g) of the Income Tax Act) was introduced that allows a company that owns a number of mines to pool its mining income, a maximum of 25 per cent of which may be used to absorb capital expenditure once a new mine has begun producing. A risk of such "ring-fencing" schemes is that capital expenditure may be diverted from its most productive use to where it is most effective in reducing tax; for example, a company might be encouraged to open an additional mine when, without the tax deduction, it would be more likely to upgrade equipment or buy other assets.

51Department of Finance; this suggests but underestimates the magnitude of the tax revenues forgone through accelerated depreciation.

52Gidlow (1988); p. 36.
276. Section 37E, introduced into the Income Tax Act in September 1991, provides for advanced and enhanced depreciation of machinery, plant and buildings used in beneficiation processes and immediate deduction of any pre-production interest on that cost. The write-off may be made in instalments over a five-year period and, like a 5 per cent allowance on the erection of buildings, may be initiated from the date on which expenditure is incurred rather than when the assets are put into use. If there is no tax base on which the write-off can be taken, the operator will be issued a negotiable tax credit.

277. Amendments introduced on 18 March 1992 provide that, in order for the beneficiation allowance to be granted, the process must add at least 35 per cent value to basic and intermediate inputs and at least 60 per cent of output must be exported. This latter consideration is being disregarded and is to be removed from Section 37E with retroactive effect. The allowance will be discontinued after September 1993. In addition, raw materials and inputs may be either locally produced or imported, but imports of capital goods must be financed through foreign credits. In approving a project, a Committee also takes into account the effect on further downstream processing and on small and medium-sized enterprises.

(iii) Interest rate subsidies

278. Concessional finance for industrial development has long been an industrial policy tool in South Africa's economic development and structural adjustment. The Industrial Development Corporation (IDC) supplies concessional finance to the private sector for the establishment of new industries and the expansion or modernisation of existing industries.

279. In addition to the low interest loans for export-oriented production (Chapter IV(3)(viii)), the IDC provides preferential loans, at 9 per cent for the first three years, to meet the larger working capital needs of manufacturers moving to an increased production shift. These loans relate to improved capacity utilization and greater employment. Loans, at market related rates, are available for establishment, expansion and


54 In fiscal year 1991, the IDC provided R 21 million in additional working capital to the local wool processing industry as international prices plunged.
modernization. The IDC also supplies import financing through credit lines established with foreign suppliers of capital goods.

280. According to its 1991 Annual Report, the IDC is in a position to mobilize R 10 billion over the next six years for industrial development. Most of these funds have been earmarked for major beneficiation projects, including the Columbus stainless steel and Alusaf projects as well as the expansion of SASOL's petrochemicals production (Chapter V(4)(ii)).

281. Under the Gold Mines Assistance Act of 1968, interest-rate subsidies could be made available to mines in difficulty. In January 1988 the Act was repealed; since then, assistance is granted on an ad hoc basis. Assistance normally takes the form of a tripartite agreement whereby the Government guarantees loans granted by a financial institution. One gold mine was receiving an interest rate subsidy of 10 per cent until the end of 1992.

282. Loans to farmers by agricultural cooperatives were until 1992 guaranteed by the State (Section V(2)(c)). This is no longer the case, so cooperatives will be forced to scrutinize the level of debt more closely before extending credit. The average annual interest rate subsidy to the farming sector has been 10 per cent.

(iv) Competition policy

(a) Competition law

283. The preamble to the Constitution lays down the promotion of effective competition as a national goal. The Maintenance and Promotion of Competition Act of 1979 provides for the maintenance and promotion of competition in the economy, for the prevention or control of restrictive practices, acquisitions and monopoly situations and for related matters. The Act repealed the Regulation of Monopolistic Conditions Act of 1955 and has been amended a number of times, most recently in 1990.

284. The Act does not contain any express prohibitions. However, provision is made in the Act for declaring certain restrictive practices

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55 The IDC has concluded credit arrangements with banks in several European countries and Taiwan to provide "attractive medium-term finance", according to the authorities, for manufacturers who import capital goods and services; up to 85 per cent of the contract price is financed in the currency of the supplier country, with forward exchange cover available from the Reserve Bank for the full credit period.

56 Department of Minerals & Energy Affairs. Two other mines have had loans guaranteed by the Government, but these were without an interest rate subsidy, according to the authorities; one of the mines has not drawn on its guaranteed loan.
unlawful after an investigation by the Competition Board (see below). After such an investigation in 1985, certain practices, found endemic in South Africa, were declared unlawful as of 2 May 1986, including horizontal price collusion, horizontal collusion on conditions of supply and market sharing, and collusive tendering. The prohibitions apply to goods and services, including those provided by the State.

285. The Act does not require formal registration of restrictive practices. Parties to acquisitions are not obliged to notify the proposed transactions to the Board.

286. Numerous exemptions have been sought to the 1986 prohibition of certain restrictive practices and a number of permanent and temporary exemptions have been granted. The latter have been mainly to allow time to adjust to the phasing out of the practice(s) and avoid disruption. In addition, goods or services sold outside the territory of the customs union were exempted from the provisions of the Act; hence, export cartels are exempt from the prohibition. So, too, are practices and agreements between holding companies and their wholly-owned subsidiaries, as is collusion on tenders, where such collusion is known to the parties requesting the tender at the time it is submitted. Permanent exemptions are, however, not immune from further scrutiny under competition law; they differ from temporary exemptions in that no date is set for the removal of the practice or arrangement.

287. South African competition law addresses three main issues, restrictive practices, acquisitions and monopoly situations. The Competition Board, in existence since 1980, is responsible for administering the Maintenance and Promotion of Competition Act. Its function is to advise the Minister for Public Enterprises on the implementation and administration of competition policy, including deregulation, and to coordinate policy with official economic objectives. The Board is also responsible for investigating complaints of unfair competition by enterprises and institutions controlled indirectly or directly by the State. In the context of eliminating restrictions to the promotion of competition, the Board is invited to comment on new and existing legislation.

288. Under the Act, the Board is empowered to conduct general and specific investigations on its own initiative or at the request of the Minister; it will make a recommendation to the Minister, based on public interest criteria, whether or not to prohibit the restrictive practice, acquisition or monopoly situation in question. Section 6 of the Act allows for investigations of a general nature and for consultations with interested parties in connection with a restrictive practice, acquisition or monopoly situation. In particular, the consultations allow the parties to discern the Board's view as to whether the actions will be investigated if the
parties continue with them. Restrictive practices, acquisitions and monopoly situations are as a rule investigated on a preliminary basis in an endeavour to resolve problems without resorting to a formal investigation. Identified problem areas are more often than not resolved in this manner.

289. Formal investigations under the Act are published in the Government Gazette. In the course of such an investigation the Board, before declaring a restrictive practice, acquisitions or monopoly situation unlawful, may enter into an arrangement with the parties to solve the problem. The Ministers' endorsement of the arrangement, and its subsequent publications in the Gazette, makes it legally binding.

290. A rebuttable presumption exists in the Act that restrictive practices and acquisitions are against the public interest. The burden of proof rests with the parties concerned to show why the public interest is served by the particular restrictive practice or acquisition. The reverse applies as far as monopolies are concerned (see below). Formal investigations are, in principle, limited to three months, but the Minister may extend the period.

291. Should a situation or practice be found illegal, the offending party has a right of appeal in a special court constituted by the State President. Penalties in the form of fines or imprisonment vary according to the severity of the offence; failure to comply with notices declaring particular restrictive practices, acquisitions and monopoly situations unlawful, expose the parties concerned to penalties of up to R 100,000 and/or five years imprisonment.

292. Investigations into monopoly situations were not provided for under the 1979 Act; however, an amendment in 1986 allowed for the investigation of existing concentration of economic power. The Board is assigned to study trends towards increased concentration "with a view to the investigation of monopoly situations which appear not to be justified in the public interest". Previously, only acquisitions, not existing monopolies, which might restrict competition were subject to investigation. The Board applies criteria such as restrictions to entry, availability of imports and other factors determining the contestability of the market.

(b) Pricing and marketing arrangements

293. The majority of restrictive practices reviewed by the Board do not reach the stage of formal investigation. Either the practice is discontinued, or the Board determines that the practice was not restrictive or served the public interest. As noted, in some cases, a temporary or permanent exemption to the prohibition is granted. Permanent exemptions were, for example, granted to leading building industry associations because their by-laws were regarded as including justifiable restrictive
conditions; they were thus exempted from the prohibition on horizontal collusion of conditions of supply. However, these by-laws were modified so as to eliminate unfair tendering practices and increase competition amongst members and non-members of the Building Industries Federation. The exemptions granted in the building industry are currently being re-evaluated. A permanent exemption has also been granted to a cement cartel, to newspapers and magazines, and to retail groups competing with one another on a franchise basis in the fields of food, pharmacy and alcoholic beverages.

294. An example of a temporary exemption is that given to the Timber Marketing Agreement, which set minimum delivery prices for soft woods. This market-sharing arrangement was exempted from prohibition until the end of 1989, subject to certain conditions aimed at removing discrimination between members and non-members of the agreement and adopting a mill price system. In another case, the agreement between the South African and Swaziland Sugar Associations, limiting the amount of sugar produced in Swaziland to be sold in the Republic, has been exempted for the period covered by the agreement, until 30 April 1993.

295. According to the Competition Board, complaints regarding alleged restrictive practices have diminished since the widened prohibition in 1986. There have been no convictions for contravention. In a recent investigation, restrictive practices encountered in the pharmaceuticals industry, involving wholesale distribution and pricing of prescription drugs, were made illegal in September 1991. On the advice of the Competition Board, the South African Sugar Association ended its practice of rewarding local confectioners for their use of South African sugar. Other pricing and marketing arrangements, exercised through the agricultural control boards, are discussed in Chapter V(2).

(c) Acquisitions

296. A party to an acquisition, although not required to notify the proposed transaction, is expected to follow the guidelines issued by the Competition Board. In most cases discussions will take place in order to determine whether a formal Board investigation is necessary. While the screening of acquisitions is aimed at avoiding market dominance, exceptions can be made in the case of failing companies where this serves the public interest.

297. Such an exemption was made in the hosiery market. In 1992, for the first time in five years, the Government overturned the decision of the Competition Board and approved a conglomerate's purchase giving it 99 per cent of the ladies' hosiery market. The Minister for Public Enterprises concluded that the horizontal monopoly would not last for long as import liberalization would nullify its effect; the Minister requested the Board of Trade and Industry to review the 15 per cent tariff, but to date the tariff has not been lowered. In another case (the merger of two companies manufacturing small domestic appliances in 1991) imports were also seen as the appropriate response to countering anti-competitive effects of concentration. The Board determined not to proceed with an investigation on the basis that imports in this market represented real competition, while a joint venture would prevent substantial layoffs and improve local producers' economies of scale.

(d) Privatization and deregulation

298. In order to reduce the rôle of the State in the South African economy as part of overall economic restructuring, the Government set out in the second half of the 1980s to commercialize, and, in viable cases, privatize, public enterprises. Through commercialization, the enterprise is expected to operate on business principles, providing services at prices reflecting their real cost and emphasizing efficiency and return on investment. Privatization may take place when competitiveness has been firmly established. Proceeds from privatization were to be used to repay public debt and finance infrastructural and socio-economic projects for development. Major industries have been sold to the private sector, beginning with SASOL, which was privatized in three stages, in 1979, 1982 and 1991; followed by ISCOR, the iron and steel company in 1989; and National Sorghum Breweries, the largest black-owned business, in July 1991. Five public enterprises remain the responsibility of the Office for Public Enterprises and Privatization: Eskom, Foskor, Alexkor, Transnet and Denel. Commercialisation has occurred in the case of Transnet, Telkom, South African Post Office, Denel Abattoir Corporation, Alexkor and the State Forestry Reserves. Airports are to be commercialized in 1993.

299. Whereas competition policy aims to reduce restrictive practices enforced by private interests, deregulation policy involves the scaling back of governmental measures that impede entry or impose unnecessary

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59 Financial Mail, 27 March 1992; and information provided by the Competition Board.


costs. A framework for deregulation was put in place following a 1985 report by the President's Council, *A Strategy for the Development of Small Business and Deregulation*. The White Paper on Privatization and Deregulation issued in August 1987 states that all regulatory institutions must ensure that measures will not restrict the development of the economy.

300. While Government departments and institutions are primarily responsible for initiating and implementing deregulatory measures in their respective spheres of activity, the Competition Board takes the lead in coordinating deregulation policy, reporting to the Minister for Public Enterprise and commenting on proposed legislation. Deregulation policy is intended to facilitate entry into the South African economy for all persons, minimise State control over business activities and promote effective competition through the removal of unwarranted and restrictive regulatory measures.

301. In tandem with the repeal of apartheid legislation in the last several years, deregulation has removed restrictions on the establishment of businesses and acquisition of land by the black population. The Temporary Removal of Restrictions on Economic Activities Act 87 of 1986, effective until 31 March 1994, empowered the State President to issue proclamations allowing for temporary deregulation. A proclamation in 1991 suspended various provincial ordinances with regard to business licences and trading hours and gave effect to the objectives of the Business Act of 1991; to date, however, the latter has only been implemented in the Cape Province, due to technical difficulties. However, a number of restrictive practices continue to exist, such as the restriction on land use for economic activities and the protection of vested interests and monopolies in certain professional services.

302. Other deregulatory actions have included the revision of the permit system for road transport, simplified regulations for the preparation and sale of foodstuffs and the abolition of price control on a large number of commodities, including motor vehicle parts, buildings materials, pharmaceuticals, coal, fertilizers, margarine and fish meal. Price control of certain commodities is established under the Price Control Act of 1964, as amended by Act 39 of 1976. Under this Act, the Price Controller may fix maximum prices in respect of goods and services, determine certain conditions of sale and prescribe deposits. At present, according to the

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62 For example, on the deregulation of the meat industry and the privatization of Abattoir Corporation, the Competition Board's recommendations have been influential.


64 Competition Board, ibid.
authorities, only deposits on returnable soft drink bottles and the retail price of illuminated paraffin are subject to price control.

(v) Assistance for research and development

303. The Department of National Education is responsible for the coordination of research funds. Major research councils include the Council for Scientific and Industrial Research (CSIR), which operates mainly in the physical sciences and engineering, the Human Sciences Research Council, the Agricultural Research Council, the Medical Research Council, and the Council for Mineral Technology. The Council for Scientific and Industrial Research, with a budget of R 441 million in fiscal year 1993, is run on a commercial basis, with over half of its funding derived from private or public sector contracts.

304. During 1987 major science policy changes were introduced, aimed at stimulating a more needs-oriented approach in the research effort and the generation of contract income in lieu of State support. The Foundation for Research Development, established in 1990, is a funding body to ensure the balanced and cost-effective provision of resources and expertise to universities and other research institutes.

305. Expenditure on research and development (R&D), as a percentage of GDP, has been less than 1 per cent in the latter half of the 1980s and has been declining. The business sector contributes over one-third to national expenditure on R&D; private sector spending increased more rapidly than did public expenditure in the last few years of the 1980s. With the exception of the programme for the electronics industry, government R&D has focused on tertiary education and the needs of services like health, agriculture, water, energy, transport communications and defence. Public funds in 1987 amounted to R 770 million of which over one-third was allocated to tertiary education, one-third to Science Councils, and one-quarter to other public sector bodies. Less than 1 per cent was distributed to the private sector. Defence R&D, included in these figures, has been drastically reduced in recent years. Where the private sector makes use of government R&D facilities, it pays market-related prices.

306. The Innovation Support for Electronics Programme, introduced in 1989 and jointly administered by the IDC and the Department of Trade and Industry, promotes the design of innovative electronics products. Annual expenditure by the Government is limited to R 40 million. Under this

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65 Government of South Africa.

66 CSIR.
programme, half the cost of approved market-led product development projects is publicly funded. By 1992, R 41.6 million had been allocated, generating roughly R 5 billion in sales and projected exports of R 12 million in 1992/1993. The Department of Trade and Industry is considering extending the programme beyond electronics to technology in a wider context as a way to provide threshold assistance and stimulate private R&D.

(vi) Regional development

307. Regional development policies have been implemented in many industrialized countries, normally to provide employment and income opportunities on a regionally equitable basis. Generally, regional development is intended to redistribute economic activities away from the main urban-industrial centres. In some countries, regional assistance has taken the form of support to the farm sector to guarantee the livelihood of the rural population; in others, the focus has been on developing industrial growth centres.

308. In South Africa, regional development has taken on particular importance, given the extreme dualism of the economy. Two major facets of regional policy can be identified. At the general development level, regional development refers to the transfer of resources from the more to the less developed areas. The other and overlapping aspect of regional development has been the pursuit of industrial decentralization policies, administered by the former Decentralization Board but now under the auspices of the Department of Regional and Land Affairs.

(a) Industrial decentralization

309. In 1956, a White Paper, the "Memorandum of Government Decisions on the Recommendations of the Tomlinson Commission", set industrial decentralization as the cornerstone of the policy of "separate development", through which the black population would reside in homelands (also known as Bantustans, reserves or national states at various points in time), which were eventually encouraged to become "independent". In addition to pass laws and other forms of influx control, the Physical Planning and Utilization of Resources Act, promulgated in 1968 in order to relieve the pressure on urbanisation, restricted additional employment of

67 Department of Trade and Industry, Innovating Growth.

68 In 1985, the metropolitan regions generated 72 per cent of manufacturing value added (MVA) while housing 30 per cent of the population; the homelands generated 2.5 per cent of MVA and housed 42 per cent of the population.
Africans in manufacturing industries in three of the four major industrial centres. The urban bias inherent in the industrial base of the economy, magnified by certain policies, concentrated manufacturing industries in the four metropolitan regions. These have traditionally accounted for four-fifths of manufacturing output and employment.

310. Following an evaluation of regional development policy in November 1981, the Regional Industrial Development Programme (RIDP), offering enhanced decentralization incentives came into effect on 1 April 1982. The programme identified nine development regions and aimed to promote the clustering of related firms within industrial development points. Regional policy orientation shifted towards providing supporting infrastructure in a limited number of industrial development points and the development of other than the manufacturing sector. Some commentators suggest that this new orientation represented a change in emphasis from a political context to an integrated regional approach.

311. A large number of academic studies have come to the conclusion that decentralization policy failed to create the expected intra-regional firm linkages, "agglomeration economies", as there were too many growth points and concessions were too generous. Cash grants on wages reduced the effective price of labour to zero and incentive periods lasted as long as 10 years. Firms attracted by incentives either remained terminally dependent on subsidies or were simply subsidiaries taking advantage of cheap labour. These policies may even have exacerbated the skills shortage by directing resources to low-skill-intensive industries.

312. Furthermore, it has been argued that, at least during the 1960s and 1970s, industrial decentralization might have occurred without special incentives, as a spontaneous reaction to the changing structure of global competition. As such, government intervention might well have been redundant as labour-intensive industries sought to reduce production costs by locating close to ports and taking advantage of inter-regional wage differentials. In the meantime, the import replacement possibilities for light industries had been filled and import substitution moved towards

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69 This Act, renamed the Environmental Planning Act in 1977, is still in effect.

70 These are Pretoria-Witwatersrand-Vaal (PWV), Durban/Pinetown, Port Elizabeth/Uitenhage and Capetown.

71 Maasdorp (1990), p. 134. The structure of transport tariffs, for example, by offering lower rates on the transport of raw materials compared to final goods, encouraged firms to do their processing nearer to the market.


73 Bell (1986).
heavy industries. The shift in trade policies to promote import substitution of processed raw materials and intermediate and capital goods favouring the capital-intensive industries of the Pretoria-Witwatersrand-Vaal (PWV) area reduced the locational advantage of coastal cities and operated in juxtaposition to decentralization policies.

313. Between April 1982 and 31 March 1991, R 5.4 billion of investments were eligible for concessions and between 450,000 and 500,000 jobs were created. Under the RIDP, direct costs increased considerably, amounting to 2 per cent of current government expenditure in fiscal year 1985/1986; in the same year, the cost of infrastructure was estimated at 1.2 per cent of GDP. It has been estimated that total investment per job in industrial development points has been four times the metropolitan equivalent and other analyses have shown that every job created in a decentralized area has been at the cost of a job in the metropolitan areas. In the Transkei, the first homeland to become independent, in 1976, state investment, administered through homeland development agencies, has been equal to the value of wages. While the RIDP created jobs, the system was widely abused and the above examples suggest that expenditure may simply have shifted economic activity from one area of the country to the other without adding to GDP.

314. In 1987, a Panel of Experts evaluated the RIDP and recommended a more market-oriented strategy. Since 1 May 1991, a new programme, with an annual budget of R 100 million for new manufacturing industries, has been in effect.

315. Replacing the Decentralization Board, the Department of Regional and Land Affairs, established on 1 February 1992, is responsible for promoting development on a national and regional level. Current industrial incentives, with no distinction made between regions, and no or only partial incentives paid in the metropolitan areas, are limited to:

- an annual establishment grant of 10.5 per cent of total operational assets, as long as a company's equity remains above 35 per cent of total asset value, for a maximum period of two years and up to a ceiling of R 15 million per project;

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75 Holden (1990); transport and wage subsidies made up the largest share of expenditure.
77 Lewis (1990).
a profit/output-based incentive for a further three years not to exceed the annual establishment grant; and relocation grants of up to R 1 million for foreign businesses.

Firms may also apply for concessions on transport and electricity tariffs with the respective authorities. In the first year of operation, it is estimated that the value of investments eligible for incentives amounted to R 3.2 billion and that 24,000 jobs had been created.

316. Although levels of state assistance have been trimmed in the most recent policy programme, certain development costs have devolved to decentralized industries as they finance the Regional Services Councils through turnover and payroll taxes.

(b) Concessional, project and development finance

317. While South Africa has yet to resume eligibility for international development aid, international agencies are beginning to look at development needs. In the meantime, South Africa has established a wide range of development agencies and programmes, involving fourteen government departments and thirteen development agencies, the Industrial Development Corporation, the Development Bank of Southern Africa, the Small Business Development Corporation (SBDC) and the development agencies of the "independent" and self-governing states. Development finance is aimed at assistance to the less developed areas, to industry per se as a form of structural adjustment and to small business development which is viewed as an important vehicle to the integration of a wider segment of the population into the productive economy.

318. The most important agency in industrial development, historically and still today, is the Industrial Development Corporation. While continuing in its traditional rôle of supporting large capital-intensive projects, the EDC's current emphasis is to support small and medium-sized industries either directly or through its 50 per cent shareholding in the SBDC. In 1991, 65 per cent of the value of the loans authorized under industrial financing went to businesses with assets below R 10 million and in 1992

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79 Deductible from income tax, these taxes amount to 0.1 per cent of turnover and 0.25 per cent of the payroll. Solomon (1990) has noted that such taxes will tend to penalize efficiency.

80 In 1987 the IDC extended an interest-free loan of R 70 million to the SBDC for five years.
such firms received loans of R 110 million. Loans are normally at market-related interest rates.  

319. For each of the six self-governing territories a development corporation provides financial assistance, as does the South African Development Trust. Funds, primarily for small business development, are channelled through the Department of Regional and Land Affairs; in 1992/1993 R 240 million was allocated in the budget.

320. Development cooperation between the Republic of South Africa and the "independent" homelands (the TBVC states) is coordinated by the Development Bank of Southern Africa, established in June 1983. The Development Bank was created by the Governments of the TBVC states and the Republic of South Africa; membership is open to any independent state in Southern Africa. The business of the Bank is to mobilize and provide loan finance, technical assistance and advice for sustainable development projects. Its borrowers are central, regional and local governments and their development agencies. The Bank focuses attention on the small-scale, informal and subsistence sectors while also providing financing for infrastructure within the priorities generated by regional development policies. Funds are raised on capital markets and the South African Government contributes annually through the Development Fund. Normally funded through direct budget allocations, the South African government financing has, in the last two years, come from dividends declared by the Industrial Development Corporation.

321. The Small Business Development Corporation (SBDC) finances small and medium-sized enterprises, develops industrial properties for use by small businesses, promotes an entrepreneurship culture, attempts to integrate small businesses into the large business community and has succeeded in achieving some deregulation, in particular derestriction of trading licenses and hours.

322. Small and medium-sized enterprises (less than 200 employees) are estimated to account for 30 per cent of GDP and 17 per cent of employment. More than 30,000 loans have been granted in the SBDC's ten-year history, amounting to R 1.4 billion and more than 300,000 job opportunities have been created, at an average cost of R 4000 each. The SBDC notes that while

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81 Naude (1992); and information supplied by the IDC.


83 In 1991 and 1992, the IDC paid R 500 million to the Development Bank of Southern Africa.
R 1.4 billion has been budgeted for GEIS beneficiaries, only R 77 million was earmarked for SME development in fiscal year 1990/91. However, it should be noted, according to the authorities, that the IDC, through its own programme, contributes substantial amounts to the development of small industries, and that small businesses could also benefit from any of the support programmes for economic development.

323. In 1991, the SBDC spent R 119 million on small business development. Although the Government allocated R 93 million for SME development in 1991/92, according to the authorities, the inability of the Treasury to repeat ad hoc payments resulted in an allocation of just R 18 million for the 1992/93 fiscal year. Government funding of the SBDC's capital requirements has thus been reduced from approximately R 100 million to R 18 million for 1992/93. Through a bank indemnity scheme a joint venture with commercial banks has been set up, with the result that approximately R 500 million in development finance for SMEs could become available during the next three years.
Annex IV.1
Customs and Excise Act Schedules

Schedule No. 1:

Part 1: Customs duties
Part 2: Excise duties
   Section A: Specific excise duties and specific customs duties on imported goods of the same class or kind
   Section B: Ad valorem excise duties and ad valorem customs duties on imported goods of the same class or kind.
Part 4: Surcharge
Part 5: Fuel levy

Schedule No. 2: Anti-dumping and countervailing duties

Part 1: Anti-dumping duties
Part 2: Countervailing duties

Schedule No. 3: Industrial rebates of customs duties

Part 1: Goods used in the manufacture of other goods
Part 2: Goods used in the manufacture of other goods for export

Schedule No. 4: General rebates of customs duties

Part 1: Specific rebates of customs duties
Part 2: Temporary rebates of customs duties
Part 3: Goods temporarily admitted under rebate of customs duties

Schedule No. 5: Specific drawback and refunds of customs duties and fuel levy

Part 1: Specific drawback of customs duties
Part 2: Refunds of customs duties on goods exported in the same condition as imported
Part 3: Miscellaneous refunds of customs duties
Part 4: Refunds of fuel levy

Schedule No. 6: Rebates and refunds of excise duties and fuel levy

Part 1: Rebates and refunds of specific excise duties
Part 2: Rebates and refunds of ad valorem excise duties
Part 3: Rebates and refunds of the fuel levy
Annex IV.2
Products not qualifying for GEIS

References to tariff sub-headings are references contained in the schedules to the Customs and Excise Act 1964 ("the Customs Act").

- gold or other precious metals; where manufactured precious metal jewellery is exported, however, the export incentive will be calculated only on the value added to the precious metals employed in the manufacturing process. The export incentive applicable to the precious and semi-precious stones which form part such jewellery is calculated separately according to the category in which the particular stones fall.

- rough or unworked precious or semi-precious stones.

- maize exported in mass under tariff sub-heading 10.05.

- petroleum products under tariff sub-headings 27.09 and 27.10.

- cinematographic film under tariff sub-headings 37.04 and 37.06.

- vessels and other floating structures for breaking up falling under tariff sub-heading 89.08.

- postage or revenue stamps under tariff sub-heading 97.04.

- collections and collectors' pieces under tariff sub-heading 97.05.

- antiques of an age exceeding 100 years under tariff sub-heading 97.06.

- uranium ore and concentrates.

- motor vehicles and motor vehicle components incorporated in Phase VI of the Motor Vehicle Programme for calculating local content.

- secondhand products.

- re-exports.

- all service activities.

- ferrous ores, concentrates and base metals:
  - iron ore and concentrates including roasted iron pyrites under tariff sub-heading 26.01,
manganese ore and concentrates including manganiferous iron ores under tariff sub-heading 26.02;

chromium ores and concentrates under tariff sub-heading 26.10;

granulated slag under tariff sub-heading 26.18;

slag, dross, scalings and other waste under tariff sub-heading 26.19;

pig iron, spiegeleisen in pigs, blocks or other primary forms under tariff sub-heading 72.01;

ferro-alloys under tariff sub-heading 72.02;

ferrous products obtained by the direct reduction of iron ore, and other spongy ferrous products, in lumps, pellets or similar forms under tariff sub-heading 72.03;

ferrous waste and scrap, remelt ingots, tinned scrap, turnings, shavings, fillings, stampings, under tariff sub-heading 72.04;

granules and powders under tariff sub-heading 72.05; and

ingots or other primary forms under tariff sub-headings 72.06, 72.18 and 72.24.

non-ferrous ores, concentrates and base metals:

ores and concentrates under tariff sub-headings 26.03, 26.04, 26.06, 26.07, 26.08 and 26.09;

ash and residues falling under tariff sub-heading 26.20;

other slag and ash under tariff sub-heading 26.21;

copper matte, cement copper (precipitated copper) falling under tariff sub-heading 74.01;

unrefined copper, copper anodes, falling under tariff sub-heading 74.02;

nickel mattes, nickel oxide sinters and other intermediate products of nickel metallurgy under tariff sub-heading 75.01;

waste and scrap under tariff sub-headings 74.04, 75.03, 76.02, 78.02, 79.02 and 80.02;
refined copper and copper alloys, unwrought, including cathodes, wirebars and billets under tariff sub-heading 74.03;

unwrought nickel, aluminium, lead, zinc and tin falling under tariff sub-heading 75.02, 76.01, 78.01, 79.01 and 80.01;
electroplating anodes and other articles of nickel falling under tariff sub-heading 75.08.00.05;
powders and flakes under tariff sub-headings 74.06, 75.04, 76.03, 78.04.20, 79.03.90 and 80.05.20; and
all waste and scrap falling under Chapter 81 of the Customs Act.

products other than ferro-alloys in respect of which the Power Rebate Scheme applies:

polyvinyl chloride under tariff sub-heading 39.04.10;
phosphorus falling under tariff sub-heading 28.04.70;
titanium dioxides under tariff sub-heading 28.23;
carbides of calcium falling under tariff sub-heading 28.49.10;
isoprene under tariff sub-heading 29.01.29;
poly-isoprene falling under tariff sub-heading 29.01.24;
methylbutynol (MBY) under tariff sub-heading 29.15.90.90; and
polybutadene rubber (PBR) and styrene-butadiene rubber (SBR) falling under tariff sub-heading 40.02.

Other:

raw hides and skins (including wetblue hides) under tariff sub-headings 41.01, 41.02 (except karakul skins under tariff sub-heading 41.02.10), 41.03 and 41.04;
crustaceans under tariff sub-heading 03.06;
abalone under tariff sub-headings 03.07 and 16.05;
recorded video tapes under tariff sub-heading 85.24; and
uranium falling under tariff sub-heading 28.44.
Annex IV.3
Direct financial assistance available under the Export Marketing Assistance Scheme

1. Primary export marketing research:
   a. 50 per cent of air ticket (economy class);
   b. 50 per cent of cost of transporting samples, limited to R 600;
   c. R 300 per day subsistence allowance, with a maximum of 19 days.

2. Outward selling trade mission:
   a. 50 per cent of air ticket (economy class);
   b. R 300 per day subsistence allowance, with a maximum of 19 days.

3. Inward buying trade mission:
   a. Business-class airfares, foreign and domestic;
   b. R 150 per day subsistence allowance, with a maximum of 10 days.

4. Exhibition assistance:
   Up to R 15,000 for qualifying expenditure (stand construction and rental, telephone and electrical installation).

5. Reduced air freight rates:
   For fresh produce and flowers.
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Overview

324. The isolation of the South African economy, reinforced by trade sanctions in the 1980s, has supported its traditional policy of inward industrialization. While, in recent years, moves have been made to reduce protection in various areas, there is still significant sectoral protection. According to one South African agency, protection from imports has strained the capacity of tariff authorities; seldom been systematically revised; discriminated against exports; contributed to inflationary pressures; introduced inefficiencies into the production structure; and protected upstream industries at the expense of those downstream with larger value-added components.

325. At the aggregate level, there are distinct differences in the use of trade policy tools between sectors in the South African economy. Import control, considerably reduced on industrial products since the early 1980s, remains the principal form of protection in the agricultural sector, where both import and export control are exercised through marketing boards. As stated by the Department of Agriculture, import control has been used to protect local production especially in respect of single channel marketing arrangements. On certain agricultural products quantitative control has been replaced by tariffs, frequently in the form of formula or specific duties; such duties cover over one-quarter of agricultural products, over one-third of the food industry and the majority of beverage and tobacco products.

326. In contrast to most industrialized countries, but like many developing countries, South Africa assists its industries considerably more than it does its farm sector. Import protection is particularly significant for final goods and effective protection is boosted through a combination of tariff escalation (supported by the import surcharge system) and other controls. The costs of such protection to the South African economy as a whole, including the agriculture and mining sectors, appear significant.

(2) Agriculture, Forestry and Fishing

327. Agriculture contributed 5.1 per cent of GDP in 1991, with gross value of some R 24 billion (Table V.1). Forward and backward linkages of the

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2IDC (1992 data).
sector are significant; close to one quarter of the economy is dependent on agriculture. Agricultural products, including food and raw materials, amounted to 18 per cent of exports in 1989.

328. As in other sectors of the economy, concentration is high in the commercial farming sector: 1 per cent of farms earn 40 per cent of farm income. Input prices have risen faster than output prices for the last two decades, as a result of inflation combined with cost-increasing tariff protection for agricultural inputs. One estimate, dating from 1982, showed that without tariffs the cost of intermediate inputs would have been lower by nearly 7 per cent. The agricultural terms of trade have been falling since 1974.

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*Source:* Department of Agriculture.

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5Department of Agriculture.
329. Prices of many products, including the major grains, continue to be fixed by control boards on the basis of production costs, encouraging inflated costs as there is little, if any, incentive to economize. In spite of interest rate subsidies on farm credit and other concessions, such as exemption from the fuel levy and direct government support to marketing boards, profitability has fallen and farm debt had more than doubled in ten years, to R 17 billion at the end of 1992. The drought affecting southern Africa reduced the volume of agricultural production by approximately 18 per cent in 1992, as compared with 1991 (Chart V.1).

(a) Agricultural policy

330. The official goals of commercial agricultural production policy include the optimum use of natural agricultural resources, the preservation of agricultural land, the pursuit of a maximum number of well trained and financially sound owner-occupant farms and the optimum use of labour. Orderly marketing of agricultural products is applied through the Marketing Act and the Cooperatives Act. To serve the local market effectively and to cope with strong competition on foreign markets, South Africa maintains specific quality and hygiene standards for South African agricultural products.

331. Agricultural trade policy does not aim at self-sufficiency in all basic commodities; rather, a policy is followed of producing what is dictated by national resources and which is environmentally viable. As a result, when climatic conditions are unfavourable and harvest yields are poor, South Africa becomes an importer of staple foods.

332. The Department of Agriculture administers several Acts aimed at attaining the goals of agricultural policy. The conservation of land resources is governed by the objectives set out in the National Physical Development Plan and the Soil Conservation Act of 1969. A land withdrawal scheme, launched on 1 October 1987 for a six-year period, aims to transfer one million hectares of marginal cropland to grazing land, at a cost to the Government of R 130 per hectare for the first year and R 60 per hectare in successive years. To date, nearly 600,000 hectares have been converted under the scheme.

333. The allocation and use of farm land is likely to evolve as a result of the repeal, in February 1991, of the Land Act, which reserved 87 per cent of the land for the white population. Recently, a few hundred

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7 Ibid.
thousand hectares of land owned by the South African Development Trust were deeded to black tenant farmers.

334. The Marketing Act of 1937, amended by the corresponding Act of 1968, permits marketing schemes to be established and amended by proclamation instead of specific legislation. The principal objectives of the 1968 Act are to secure greater price stability for farm products and reduce the price gap between producer and consumer prices. The marketing schemes established under the Act have been notified to GATT as state trading enterprises under Article XVII; each provides for the establishment of a control board to administer the scheme. There are at present 20 such boards, marketing 67 per cent of agricultural production; the main uncontrolled items are vegetables and other horticultural products. The four basic types of scheme in operation, in descending order of influence, are: (i) single channel fixed price, (ii) single channel pool, (iii) surplus removal and (iv) supervisory schemes (Table V.2).

335. Under a single channel fixed price scheme, producers are obliged to market their products through the board; producer and local selling prices are fixed for a particular season. Under a single channel pool scheme, producers market their products through a pool conducted by the board; they receive advance payments on delivery of their crop and deferred payments once final pool proceeds have been realised. Under surplus removal (or floor price) schemes, the board only intervenes when prices drop below a fixed floor price; the surplus is purchased for redistribution or resale at a later date, or for export. Finally, under a supervisory scheme, the board merely arranges contracts between producers and buyers.

336. Products marketed through the boards are destined for sale in "controlled areas" where most production and consumption occurs; in the case of wheat, the entire country 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. In some instances, sales of inferior products may be prohibited on the local market in the controlled areas, in order to ensure a better price for higher quality produce. There are no long-term contractual arrangements between the control boards and buyers; private firms are invited to tender for Government purchases. Normally, traders must be registered with the relevant boards, although registration has become a simple formality in

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8Prior to the abolition of the Banana Scheme on 31 March 1993 there was also an operative marketing board for bananas.
many cases. All boards have either overt control over, or tacit influence on, conditions for international trade in their commodities.

337. The administrative expenses of the control boards are financed by ordinary levies, typically paid by the producer in controlled areas. With a few exceptions, namely, rooibos tea, and in recent years, wheat, barley and oats, levies are normally less than 10 per cent of the producer price. Ordinary levies on imports may not exceed those on domestic products; however, levies may differ on imports from neighbouring countries compared to those from other sources and levies on exports may differ from levies on domestic sales.

338. Further, special levies, considerably higher than the ordinary levy, are raised for purposes such as the financing of price stabilization funds, surplus disposal and exports. Other expenditures covered by special levies include handling, advertising, research, inspection services and payments to the South African Agricultural Union, to finance its activities. The reserves held in funds managed by control boards amounted to over R 1 billion in 1991.

339. Board members are appointed by the Minister of Agriculture and the majority are farmers. The operations of control boards are also supervised by the Minister, advised by the National Marketing Council. Price decisions by the control boards are subject to the approval of the Minister. The National Marketing Council investigates economic aspects of production and marketing, levels of prices and levies, and marketing and processing costs. The Council attends meetings of control boards and reports to the Minister on price policies; such reports must be tabled in Parliament within 14 days. Private individuals may appeal to the Minister against board decisions such as the registration of dealers, manufacturers and processors, appointment of agents and the issue of permits to import or export regulated products.

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9 In 1991, the registration requirement for meat traders was eliminated, although abattoir agents remain subject to registration.

10 Section 43 of the Marketing Act.

11 In several cases, income of the Boards, after payment to farmers, amounts to 40 per cent of revenues. (The World Bank, in advising Ghana on its Cocoa Board operations, suggested that administrative expenses should be in the order of 10 to 15 per cent of gross revenue (ODI, Structural Adjustment and Agriculture, p. 116).)

12 Department of Agriculture. In 1991, floor prices for meat were not adjusted as the National Marketing Council was not satisfied with the objectivity of the method of calculation.
340. In most cases, control boards have handed over a number of operational functions, purchasing, handling and storage to agents, private firms or agricultural cooperatives. For example, cooperatives handle, grade and store grain sorghum, while private companies undertake the bulk of fruit exports. Agents are paid on a commission basis and pay the producer directly. Some control boards, for example, those for deciduous fruit and tobacco, limit the number of their agents. Others including those for wheat, maize and oilseeds, offer exclusive agency agreements to private firms, which enjoy virtual monopolies in handling and distribution. Cooperatives are normally financed through the Land Bank, which extends loans at favourable interest rates to farmers and provides short-term credit to the milling and meat processing industries.

341. The Cooperatives Act of 1981, currently under review, provides for cooperative single channel marketing schemes but is administered by a private enterprise, itself a cooperative. Currently, lucerne hay, tobacco, wine and ostrich products fall under the Cooperatives Act, and are not covered by the Marketing Act. The termination of the schemes for lucerne hay and tobacco is under discussion and abolition of the single channel marketing of ostrich products has been recommended by the Kassier Committee (see below).

342. The Board on Tariffs and Trade has identified a number of barriers to competition created by market intervention and restrictive regulations in the agricultural sector. In its 1992 investigation into food pricing, the Board estimated that the operations of control boards added 1.5 per cent to the consumer price of selected foods (Section V(4)(iii)). It recommended that farmers be free to market their produce through any organization and that members of the control boards not represent any particular, but the national, interest. The study, widely debated and to be followed by a more comprehensive analysis, also suggests that intervention and concentration tend to be greatest at the intermediate levels of crop purchase and storage, primary processing and wholesale distribution.

343. As a follow-up to the report by the Board, the Kassier Committee of Inquiry into the Marketing Act was appointed in June 1992. The Committee found, in January 1993, that the Act had not satisfactorily met its intended goals and that the benefits of market intervention had gone to a limited number of individuals. The Committee recommended, inter alia, that

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13 Board on Tariffs and Trade, Preliminary Report on the investigation into the price mechanism in the food chain with recommendations for its improvement, June 1992.

14 BTT (1992), op.cit.

single channel and price support schemes be abolished, that representation on Boards be broadened to include different interest groups or that marketing boards become private and voluntary organizations, if permitted under competition law.

(b) Trade-related policy implementation

344. The Department of Agriculture admits that import control has been used to protect local production. The legal basis for the exercise of quantitative control over imports and exports is provided either through the Marketing Act or the Import and Export Act.

345. Under Article 87 of the Marketing Act, the Minister of Agriculture may prohibit the import or export of any agricultural product covered by the Act, subject to permits issued by the Director General of Agriculture, a right which may be passed on to the control boards. The Minister may determine the total maximum quantity of a controlled product to be exported or imported during a particular period. In addition to permits issued in terms of Article 87 for the importation of agricultural products, permits are also issued according to Article 3 of the Trade Agreement between South Africa, Malawi and Zimbabwe for the importation of certain agricultural products at preferential duties. Under the trade agreement with Mozambique, tariff rebates are granted within set quotas on fish, shrimp, citrus fruit, coconut oil, cashew nuts and cottonseed oil cake.

346. The importation of, inter alia, coffee and tea and a number of other products not prohibited under the Marketing Act is controlled through the Import and Export Act, administered by the Department of Trade and Industry. The Director of Imports and Exports of the Department of Trade and Industry generally grants permits on the recommendation of the Department of Agriculture.

347. Quantitative control is thus the operative trade policy instrument in agriculture. The system is, however, increasingly regarded as subject to

16 Broadly defined, the products covered by the Marketing Act are barley, grain sorghum, maize, oats, rye and wheat and their products; buckwheat, lucerne and canary seed; groundnuts, sunflower seed, legumes, oilcake and vegetable oil; fresh and dried fruit and vegetables, and fruit juice; chicory and rooibos tea; tobacco and wine; wattle bark and extract, sisal, seed cotton and cotton lint; cattle, sheep, pigs and poultry; meat, meat products and by-products; wool, mohair, karakul, ostrich feathers and skins; hides and skins, including cured; dairy products and margarine; eggs and egg pulp; honey and honey mixtures; and canned foodstuffs.

17 From Malawi, products include dairy products, potatoes, coffee, tea and unmanufactured tobacco.

18 In effect the Act allows for control over virtually all agricultural products.
In line with commitments made in the Uruguay Round, South Africa has declared its willingness to convert non-tariff measures to tariffs, and embarked on this programme in 1988. By 1991, 24 per cent of agricultural imports, covered by 12 per cent of agricultural tariff lines, consisted of products for which import control had been replaced by tariffs; in 1989, the year prior to tariffication of these products, the products amounted to 33 per cent of agricultural imports.

Tariff averages for agricultural products are available only from Tariff Study sources, using 1988 data. Given their relatively insignificant use until recently as trade barriers, tariffs on agricultural products should be judged accordingly.

The tariffication programme of the last few years has meant that statutory tariffs have been increased, often in the form of specific or formula duties, to act as the effective import constraint. In 1988, higher duties on poultry and poultry meat were implemented and in 1990 revised duties were set for tobacco, vegetable oils, oilcake and meat products. The South African Agricultural Union has applied for the imposition of a 30 per cent ad valorem duty on a range of fresh, dried and frozen fruits and vegetables (under investigation) and the Grain Traders' Association has applied for tariffication of dried peas, lentils, other pulses and dried beans. The Dairy Service Organization has also applied for the tariffication of dairy products; this is currently under investigation.

In 1992, the average tariff, including both ad valorem and formula duties, for agriculture (including forestry and fishing) was estimated at 7 per cent; however, tariffs rose to 70 per cent on individual items. An import surcharge, averaging 7.6 per cent, was applied to a number of agricultural products. Levies charged on local products are also imposed on certain imports. This levy may differ, but not exceed any levy in respect of that product produced in South Africa. In the case of imports, an importer is seen as a producer and is therefore liable to pay the levy. The effective rate of protection on agriculture has been estimated at 36 per cent.

While South Africa imports such tropical products as rice, coffee and spices, it remains by far a net exporter of agricultural and processed products, except in times of drought. Exports of fruit and wine, in

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20 Department of Agriculture.
particular, have traditionally been strong. Exports of surplus commodities such as maize, wheat and sugar are partly financed by producers, partly by consumers, who pay higher domestic prices, and also by the taxpayer. For example, in 1991, agricultural exports received nearly R 200 million (or approximately 8 per cent of exports) in assistance through the General Export Incentive System (Table AV.1).

352. Only ostriches and their fertilized eggs are subject to complete export prohibition. Export controls may be imposed under Article 87 of the Marketing Act on the products mentioned above. The Agricultural Products Standard Act of 1990 requires the inspection of most animal products, certain processed products, including canned vegetables, fruit and food, and citrus, subtropical and deciduous fruit before exportation. Although export control is exercised over a number of products, the National Marketing Council supports the principle that no restrictions should be placed on the export of agricultural products.

(c) Other forms of assistance

353. Relative to many agricultural exporting countries, South Africa provides much lower levels of assistance to its farmers. In fact, in 1989, the latest year for which data are available, the producers of three main agricultural commodities, sugar, wheat and maize were apparently taxed (negative PSE) at the rate of 12 per cent (Table V.3).

354. Table V.4 shows how subsidies and other forms of assistance paid to the farm sector have fallen. Since the mid-1980s, outlays by the Department of Agriculture (in current rand value) have been reduced by some 63 per cent, from over R 700 million to R 260 million in the fiscal year ending 31 March 1991. Fertilizer subsidies and transport subsidies, except for livestock, have been eliminated since 1989, and those on feed greatly reduced.

355. Until 1 April 1991, subsidies were paid on bread and maize to reduce the cost to the consumer. The annual value of these subsidies has fallen from some R 400 million in the mid-1980s to some R 160 million in 1991.

356. Interest rate subsidies have historically made up over a quarter of state assistance to agriculture. Lately, the interest rate subsidy for mortgage loans was set at 5 per cent; since 1984, the average annual interest rate subsidy has been some 10 per cent.

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22Department of Agriculture.
357. In May 1992, the Government announced a drought relief rescue package of R 3.8 billion, representing a subsidy of R 375 per hectare, to be disbursed over the following four years. Of this amount, R 2.4 billion was allocated to remove the state guarantee scheme, introduced in the early 1980s, under which credit extended to farmers by cooperatives was guaranteed by the State. The new package allows financing to return to market principles, although an interest subsidy and a rebate on livestock transport remain in place. Further, the Agricultural Credit Board provides financial assistance through loans and allocates state land for agricultural use.

(d) Standards

358. All agricultural products imported into South Africa must comply with local standards set by the Department of Agriculture and certain minimum marking requirements, such as the name of the product, the country of origin, a true description of the contents and the name and address of the importer. According to the authorities, most local standards and export standards are, as far as possible, harmonized with international standards.

359. As a member of the International Plant Protection Convention, South Africa accepts IPPC phytosanitary certificates issued by the authorities of other signatories to the Convention. Under the Agricultural Pests Act of 1983, promulgated to meet the objectives of the IPPC, the import and export of agricultural products are regulated by the issue of import permits and phytosanitary certificates.

360. Veterinary import permits for the importation of live animals may be issued only upon the completion of risk assessment in accordance with "animal health rules for international trade" contained in the International Animal Health Code 1991.

361. Section 16 of the Livestock Improvement Act of 1977 states that importation of genetic materials can only be authorized by the Registrar once a breeders' society recommends their application.

362. Variety lists for various crops are maintained under the Plant Improvement Act of 1976. When varieties are imported from overseas, they are tested for trueness to type. South Africa usually does its own testing, due to the different circumstances that, according to the authorities,

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23 See also Chapter IV(2)(x).
24 The Code is issued by the Office International des Epizooties, of which South Africa is a member.
exist in South Africa compared to other countries; however, in some cases South Africa accepts foreign testing, as for chrysanthemums from England.

363. The Agricultural Products Standards Act of 1990, effective 1 September 1991, sets out the quality, compositional marking and labelling requirements to be applied to products sold in South Africa and certain products to be exported from the country. Previously, requirements were published under the Marketing Act of 1968 and the Dairy Industry Act of 1971 for products sold locally and under the Agricultural Produce Export Act of 1971 for exports.

364. No product covered by the Fertilizers, Farms Feeds, Agricultural Remedies and Stock Remedies Act of 1947 may be imported or sold unless it is registered; registration requirements conform to those of the EC and most other countries, according to the authorities.

(i) Foodstuffs (Table AV.3)

365. Foodstuffs, which include a diverse variety of products, fruits and vegetables, sugar, eggs, and products of the milling industry, comprises both a competitive export-oriented sector in which fruits and sugar figure prominently, and products destined primarily for domestic consumption. The 1988 average tariff for the sector was 12.3 per cent but within branches, tariff escalation brings the average to over 20 per cent on such processed foods as chocolate, coffee and tea.

(a) Fruits and vegetables

366. Except for fruit, this sector is predominantly oriented towards the domestic market. A number of control boards continue to operate in this sector, although with diminishing influence.

367. Previously, the Banana Board marketed all imported and locally produced bananas and had the sole responsibility for imports and exports. Transport, container and ripening costs, as well as a levy, were deducted from the wholesale price to arrive at the net income payable to the producer. The Banana Scheme and the Board were abolished on 31 March 1993; producers can now sell directly to retailers. The Board is to be reconstituted as a limited company; banana farmers will be able to choose whether or not to operate through the company.

368. South Africa exports much of its production of citrus fruit (Chart V.2). The Citrus Exchange, as agent for the Citrus Board, exports oranges, lemons and grapefruit on behalf of producers on a pool basis. Greece maintains a total import ban on citrus fruit from South Africa. Until 1990, the Board operated single channel marketing for sales of fruit on the domestic market. During the off season, imports may take place with
the permission of the Board. Imports of fresh fruit are dutiable at 5 per cent and also encounter a 5 per cent surcharge. Under its trade agreement with Malawi, South Africa may import up to 5,000 tons of citrus fruit duty-free.

Chart V.2
Citrus, 1982-91

Source: Department of Agriculture.

369. The Deciduous Fruit Board transferred its single channel marketing function to export fruit to the private company, Unifruco, in February 1990. The principal fruits exported are fresh apples, apricots, grapes, peaches, nectarines, pears, and plums. Denmark insists that sulphur dioxide-treated pulpboard trays used in grape packaging must be removed. According to the authorities, bilateral discussions regarding an apple quota to the EC are currently under way, but no formal agreement has been reached. Export permits are issued by the Board. Special levies, at varying rates per fruit kind and pack, were raised to contribute, inter

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25Department of Trade and Industry.
alia, to local sales promotion, application of the prohibition on sale of lowest-grade fruit and towards the Plant Improvement Organization. Unifruco rejected allegations that it monopolizes fruit exports, saying that 13 other firms are involved.

370. The Dried Fruit Board is the sole buyer from producers of dried prunes and dried vine fruits, and exports any surpluses. Any person who wishes to buy dried fruit from producers to grade and pack must be registered with the Board. Imports must be marketed through the Board and a permit from the Director General of Agriculture is necessary. The authorities note that in export markets, Japanese regulations stipulate that the maximum level of sulphur dioxide allowed in dried fruit is 30 ppm (parts per million) whereas the level allowed by European countries is 1000 ppm. The Japanese regulations, moreover, do not permit the use of the preservative benzoic acid.

371. The Canning Fruit Scheme is aimed at the orderly marketing of canned pears, peaches and apricots. It contains provisions for a measure of price protection, proper grading and payment according to quality. Canners must be registered with the Board. The scheme provides for seasonal contracts between canners and producers for buying and selling of pears, peaches and apricots. Minimum prices are fixed annually between buyers and sellers on a consensus basis.

372. In the EC market, from 1982 until 30 June 1991, canned pears exported from South Africa were subject to a minimum weighted average price, which served as an anti-dumping regulation. The Canning Fruit Board does not enforce a minimum export price, according to the authorities.

373. The Potato Board, the Dry Bean Board and the Grain Sorghum Board were amalgamated on 1 January 1986 into one administration, the PDG Board, which operates schemes for each of the commodities. The Potato Scheme is classified as a surplus removal scheme, although in the past couple of years the emphasis has shifted towards surplus prevention. Under surplus removal, supplies purchased by the Board were redistributed to deficit markets, and to lower income groups, mostly at reduced prices.

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28 Department of Trade and Industry.
29 The Kassier Committee recommended that this scheme be abolished.
374. The Board exercises no control over the production and marketing or pricing of potatoes. It does, however, have the power to prohibit sales of the poorest quality potatoes so that better prices can be obtained for higher quality products. Prices of potatoes fluctuate widely, from year to year, between regions and depending on the grade of potato. Levies are collected on potatoes sold in controlled areas; such sales account for roughly 80 per cent of the total.

375. The Board does not have statutory power over importation of table potatoes but will normally be approached for a recommendation if an application for import is filed with the Department of Agriculture. Local production is normally adequate to meet domestic requirements and few imports occur.

376. The Minister of Agriculture approves export allocations to the Potato Board, whereby the Board can issue permits to private traders or to undertake exports for its own account. According to the Potato Board's Annual Report for 1990, only a small quantity was exported, mainly to neighbouring markets, due to high domestic prices. In 1989, when there was considerable overproduction, the Board paid close to R 1 million for price support and incurred a R 2.5 million deficit on export sales. A levy is paid to the Perishable Products Export Control Board, which is responsible for reserving shipping space. Phytosanitary restrictions in the EC and the United States prohibit imports of potatoes from South Africa.

377. The Dry Bean Board operates a floor price scheme in times of surplus (most recently in 1986) for the main varieties of dry beans. In 1992, annual output fell by 63 per cent and 90,000 tons were imported. The Board appoints agents to purchase dry beans at the prices determined by the Board. In surplus years, purchases by the Board may be resold for export by the private sector.

378. Until 30 January 1986, the interests of the grain sorghum industry were managed by the Maize Board. On 25 July 1986, the Grain Sorghum Board was empowered to exercise control over the import and export of grain sorghum and its derivatives through permits. The Grain Sorghum Scheme is a surplus removal or floor price scheme. The bulk of grain sorghum is destined for the beer brewing and animal feed industries. When the Board has announced floor prices, normally for a fixed period in which crop deliveries take place, it may also announce minimum prices at which it will resell for domestic consumption. Appointed agents, normally the agricultural cooperatives, handle, store and grade the purchases of sorghum.

30Department of Agriculture.
for the Board. The Board must also compensate agents for unused silo capacity, although sorghum producers complain that their contribution is out of proportion to their storage needs. Although production halved in the five years, 1987 to 1991, from 561,000 to 286,000 tons, in 1990, roughly one-sixth of market sales were bought at the floor price.

(b) Coffee, tea and cocoa

379. Average tariffs for coffee and tea are 9 per cent and 17 per cent for cocoa; tariffs increase with the level of processing. Imports of coffee and tea require a permit issued by the Department of Trade and Industry.

380. South Africa is one of the world's leading producers of chicory root with annual output of some 15,000 tons; this compares with global production of 105,000 tons.

381. The Chicory Board administers the Chicory Scheme, a single channel pool scheme, in operation since 1 July 1978. The Board dries and then sells chicory root on behalf of producers to coffee roasters. As with other pool schemes, an advance payment is made to producers and a subsequent payment is based on final crop production. The Board is the sole importer and exporter of unroasted chicory; however, roasted or ground chicory may be imported under a permit issued by the Department of Agriculture. In 1991 and 1992 permits for the import of 2,500 and 5,000 tonnes of chicory respectively were issued by the Department of Agriculture. Coffee exporters are granted a rebate of 30 per cent of the domestic selling price of first grade dried chicory root; the rebate was paid on 66 tons of chicory in 1989/1990.

382. The Rooibos Tea Board sells rooibos tea, a product unique to South Africa, on behalf of producers at prices determined by the Minister of Agriculture and distributes the net proceeds on a pool basis.

(c) Sugar

383. Traditionally a net exporter of sugar, South Africa produced its second biggest crop ever in the 1991/1992 season, nearly 2.3 million tons; by contrast, the 1992/93 harvest is expected to total 1.5 million tons and imports may be necessary (Chart V.3). The drought is estimated to cost the South African sugar industry R 450 to R 500 million in lost export earnings for 1992.31

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384. Sugar is not regulated under the Marketing Act, but under the Sugar Act of 1978. The South African Sugar Association is accorded statutory marketing powers, and sugar is marketed through commission agents. As the sole exporter, the Sugar Association was granted a U.S. import quota of 30,391 tons for the crop year 1991-92.

385. Sugar is one of the few products governed by a quota system for individual producers. Until 30 April 1985, the South African sugar industry operated a single-price scheme under which sucrose production was controlled by means of quotas. The producer received a weighted mean of the domestic price and the expected export price, plus transport subsidies and equalization fund payment. Transport subsidies were abolished at the end of 1983/1984.

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32Department of Trade and Industry
386. On 1 May 1985, the industry introduced a two-tier price system, comprising two pools. The A-pool covers requirements of the domestic market plus 500,000 tons of sugar for export per annum. Each sugar cane farmer is allocated a quota from this pool. The B-pool is voluntary; cane growers receive the export price. Sugar is sold to exporters of sugar products, such as confectionery, at reduced prices. Farm production costs are used to determine sucrose prices. Evidence suggests that such costs were inflated partly by allocating inputs for fruit and vegetable production to sugar cane.

387. Government assistance to sugar producers, as measured by the PSE, peaked in 1986; in 1989, the latest year for which data is available, producers were effectively taxed (Table V.3). By contrast, consumers have been taxed for most of the period.

388. Cane and beet sugar were removed from import control on 27 July 1990 and the formula duty raised from 20 per cent or 80¢/kg less 80 per cent, to 20 per cent or 100¢/kg less 80 per cent. On 26 July 1991, the reference price was raised to 115¢/kg, and in September 1992 the formula duty was changed to a specific tariff of 67.7¢/kg. The Board on Tariffs and Trade based its recommendation for additional tariff protection for the sugar industry on its findings that the local industry was competitive vis-a-vis other sugar producing countries; and that the world price of sugar was not cost-related but determined by subsidized sales on world markets. Import control applies to other forms of sugar. The effective rate of protection on the sugar processing industry has been estimated at 33 per cent (Table AV.2).

389. An agreement between the South African and Swaziland Sugar Associations, limiting the amount of sugar produced in Swaziland to be sold in South Africa, was exempted from South Africa's prohibition on horizontal supply collusion under competition policy for the period covered by the agreement, that is, until 30 April 1993. The exemption was recently extended for a further two years.

(d) Eggs

390. In terms of the Production Control Act of 1970, egg producers keeping more than 7,500 hens were required to obtain a permit. Beginning in 1987,

production control was relaxed and with the scrapping of the Production Control Regulation on 10 August 1990, the supply management scheme ceased to function. The Egg Board's functions now emphasize market-information services and surplus disposal.

391. Until 1 March 1991, the purchase price for surplus disposal was 85 per cent of the wholesale price; this has since been reduced to 66 per cent of the retail price. Surpluses are sold locally or exported either through the Board or under permits issued by the Board. Trading losses from surplus removal amounted to R 11.3 million in the year ended June 1991, suggesting that floor prices, though reduced, continue to contribute to over-production. Eggs are eligible for category 2 GEIS assistance, that is, a minimum of 2.5 per cent and a maximum of 7.5 per cent.

(e) Products of the milling industry

392. Price controls on maize and maize products sold by millers were lifted on 1 May 1971.

393. In 1988, the Government began to phase out subsidies on bread; these were fully eliminated by March 1991.

394. Until 1991, the Wheat Board, subject to Ministerial approval, fixed the wholesale and maximum selling prices for wheaten meal and bran and also the cost margins for wheat millers and commercial bakers. On 1 March 1991, price control on bread, and the delivery quota system for bakers, was abolished.

395. Resale prices for other grains and their products are not fixed.

(ii) Grains

396. Grains are, on the whole, subject to import control. The tariff on imports averages 4 per cent. Grains are not liable to the import surcharge. Exports receive GEIS, Category 2 assistance.

36 Between July 1990 and June 1991, that is, since the deregulation of production, egg prices have risen by 7.1 per cent while the food CPI rose by 15.5 per cent. Source: Egg Board Annual Report.

(a) Maize

397. The principal grains produced in South Africa, maize and wheat, account for nearly one-fifth of gross value added in agriculture and are the only agricultural products still subject to administered prices. Maize is the largest contributor to the gross value of agricultural production and receives the largest amount of state assistance. As a result of the land withdrawal scheme, the acreage planted with grains has declined; in the case of maize, by over one-quarter since 1980.

398. The Maize Board operates a single-channel marketing scheme for maize. The Board buys maize from producers through appointed agents, fixing the producer or delivery price as well as, since 1 May 1987, the sales price in areas under its control. A large part of the country, mostly the lower Cape, is exempt from Maize Board control and fixed prices. Control measures for buckwheat, which was controlled by the Maize Board, were abolished in May 1991.

399. The Board sells surplus maize both directly and on tender to independent exporters. Rebates are granted for the export of defatted germ meal. As with other exported crops, any losses sustained, or profits made, on such sales, are met from, or accrue to, the Board's stabilization fund to which all producers contribute by means of a levy.

400. Phytosanitary restrictions in the EC and the United States prohibit imports of maize from South Africa.

401. Since the beginning of the 1980s, the stabilization or special fund for maize has incurred growing deficits, which had accumulated to well over R 500 million in 1991. During this period, the Government contributed some R 250 million to the fund and producers roughly R 800 million. A main reason for the deficit has been losses on export sales, which for the period 1985 to 1991 amounted to over R 1.2 billion. In 1986/87, the loss on export sales was nearly R 500 million.

402. In the past, in spite of recurring drought, maize was produced in surplus and exported (Chart V.4). As recently as 1989/1990, which was a bumper year, South Africa exported nearly 5 million tons of maize.

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38 Department of Agriculture.

39 In the 1991 marketing season, the final producer price for yellow maize was R 302.67/ton and the Board's domestic selling price was R 375/ton; the average export price amounted to R 317/ton.

40 Maize Board, Annual Report 1991, Annexure XXIII.
accounting for 4 per cent of world exports. Under current drought conditions, 4.6 million tons of maize are to be imported in the 1992/1993 crop year. It is estimated that the profit on the maize import account will be in the order of R 85 million, which will be used, in part, to finance under-utilized silo capacity. There are no import duties or levies on maize imports.

(b) Wheat

403. Import and export permits for wheat, oats and barley are issued by the Wheat Board. The prices at which the Board buys and sells wheat and barley are fixed, but not the resale price nor prices of processed products. For wheat, the entire country is considered a controlled area; levies are collected from all producers. In the case of oats, producers have been exempted by permit to sell directly to consumers. Producers of

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41 Information provided by the South African authorities; and Financial Mail, 12 June 1992.
rye may also sell directly to consumers, with control of rye by the Wheat Board abolished in 1987.

404. The U.S. Department of Agriculture calculated PSEs for South African maize and wheat for the years 1982 to 1989: the PSE for maize peaked at nearly 40 per cent in 1987 and was 22 per cent for wheat in the same year. In 1988 and 1989, PSEs fell considerably as the increase in producer prices slowed (Table V.3).

405. Consumer subsidy equivalents (CSEs) on maize in the 1982-1989 period were low or negative, that is, the consumer was taxed; by contrast, wheat consumers were net beneficiaries for most of the period. Consumer subsidies paid to the Maize and Wheat Board to reduce the price of bread and other grain products were phased out between 1988 and 1991.

Chart V.5
Wheat, 1982-91

Source: Department of Agriculture.

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According to the country list submitted by the Government in the course of the Uruguay Round negotiations on Agriculture, the Aggregate Measure of Support (AMS) for wheat dropped from 50 to 10 between 1987/1988 and 1988/1989 and for yellow maize from 38 per cent to less than zero.
406. The wheat crop in 1992 fell by some 50 per cent to 1 million tons, with the result that South Africa had to import roughly the same amount (Chart V.5). As reported by the authorities, wheat, landed at R 575/ton, is sold at the local price of about R 655/ton. Wheat is subject to import control through the Wheat Board, and the local sales price can be much higher than the landed price. Profits go to the Wheat Board.

(iii) Animal and animal products (Table AV.4)

407. South Africa is a signatory to the MTN Arrangement Regarding Bovine Meat. The gross value of animal production in South Africa in 1990 amounted to R 8.9 billion, nearly half of gross agricultural output. Beef production has risen in the last few years and imports have fallen in tandem (Chart V.6).

Chart V.6
Beef, 1982-91

<table>
<thead>
<tr>
<th>Year</th>
<th>Production ('000 tons)</th>
<th>Exports ('000 tons)</th>
<th>Imports ('000 tons)</th>
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<td>1982</td>
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<td>91</td>
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</tr>
</tbody>
</table>

Source: Department of Agriculture.


44 South Africa is a signatory to the Tokyo Round Arrangement Regarding Bovine Meat.
408. Tariffs on meat replaced import control in late 1990, although meat remains officially subject to control under the Department of Trade and Industry. Control was retained as an interim measure to ensure, according to the authorities, that the change to tariffication does not unduly disturb the market. In January 1993, the meat industry was largely deregulated.

409. Prior to deregulation, the Meat Board controlled the supply of livestock to abattoirs in controlled areas through quotas and a floor price system. Although supply management has been effectively eliminated, the Board continues to fix floor prices at which it is prepared to buy dressed carcasses of cattle, sheep, goats and pigs at auction in the main urban centres and purchases all carcasses that fail to reach the floor prices at auction. Surpluses are placed in cold storage and financed by the producer levy. In addition to the floor price, the Meat Board establishes a basic price, 10 per cent below the expected weekly auction price, and a ceiling price, in order to ensure short-term price stability.

410. An amended Meat Scheme came into operation on 7 February 1991, derestricting the movement of meat and meat products from member countries of the Customs Union into the Republic. In June 1992, further deregulation permitted meat to move between controlled and uncontrolled areas. On 22 January 1993, all restrictions regarding the movement and method of sale of slaughter animals, meat, offal and hides and skins in the controlled areas, as well as control over the sale and slaughter of slaughter animals in the controlled areas, were lifted. Producers can now choose which abattoir to use and abattoirs may choose whether or not to join the Meat Board's floor price system. The state-owned Abattoir Corporation (Abacor), which operates slaughterhouses throughout South Africa and accounts for over 40 per cent of slaughtering, will be privatized, with wide share distribution recommended.

411. The requirement for operators in the meat business, including butchers, importers and dealers in hides and skins, to register with the Meat Board was discontinued in January 1991. Subsequent to the removal of barriers to competition amongst butchers, retail prices fell by over 20 per cent within six months.

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\(^{45}\) The National Marketing Council did not accept a revised method for calculating floor prices and as a result in 1990 floor prices were not adjusted upwards.

\(^{46}\) GATT document IMC/INV/Rev.10.

Since the introduction of tariffication on meat and meat products in 1990, duties have been revised upwards at the request of the Meat Board. In the course of 1991, the duty on deboned mutton was raised from 20 per cent ad valorem or 400 cents/kg less 80 per cent ad valorem, to 20 per cent ad valorem or 480 cents/kg less 80 per cent ad valorem; this effectively raised the minimum price by 20 per cent. At the same time, meat processing industries applied for, and received, a rebate on the duty on manufacturing beef, on the basis that the increase in landed cost caused by the duty made it impossible for local processors to compete with processors of other canned goods.

The Meat Board subsidizes exports from a stabilization fund and allocates quotas to exporters on the basis of their previous performance. The Meat Board derives its income from levies imposed on the products and paid mainly by the producers. Except for live animals, meat exports are eligible for GEIS assistance under Categories 2 and 3.

The surcharge on the import of live animals, excluding poultry, was decreased from 60 per cent to 40 per cent during 1990; it was subsequently reduced to 15 per cent, on 2 August 1991. Nevertheless the number of live animals imported from outside the common customs area declined dramatically in just a few years, primarily as a result of the surcharge.

Poultry is not governed by the Marketing Act. Although quantitative restrictions were replaced by import tariffs for poultry in 1988, maximum import restrictions were instated on poultry, according to the Livestock Improvement Regulations, R.894 of 26 April 1991, aimed at protecting local industry from harmful diseases. Imports of chicken rose nearly tenfold in the first nine months of 1992; the poultry industry also experienced competition from red meat as the drought led to increased slaughterings. The industry requested protection in 1991, and in November 1992 specific duties of 225 cents/kg on whole frozen chicken and 313 cents/kg on frozen parts were introduced on an interim basis. The industry holds that the high cost of chicken feed, imported at well above world prices, is the main reason for its seeming lack of competitiveness.

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48 Increases in tariff protection on other meat products were recommended by the Board on Tariffs and Trade, although at lower levels than requested by the Meat Board.

49 Board on Tariffs and Trade, Annual Report, 1991.

50 Department of Agriculture.

416. The Directorate for Animal Health in the Department of Agriculture issues veterinary import permits and applies control measures, based on sanitary requirements, at the ports of entry for meat and meat products. Import restrictions are applied for reasons of animal health protection, public health and safety and environmental protection. Being mainly a net meat importer, South Africa has negotiated a variety of import protocols related to veterinary standards for trade in meat and meat products, live animals and game. Protocols vary according to the animal health situation in the source country. Similar veterinary standards are applied for imported and domestically produced products.

417. Any abattoir in a country wishing to export meat to South Africa must be approved by the Chief Meat Hygiene Officer in South Africa. Any fresh meat imported into South Africa must either be in the form of anatomically recognized cuts of meat, or mechanically recovered meat. In the latter case, strict bacteriological quality tests are applied both in the country of origin and in South Africa.

418. Live cattle from countries where cases of bovine spongiform encephalopathy (BSE, "mad cow disease") have been confirmed, may still be imported, but not processed or unprocessed beef products that contain nervous tissue.

419. As it permits the use of growth stimulants, South Africa agreed to limit exports to the EC, where importing of hormone-treated animal products is banned, to animals raised on specified farms where no growth hormones are used. Amongst EC member states, Greece and Italy ban the import from South Africa of venison and ostrich meat.

(iv) Dairy products (Table AV.5)

420. South Africa is a member of the MTN International Dairy Arrangement (IDA). Dairy products, including fresh milk, contributed R 1.6 billion to agricultural gross value added in 1990. The dairy industry employs 56,000 workers.

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52 GATT document IMC/INV/Rev.10.
54 Department of Trade and Industry.
55 Department of Agriculture, Annual Report 1991, Table 2.
56 The Citizen, 10 November 1992.
Since 1983, regulation of the dairy industry has been progressively dismantled. In July 1983, price control on the retail price of fresh milk and restrictive registration of milk distributors was abolished. In May 1985, control of retail prices for butter and cheese followed suit. In June 1986 wholesale price determination for cheese and restricted registration for milk processors was terminated. On 1 October 1988 wholesale price determination for butter came to an end. The subsidy on butterfat was abolished on 1 October 1990. The butter subsidy was terminated in September 1989. The main reason for the subsidies on butterfat and butter was to bring the price of butter in line with that of margarine.

From 1 September 1988, the "milk is milk" system came into effect, eliminating the distinction between industrial and fresh milk. With this system, the fixed price scheme for industrial and single channel pool for fresh milk were replaced with a surplus disposal, floor price scheme. At this time, levies on milk became payable by milk purchasers.

The minimum price for butterfat, which was determined by the Dairy Board, has since been abolished and the Board no longer sets the minimum producer price for milk.

Mandatory milk levies were ruled illegal in June 1992, following complaints that stabilization levies were being used to subsidize processing at the expense of fresh milk. A court ruled that the Board had acted ultra vires; the hearings disclosed that producers and non-manufacturing distributors had been opposed to the new method of imposing the levy through which large co-operatives, heavily represented on the Board, were the beneficiaries. A new dairy scheme is under discussion, with privatization possible.

In spite of the removal of fixed prices, milk surpluses have developed in the last few years. South Africa has begun to export processed dairy products, such as skimmed milk and butter. In 1990 South Africa exported over 3,000 tons of butter. As a participant in the IDA, South Africa adheres to minimum export prices. Butter and cheese are eligible, respectively, for GEIS, Category 2 and 3 export assistance. Losses on exports of butter and cheese in the year ended June 1991 amounted to nearly R 500,000.

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58 Department of Agriculture.
426. The Dairy Board imports or issues import permits for butter, milk powder, condensed milk, condensed skim milk and cheese when local supplies are insufficient. An investigation has recently been launched into the allegedly illegal importation of thousands of tons of dairy products. According to the authorities, it has been alleged that some dairy products, provided as food relief to neighbouring countries, have been illegally imported into South Africa; to date, no tangible proof has been found.

427. Imports of dairy products, with the exception of butter and cheese, are duty-free. A 25 per cent tariff is levied on cheese imports and a specific duty of 3.6 cents/kg on imports of butter. Close to 40 per cent of South Africa's dairy-product tariff lines are bound under GATT.

428. An import surcharge of 15 per cent on dairy products became effective on 15 August 1988; the rate, for products other than butter, was reduced to 10 per cent on 15 March 1990.

(v) Oilseeds, fats and oils and their products (Table AV.6)

429. In 1988, the average tariff on oilseeds, fats and oils was 16.7 per cent. Revised formula duties adopted on 20 July 1990 replaced import control on oil cake and vegetable oils. In response to a request from the oil processing industry, in 1990 protection was increased on an interim basis and specific duties substituted for formula duties. In 1991, many of the formula duties were changed to specific duties while specific duties on certain oil cake were lowered, effectively raising the level of protection for the processing industry. The Industrial Development Corporation has estimated that in 1990 effective rates of protection for oils and fats and prepared animal feeds were 0 per cent and 60 per cent respectively (Table AV.2). (Chart V.7 presents a comparison of the tariff effects of formula versus specific duties.)

430. The Oilseeds Board imposes levies on imported sunflower seed, groundnuts and soya beans; these levies are lower than those on the locally produced items.

60 The Citizen, 10 November 1992.

431. Oilseeds contribute less than 3 per cent to gross output in agriculture and in the last few years imports have increased considerably. Between 1980 and 1990, vegetable oils, as a share of total agricultural imports, rose from 5.6 per cent to 10.8 per cent. In the year ended March 1992, South Africa produced nearly 900,000 tons of oilseeds, mainly sunflower seeds, but production in 1992/93 is expected to drop by well over half and imports to rise accordingly.

432. The Oilseeds Board manages the oilseeds scheme, which is a single channel pool scheme. The Board is the sole buyer from producers of groundnuts, sunflower seeds and soya beans, but it does not have sole-importing rights. Groundnuts and sunflower seeds are not subject to import control by the Department of Agriculture, but the Department of Trade and Industry still issues import permits. An agreement between the Ministers of Agriculture and of Trade and Industry stipulates that the Department of Agriculture must make a recommendation regarding imports of

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Source: GATT secretariat estimates.

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62 Directorate of Marketing, Department of Agriculture.
these products. A certain quantity of coconut oil, cashew nut shell liquid and cotton seed oil cake may be imported duty-free under the trade agreement with Mozambique. Groundnuts and processed groundnuts from Malawi receive duty-free treatment within a tariff quota. Import permits under these bilateral agreements are issued either by the Department of Agriculture or that of Trade and Industry.

433. The Oilseeds Board has the sole right to export sunflower seed and groundnuts but also sells these to private traders for export. Export permits for soybeans and cotton seed are issued by the Department of Agriculture. Groundnut and sunflower oil in excess of domestic requirements is exported privately.

(vi) **Cut flowers, plants (Table AV.7)**

434. Imports in this category are liable to an average tariff of less than 5 per cent, although the import duty on cut flowers is 20 per cent. In addition, there is an import surcharge of 15 per cent on cut flowers. In contrast to other horticultural products, nearly half of the import tariffs on items in this category are bound in GATT.

(vii) **Beverages and spirits (Table AV.8)**

435. The Liquor Products Act of 1989, in effect from 1 July 1990, provides for control over the sale, production, import and export of certain alcoholic products, including wine, alcoholic fruit beverages, spirits, grape and spirit-based liquor, but not beer, sorghum beer and medicines. The stated purpose of the Act is to protect the domestic market against inferior and low quality liquor. The Act transferred certification tasks from the Department of Agriculture to the Wine and Spirits Board.

436. Imported products have to comply with local standards, that is, labelling, chemical composition and sensory evaluation. Labelling requirements include origin, cultivar, age and composition. Exports have to comply with the same requirements as products sold on the local market. Measures are enforced by the Directorate of Plant and Quality Control in the Department of Agriculture. Permission from the Wine and Spirits Board is required to import certain products.

437. In the last few years, the wine-growing areas of South Africa have produced record crops. Wine does not come under the Marketing Act but has its own legislation, the Wine and Spirits Control Act of 1970, which

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regulates the control and management of the wine and spirit industry by the KWV cooperative. Prices and quota levels for individual vineyards are set by the cooperative.

438. Nearly half of the import tariffs applicable to the products in the spirits and beverages category are bound under GATT. As a rule, specific duties apply in this sector. The ad valorem equivalent of some duties can range up to 100 per cent although the simple average tariff on imports of beverages in 1992 was 10.6 per cent (Table AV.1). Import surcharges add 23 per cent to the border protection against imports. Import control still applies to nearly all products. Imports represent less than 5 per cent of domestic demand; as in other consumer goods areas, import replacement has largely satisfied the domestic market. Exports in 1991, eligible for GEIS, received nominal assistance of 20 per cent.

(viii) Tobacco (Table AV.9)

439. The Tobacco Board operates a single-channel pool scheme and fixes the minimum selling prices of tobacco for manufacturers, while tobacco crops are handled by cooperatives. The Tobacco Exchange is the single agent appointed to export leaf tobacco on behalf of the Board. Tobacco products are eligible for GEIS, Category 3 export assistance. Exports account for roughly one-quarter of tobacco production. However, South Africa is a net importer of tobacco (Chart V.8).

440. On 13 July 1990, effective duties on leaf tobacco were introduced and quantitative control removed. Import control remains in effect on other tobacco products and formula duties apply to most tariff lines (Table AV.1). Imports of unmanufactured tobacco incur a formula duty of 15 per cent ad valorem or 860 cents/kg less 85 per cent ad valorem. Specific excise duties and specific customs duties are levied on tobacco products. In 1990, income derived from excise duties on tobacco products amounted to R 710 million. A high nominal tariff, averaging 27.8 per cent on an unweighted basis in 1992, and a surcharge of 36.5 per cent support an estimated effective rate of protection of over 50 per cent. Within limits, unmanufactured tobacco can be imported duty free from Malawi and Zimbabwe. In the case of Malawi, the entitlement is at least 300,000 kilograms a year, and for Zimbabwe the quota is 900,000 kilograms annually. In 1992 South Africa imported more than 8 million kilograms of unmanufactured tobacco from Malawi; the duty-free import quota for Zimbabwe is normally filled.

64 The producer price in 1991 averaged 988 cents/kg for flue-cured tobacco and 605 cents/kg for air-cured.
Natural fibres

441. Cotton, wool and mohair are important local crops and play a major rôle as inputs to the domestic textiles industry. South Africa is the world's largest single producer of mohair, with 46 per cent of global output. As for many other agricultural products, marketing of wool, cotton and mohair is administered by control boards; wool and mohair are under single-market pool schemes, and wool is subject to a supervisory scheme.

442. Seed cotton is delivered to any of six ginning companies; thereafter the lint is sold to spinners and the cotton seed to oil expressors and farm feed manufacturers. Cotton spinners are obliged to buy the local cotton crop at fixed prices. Imports of raw cotton and wool are duty-free, but subject to import control. Imports of ginned cotton are liable to a specific duty of 160 cents/kg. A rebate provision, however, enables any shortages in local supply to be imported duty free.

65 The Cotton Scheme was amended in 1990 to allow for a representative of the clothing industry on the Board.
443. South Africa is a major exporter of wool. Exports were valued at over R 500 million in 1990, representing about 90 per cent of output. The year 1991 was a watershed year for the international wool market as Australia and New Zealand suspended their reserve price scheme and prices plummeted. The Wool Board honoured its payments to farmers and the reserve stabilization fund was utilized to absorb the loss.

(x) Fish, shellfish and products (Table AV.10)

444. The fishing industry harvests over 500,000 tons of fish and shellfish annually, much of which is exported. Imports and exports of fish are subject to permits. The simple average import tariff in 1988 was close to 20 per cent. The import surcharge rises to 40 per cent on a number of species. Exports of processed fish are eligible for GEIS assistance.

445. Overfishing of waters gave rise to reduced catch quotas after 1983. In its study of consumer food prices, the Board on Tariffs and Trade found indications that fishing quotas restrict entry, giving advantage to certain dominant fishmeal producers.

(xi) Forestry

446. Commercial forestry covers 1.2 million hectares, just over 1 per cent of South Africa's total land area. The state is a major participant in the forest industry: almost half of all logs come from state-owned lands.

447. Imports of timber require a permit and must adhere to phytosanitary regulations, which vary according to type of timber and by level of processing. Levies on imported timber, at 8 cents/cu.m. for imports from other members of the Customs Union and 30.55 cents/cu.m. for imports from all other sources, are paid to the Forestry Council.

448. To be transported in South Africa, coniferous structural timber requires a mark, under the 1982 Standards Act, or a transport permit.

449. As a result of the implementation of competition law, at the end of 1989, the Timber Marketing Agreement, which had allowed for minimum


68BTT, June 1992, op. cit., p. 64.

69EIU, op. cit., p. 28.
delivery prices on soft woods, was terminated. More recently, acquisitions by paper companies of forest lands prompted a call for investigation by the Competition Board, on the charge that these actions could hamper entry into the pulping industry and exports by independent cooperatives. In the event, no formal investigation was deemed necessary. However, a clause in a contract between two major timber growers was determined to constitute an unlawful, restrictive practice and negotiations took place to remedy the situation.

(3) Mining

450. Famous for its large and diverse mineral wealth, South Africa is the world's leading producer of gold, possessing nearly half the world's reserves, and a principal producer of platinum-group metals, and diamonds and uranium. In addition, South Africa is the world's main producer of vanadium, chrome ore and andalusite and is among the top five producers in the world of manganese, vermiculite, antimony, fluorspar and titanium.

451. Mining's contribution to GDP has fallen between 1960 and 1990, from 13 to 11 per cent, and the volume of mining production, particularly of gold, has declined by over 10 per cent since 1985 (Chart V.9). Nevertheless, the mining industry maintains the major share in merchandise exports. In 1990, the value of sales of the minerals industry was R 42 billion, of which 80 per cent was exported (Table V.5). Total mineral exports (excluding diamonds) in 1990 amounted to R 29.7 billion, of which R 19 billion was gold.

452. In the light of South Africa's production and export structure for minerals, domestic taxation and support policies are likely to be more determining factors in resource allocation than are overt trade barriers. The following paragraphs attempt to outline the system and the possible effects of such policies.


\[72\] Coopers du Toit (1991), op.cit. The amount of R 42 billion includes diamond sales, and sales by Bophuthatswana.

\[73\] Department of Minerals and Energy Affairs, South Africa's Minerals Industry 1990, Braamfontein, October 1991. The exports of R 29.7 billion exclude those of Bophuthatswana; including the latter, exports amounted to R 33.1 billion.
453. Mineral policy is set out in the *White Paper on the Mineral Policy of the Republic of South Africa 1986*. This states that Government should provide a legal and fiscal environment conducive to the growth of the industry, while costs that are undertaken directly to benefit the industry should be borne by the sector.

454. Under the *Mining Rights Act* and the *Precious Stones Act*, the State owned the right to mine precious stones and metals and received income from mining licenses, lease payments and a share in the profits. The *Minerals Act of 1991*, in effect since 1 January 1992, repealed these Acts. In addition to regulating exploitation of minerals and ensuring health, safety and the rehabilitation of the environment, the Act foresees the prospect of gradual privatization of mineral rights, which at present are vested in the State. Existing lease arrangements continue until the end of 1993. Exploration rights now belong to the rights holder; mining authorization must still be obtained from the public authorities, although the red tape involved has been cut considerably.

455. The mining sector is allowed an immediate 100 per cent deduction against taxable income for capital expenditure, excluding the cost of land and mineral rights. In 1985, the deduction of capital expenditure on a
particular mine was restricted to the mining income generated by that mine only. A recent change to the Income Tax Act provided that, from 14 March 1990, capital expenditure on all producing mines could be offset against 25 per cent of the taxpayer's total taxable income, not only that from the single mine. A capital allowance applicable to expenditure on shaft-sinking, mine equipment and administration, but excluding interest and finance charges, is available at the pre-production stage. The annual compound interest rate applied stands at 10 per cent for post-1973 gold mines and deep level gold mines, and at 12 per cent for post-1990 gold mines.

456. In spite of the deduction allowance for capital expenditure, gold mines normally paid an average tax rate, calculated according to a formula that set a minimum profit rate before any tax was payable, higher than that levied on manufacturing companies. The tax structure was complex, with differences in taxation between small and large mines; pre- and post-1966 mines; post-1966 and post-1973 mines; and deep level mines. In 1985, gold mines paid an average rate of 54 per cent on their mining income; lease payments increased this figure to 70 per cent. Non-gold mines were taxed at the standard corporate rate plus, until recent changes, an additional 9 per cent tax surcharge, leading to an effective tax of 54.5 per cent. By contrast, industrial companies paid a standard 50 per cent tax rate, reduced by various allowances to an effective rate of less than 30 per cent.

457. Starting in the tax year 1990/1991, a change in the tax formula for gold mines reduced the effective rate slightly; in 1991/1992, the difference in formulae between "old" and "new" mines was eliminated. The previous system had been criticized for encouraging wasteful spending on low grade ore that would have been uneconomic in the absence of tax distortions. For other mines, since 1991/1992 the tax rate has been the standard corporate rate; the 9 per cent surcharge has been reduced and will be eliminated in tax year 1994.

458. Tax and lease payments have at times been an important source of public funds, representing nearly 15 per cent of total government revenue in 1982. The share fell to less than 4 per cent in 1991, a drop that can be directly correlated to falling gold output and declining

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75 The formula for gold mining companies in 1992/1993 was set at \( Y = 58 - 290/X \), where \( Y \) is the tax rate and \( X \) the ratio of profit to revenue.
profitability. Payments to the Government for mining rights and licenses amounted to over R 5 million in 1990. Lease payments, a deductible cost to the operator, are being phased out. In 1990, these generated R 541 million for the Exchequer; gold contributed 60 per cent, platinum 26 per cent and diamonds, 5 per cent. In 1991, taxes from mining amounted to R 2.2 billion, with gold and platinum contributing two-thirds of this amount (Table V.6).

459. The general focus of trade policy in the minerals industry is on the beneficiation of mineral products to add greater local value to final exports (Chapter (V)(4)(ii)). However direct trade controls do not limit exports of unprocessed ores, except for strategic reasons, in the case of minerals that are not produced in sufficient quantity to meet demand; environmental concerns, in accordance with the Basel Convention; and for materials with a high degree of contained energy, including scrap iron. Thus the "Schedule of goods for which export permits are required" includes aluminium, iron and steel, molybdenum, and tin and zinc and their alloys as subject to export control. The control is administered by the Department of Trade and Industry.

(i) Gold

460. Gold production has been on a steady downward trend since 1970 when 1,000 tons were mined (Chart V.10). In 1991, production had fallen to 599 tons as the average grade of ore, the amount of gold yielded per ton milled, had fallen to 40 per cent of its level 20 years earlier.

461. Gold is a barometer of the health of the South African economy. For instance, the increased gold price in 1986-1988 enabled the authorities to cope more easily with the current account effects of sanctions and capital outflows; since then, the declining gold price has had implications for monetary, fiscal and exchange rate policy.

\[76\text{Department of Minerals and Energy Affairs.}\]
Chart V.10
Gold production, 1970-91


Chart V.11
Gold price, 1983-91

Note: Average daily fixings (London) - price per fine ounce.

Source: South African Reserve Bank, Quarterly Bulletin (various issues).
462. From a peak of US$800 an ounce in 1980, the gold price has fallen to a range of US$350 to US$450 throughout the last decade, declining steadily since 1987 (Chart V.11). South Africa's terms of trade, including gold, have deteriorated by over 7 per cent in the period since 1985. The rand price of gold has risen in tandem with the currency's depreciation but so, too, have the industry's costs, which were US$335/ounce in 1991 compared to a worldwide average of $308/ounce. The decline in the gold price since 1980, combined with the rise in costs, has eroded the profitability of mines, and employment in the industry has shrunk from 534,000 in 1986 to about 400,000 in 1992. Currently, close to 12 per cent of mining output is produced at a loss.

463. Interest-rate subsidies were previously paid to marginal gold mines, on the basis of the Gold Mines Assistance Act, repealed in January 1988 (Table V.7). A Cabinet decision of February 1991 allowed for assistance to "marginal" mines, within approved guidelines. Applications for assistance, normally based on an agreement whereby the Government becomes the creditor of last resort, are investigated by the Interdepartmental Committee for Assistance to the Mining Industry, and approved by the Cabinet. Companies receiving assistance must interrupt dividend payments. At present one gold mine is receiving assistance (Chapter IV(4)(iii)).

464. By law, all newly-mined gold must be offered to the Reserve Bank within 30 days of production. However, the Chamber of Mines has the right to sell up to one-third of South African production, independently of the Bank, in value-added forms of one kilogram or less. Mines are permitted to hedge a certain percentage of their production and report their hedging positions weekly to the Reserve Bank. The Bank purchases gold from the Rand refinery on each business day at a price given by the average of the two latest London fixings, less a realisation charge that covers items such as freight and insurance; since December 1988, the Bank pays for 90 per cent of a gold purchase in U.S. dollars (Chapter III(2)). The Bank may either add the gold to its official reserves or dispose of the gold by way of spot or forward sales, options, swaps or loans. With South Africa as a major producer, the central bank is interested in a liquid and stable gold market. In general, the Bank employs a "leaning into the wind" strategy, selling on strength and withholding gold when the price is under pressure. Under the "stabilized contango" scheme, the forward price is fixed relative to the rand/dollar exchange rate.

77World Gold Council.


Chart V.12
Production and exports of selected metallic ores, 1986-90

(ii) Other metallic ores

465. South Africa is the world's largest supplier of chrome ore, with 26 per cent of world exports in 1989, although the bulk of South Africa's production is sold to the local ferro-alloys industry. In 1989, South Africa accounted for nearly half the world's chrominium ferro-alloys exports. South Africa is also the world leader in exports of manganese ore and ferro-manganese and ferro-silicomanganese (Chapter V(4)(ii)(a)). In spite of import bans on iron ore by major trading partners during the second half of the 1980s, both production and exports of metallic ores have shown substantial growth (Chart V.12).

(iii) Coal

466. Recoverable resources of coal in South Africa are estimated at 55 billion tons, placing South Africa fifth in the world in terms of reserves. Between 1970 and 1990, South Africa's coal output increased at an average rate of 6 per cent per annum. In 1991, South Africa produced 177 million tons of coal, worth R 8.6 billion; it exported 49 million tons, worth R 4.2 billion and equivalent to 13 per cent of world exports. The Electricity Supply Commission, the State electricity monopoly is the largest consumer of coal, using around 40 per cent of total production; the synfuels industry (SASOL) accounts for another 25 per cent of local consumption.

467. Control over local wholesale and retail coal prices was abolished on 10 April 1986. Local prices for bituminous coal are considerably lower than export prices in rand terms; the latter have risen by over 13 per cent per annum in the period 1980-1991, mainly as a result of the depreciation of the rand (Chart V.13). The U.S. dollar price for coal has been virtually flat throughout the last decade.

468. The coal export control system, in operation since December 1973, was abolished in June 1992; the Coal Resources Act of 1985 was repealed in March 1992, completing the deregulation of the coal market.

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80 EIU, South Africa Country Profile 1992-93, p. 32.
81 Large and easily minable coal resources allow South African manufacturers a cost advantage. (Source: SACOB (1991), p. 38.)
Chart V.13
Production and exports of coal in local and export prices, 1980-90

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (Tons)</th>
<th>Local price</th>
<th>Export price</th>
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<tr>
<td>1980</td>
<td>100</td>
<td>25</td>
<td></td>
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<tr>
<td>1981</td>
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469. Levies payable under the Coal Act of 1983 for coal research are no longer applicable as the Act has been repealed with the promulgation of the Minerals Act of 1991. Under this Act, a levy applied to all mines is used to finance mine safety research.

470. Incentives exist to promote the development of multi-product coal mines, which allow companies to produce higher quality (e.g. washed) coal for export.

(iv) Uranium

471. South Africa ranks seventh in the world amongst uranium producers. World production of uranium, having peaked at 44,200 tons in 1980, was down about 65 per cent to 28,570 tons (U) in 1990, of which South Africa contributed 2,462 tons (U). South Africa's own annual needs for nuclear fuel are estimated at 270 tons (U).\(^{82}\) Uranium is recovered as a by-product of gold mining and the grade of ore is considerably lower than in other

major producing countries. Given the current oversupply, production costs are higher than current world prices, both in South Africa and in most other producing countries.

472. The sole right to produce nuclear energy is vested in the Atomic Energy Corporation (AEC). The Nuclear Energy Act of 1982 prohibits the export of source material from South Africa by anybody except the AEC, or a subsidiary company, without prior authorisation of the Minister of Minerals and Energy Affairs. Since 1968, the Nuclear Fuels Corporation of South Africa has processed and marketed virtually all South African production. Sales are subject to the International Atomic Energy Agency safeguards or equivalent arrangements; that is, the material shall be used for peaceful purposes only. South Africa has recently signed the Nuclear Non-proliferation Treaty.

(v) Petroleum

473. Oil and gas exploration has been undertaken since 1965 by the Southern Oil Exploration Company (SOEKOR). In February 1985, petroleum and gas deposits were discovered at Mossel Bay, off the south coast of Cape Province. Natural gas reserves are estimated at 30 billion cubic metres and the Mossgas plant is expected to provide 10 per cent of South Africa's liquid fuel requirements when it comes on stream.

474. The Strategic Fuel Fund, a wholly owned subsidiary of the Central Energy Fund, purchases crude oil and stockpiles, when necessary, for strategic purposes. Imports of crude oil have been held confidential since the United Nations' oil embargo came into effect in 1973. Estimates by the Amsterdam-based Shipping Research Bureau estimate that annual imports have averaged 15 million tons. As announced by the authorities, R 1.5 billion of the strategic oil stockpile has recently been sold off for socio-economic development, with any additional sales revenues used to finance Mossgas. Reserves, conservatively estimated at 50 to 60 million barrels, but possibly several times higher, are still in storage. Storage costs were estimated by an international expert at $3.50 per barrel.

(vi) Diamonds

475. South Africa ranks fifth in world production of rough diamonds—behind Australia, Zaire, Botswana and the ex-Soviet Union—but is the

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acknowledged leader in gem-quality diamonds. In 1989, production of rough diamonds amounted to 9.1 million carats, giving South Africa just under a 10 per cent share in world production.

476. Information on the value of sales and exports of diamonds is not available from official sources. Sales of diamonds by the Central Selling Organization, the selling arm of de Beers, which controls nearly all of South African and much of the rest of the world's diamonds sales, amounted to nearly R 11 billion in 1991 (equivalent to almost US$4 billion).

477. The Diamond Board, established under the Diamond Act of 1986, regulates the possession, buying, selling, processing, import and export of rough and polished diamonds.

478. A 25 per cent tariff is levied on polished diamonds and a 15 per cent export duty on rough diamonds. Diamonds may be exported exempt of duty if they have been offered at the Diamond Bourse in a manner determined by the Diamond Board. The export duty on diamonds has generated considerable government revenue, contributing a minimum of R 20 million yearly between 1980 and 1988 and reaching a peak of R 56 million in 1986 (Table V.8). Since 1989, this source of revenue has dwindled as the duty is waived if the diamonds have been offered to local cutters at market-related prices.

(4) Manufacturing

479. Manufacturing accounts for some one-quarter of GDP. The volume of manufacturing production declined by about 4 per cent in the period 1989 to 1991, after rising by some 9 per cent over the four previous years (Chart V.14). High tariff protection, still in place even though the authorities recognize that the past policy of import substitution must be forsaken, has reinforced a high-cost production structure. By attempting to attain self-sufficiency, inefficient industries were allowed to survive, with little pressure from domestic or foreign competition to reduce costs.

85Prior to the introduction of the Diamond Act, the export duty was regulated under the Diamond Cutting Act of 1955 and was payable in all cases.
480. The unweighted average tariff on imports of manufactured goods, not including the import surcharge, is 22 per cent; the average tariff as weighted by import values is 14 per cent and that weighted by the value of production is 20 per cent. Within the overall unweighted average, sectoral averages range from 7.3 per cent for transport equipment, not including motor vehicles, to over 50 per cent on clothing (Table AV.1). These averages conceal substantial dispersion, with maximum duties, including formula equivalents, reaching 490 per cent in some branches.

481. The average import surcharge is 6 per cent, but this masks wide variations between sectors, from as low as 0.7 per cent on industrial chemicals to 15 per cent on clothing.

482. While far less significant than in agriculture, food, beverages and tobacco, import control continues to affect 14 per cent of tariff lines in the manufacturing sector. However, only in certain sectors, including clothing and rubber, is import control particularly prominent.

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87 IDC data 1992; see Table AV.1.
483. Tariff escalation suggests high rates of effective protection for individual sectors. The Board on Tariffs and Trade has aimed to limit effective protection to 30 per cent, but this goal is far from being achieved in individual sectors. Moreover, conflicting estimates of the effective rate exist. The Industrial Development Corporation, in its 1990 analysis, calculated the effective rate of protection for the manufacturing sector as 30 per cent, while the rate was estimated at 43 per cent by the Board on Tariffs and Trade.

484. Over one quarter of manufacturing value added is estimated to receive effective protection of over 50 per cent (Table V.9). Particularly high rates of protection were found in subsectors of the textiles, clothing, chemicals, plastics and non-metallic minerals industries (Table AV.2).

485. In 1986, the Board on Tariffs and Trade, then the Board on Trade and Industry, found that the average competitive disadvantage of South African manufacturing industry, measured by value added, was approximately 17 per cent. More recently, the South African Chamber of Business has found, in assessing the international competitiveness of the South African economy, that the cost of capital is considerably higher than in developed countries, such as Australia, the United States, Japan and the United Kingdom, and that the cost of labour is substantially higher than in the newly industrialising economies. This study also calculated that the level of protection added nearly 10 per cent to the cost of manufactures.

486. Import penetration may provide a further guide to the extent of protection afforded to local industry. In this connection, the share of imports in the domestic market has remained around 20 per cent during the 1980s. Import penetration increased noticeably in textiles, leather, industrial chemicals and machinery and equipment. By contrast, the share of imports in the motor vehicles industry declined. Consumer goods, and those industries, particularly metals, in which South Africa has a clear

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89 The simplification of the tariff (including the reduction of tariff lines), tariff amendments in the context of structural adjustment programmes, and selective application of tariff increases and rebates, causes nominal tariff averages, and as a result effective rates, to change frequently. The most recent estimates of effective rates of protection have been made by the IDC using 1992 tariffs and 1991 trade weights.

90 BTI (1996), op. cit., p. 44.


92 Ibid., p. 40.
resource advantage, have not experienced any significant increase in import penetration.

487. The changes that have occurred in the last several years in the tradable goods sector can at least in part be traced to the effects of trade and industrial policies.

488. In the motor vehicles industry, for example, the emphasis on local content within the context of the structural adjustment programme, has reduced the share of imports but has also contributed to a reduction in output. By contrast, high levels of protection for the paper industry have limited the growth of imports in this sector, but have allowed the industry to expand and increase exports to 11 per cent of production in 1990. In textiles, as contrasted to clothing, the share of imports in the domestic market grew from 14 to 19 per cent in the five years 1985-90, encouraged by drawback provisions under the structural adjustment programme for clothing manufacturers. Imports of machinery and equipment, which as capital goods encounter lower tariffs and surcharges and are eligible for surcharge exemption, expanded their share of the domestic market from 49 to 57 per cent in the period 1985 to 1990 (Table AV.1).

489. Manufactured exports, as a share of both total exports and production, rose appreciably during the 1980s. The explanation lies in gradual moves on the part of the authorities to develop the export sector (Chapter II(3)(i)), the need for foreign exchange as the value of gold exports declined, and the contraction of domestic demand in the latter half of the 1980s, which put pressure on manufacturers to export in order to utilize excess capacity.

490. Although fuelled in part by the real depreciation of the currency, growth in manufactured exports also reflects the effect of trade-related policies. Prior to the introduction of the GEIS, export incentives were largely directed at specific industries (Chapter IV(3)(iv)). Despite the implication of selectivity, apparently no records are available for export incentives granted under Category A and B according to manufacturing sector. A 1988 study by the Board on Tariffs and Trade, suggests that the nominal rate of export assistance for all sectors in the 1982-1985 period was some 7 per cent; however, this average gives no indication of the

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Based on IDC data, which includes exports to other customs union members. Export to production ratios may be underestimated: production is defined on the basis of the value of manufacturing sales and there is considerable evidence that domestic prices for a large number of commodities are higher than export prices. According to Bell (1992), the ratio of exports to gross output, calculated in constant rand, was 20.8 per cent in 1990 and 16.6 per cent in 1980.
assistance provided to particular sectors, nor are there more recent estimates of the total assistance to exports prior to GEIS.

491. Some tentative conclusions may, however, be drawn. Increased exports of beneficiated metals may partly be attributed to price discounts on inputs such as electricity, industrial rebates and export incentives further defraying input costs. Continued protection of domestic industry enabled some branches, such as paper products, to expand capacity, and thus exports. In addition, the paper industry, as a significant user of electricity, may, like other energy-intensive industry, have benefited from reduced electricity tariffs. Chrome ore and coal are sold to domestic industry at prices below international levels, encouraging expansion of user industries. Export sales in a number of commodities suffering from a global surplus - such as steel, one of the fastest growing export industries - are made at less than domestic prices. Export incentives under GEIS in 1991 amounted to more than 10 per cent of exports for 13 of 26 manufacturing sectors and more than 20 per cent for beverages, furniture and clothing.

(i) Chemicals (Table AV.11; Tariff Study categories 09.04 and 10, excluding 10.04)

492. South Africa's highly capital-intensive chemicals industry made its start in the 1950s with the establishment of SASOL, the world's leading fuel-from-coal conversion plant. The chemicals industry, dominated by the production of petroleum products, worth some R 34 billion in 1991, is the largest manufacturing sector. After energy products, synthetic resins, cleaning compounds, toilet preparations and medical and pharmaceutical products are the leading branches.

493. The privatization of SASOL began in 1979 and was completed in 1991, but the IDC still owns 30 per cent. As a State enterprise, public funds were used to expand into higher value-added products, using feedstocks produced by the synthetic fuels industry. SASOL produces more than

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97 In the International Standard Industrial Classification (ISIC), the sectors covered are ISIC 351, 352, 353 and 354.
98 SASOL has the highest profit ratio of any petrochemicals company in the world, according to Fortune 500.
80 coal-based commodities other than synfuels. By 1991, chemicals sales amounted to 20 to 30 per cent of SASOL's revenues; plans for increasing capacity are expected to raise the share of petrochemicals to 50 per cent of revenues in the next five years. SASOL will receive an accelerated depreciation allowance of 100 per cent on its projected R 12 billion investment in refining and petro-chemical capacity expansion.

494. As is typical of the international chemicals industry, the level of intra-industry trade is high compared to other manufacturing sectors; imports and exports have grown faster than the manufacturing average and both import intensity and export propensity of the industry has risen (Table AV.1).

495. The unweighted tariff average is less than 20 per cent, but tariffs range up to 100 per cent within the sector. In 1991, the Board on Tariffs and Trade recommended that duties on chemicals in HS Chapters 27 and 29 and fertilizers, with the exception of urea, be reduced to zero and the duty on polymers limited to 10 per cent; subsequently, the measures were taken. Import control applies to some 12 per cent of all tariff lines and formula duties to approximately one-fifth of the total. Formula duties occur with relative frequency on intermediate products for the plastics and petrochemicals industry. The import surcharge, not widely used for basic chemicals, is applied to perfumes at 40 per cent, raising the average rate on "other chemical products" to 7 per cent.

496. Tariff concessions appear to have been widely used in the chemicals industry. In 1986, excluding transport equipment, which accounted for nearly 60 per cent, over one-third of the remaining value of imports under rebate provisions were destined for the chemicals, plastics and rubber industries, raising effective rates of protection on end-products. In 1992, industrial chemicals were estimated to enjoy effective protection of 44 per cent, and "other chemical products", 29 per cent (Table AV.1). Effective rates differ considerably between subsectors, from 24 per cent on certain medicines to 348 per cent for the synthetic resins and plastic fibres industry (Table AV.2).

497. GEIS subsidies are generally available at the Category 2 and 3 stages and, in a few isolated cases, the maximum subsidy is payable. In 1991, exports of industrial chemicals received a 4 per cent subsidy and "other chemicals" a 13 per cent subsidy.

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100 BTT, Revision of the duty on certain chemicals, certain plastics and fertilizers, Report No. 3037, 1991.
The quest for energy self-sufficiency, begun in 1955 with the construction of SASOL I and reinforced after the oil embargo was tightened, has led to a highly controlled and protected fuels industry.

Refining was deregulated in May 1991, but distribution and international trade remains heavily regulated. The Department of Mineral and Energy Affairs controls the import and export of crude oil and refined petroleum products, but trade in the latter is in the hands of the private oil companies.

The Government sets wholesale and retail prices for petroleum products. The pricing system is based on the IBLC (in-bond landed cost), the price refiners receive for their fuel, which includes transport costs, customs and excise duties and profit margins. The pricing structure favours refiners is that they benefit from any positive margins between transport costs on refined and crude products (with the former normally higher). Consumers also pay high retail prices, while various industries are supplied directly at wholesale levels.

From import to retail pump, the price of petrol triples (Chart V.15). The fuel levy, paid at the pump, is the main component, generating R 5 billion in revenues in 1992. The transport levy (9.2 cents/litre at end 1991) is estimated to be well in excess of SASOL's actual distribution costs.

Within the pricing system, a levy is also included for the Equalization Fund. In 1991 the rate was 7 cents per litre; R 1.2 billion was paid by motorists. The Equalization Fund is used to compensate refiners for the difference between the prevailing world price of crude oil and the floor price of $23/barrel. As of 1 July 1989, a new framework for tariff protection provided that payments would be made to SASOL below $23 per barrel of crude; between $23 and $28.70 no protection would be given, and above $28.70 SASOL would reimburse the Government through a 25 per cent windfall income tax. When oil prices are below $23 per barrel,

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101 ISIC categories 3530 and 3540.
102 The current fuel distribution plan is being investigated by the Competition Board.
104 The Fund paid R 470 million to SASOL in financial year 1992. Between 1985 and 1991, payments to SASOL from the Equalization Fund amounted to R 1.29 billion according to the Auditor-General, who did not audit these accounts before 1985. (Source: Business Times, 8 November 1992.)
tariff protection is achieved by a lower levy being imposed on fuels produced from indigenous materials than on imported fuels or fuel produced from imported feedstocks. Since 1979, the extent of tariff protection on synthetic fuel has been, on average, equal to 11.4 per cent. The formula used for SASOL gives it a higher IBLC for its synthetic fuels than that for other refiners; however, Mossgas, which will convert offshore natural gas to liquid fuels, will receive similar tariff protection.

Chart V.15
Duties, taxes and margins as a share of the retail petrol price

Petrol price: 93 octane:
143 cents per litre: PWV area on 31 December 1991

Source: Department of Minerals and Energy Affairs, South Africa's Minerals Industry 1990.

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105 Department of Minerals and Energy Affairs.
(b) Pharmaceuticals (Table AV.11; Tariff Study category 10.03)

503. Prices of medicines in South Africa are reported to compare unfavourably with those of other countries. Tariff protection averages 13.7 per cent for medical and pharmaceutical products; the effective rate of protection for the industry is estimated at 24 per cent. The share of imports in the domestic market has risen from 29 to 33 per cent between 1985 and 1990 (Table AV.2).

504. Classic trade barriers on drugs probably play a smaller rôle in the development of trade and production in this sector than do less tangible policies such as patent protection, product approval procedures, regulations and restrictions on such activities as licensing agreements with overseas drug manufacturers and domestic distribution channels.

505. Parallel imports of medicines are banned and the share of generics in the drug market is reported to be low by international standards. The current Health Minister is proposing major reform and deregulation but resistance, particularly from multinational drug companies and local manufacturers, is strong. Certain practices in the pharmaceuticals industry were investigated by the Competition Board, resulting in the prohibition of a price maintenance arrangement between drug wholesalers and pharmacists.

(c) Rubber and Plastics (Table AV.11; Tariff Study categories 02.02, 02.03 and 10.04)

506. In both the rubber and the plastics industries, the process of import substitution seems to have come to a halt. Protected by quantitative restrictions, by the early 1970s local producers of plastic products were supplying over 90 per cent of domestic demand. Value added and exports of both rubber and plastics have shown higher than average growth since 1985, with imports rising as a share of the domestic market (Table AV.1).

106ISIC category 3522.


108The share is estimated at twenty-five per cent of the market, compared to 45 per cent in the United Kingdom and 60 per cent in the United States; (Source: Financial Mail, 23 October 1992).


110ISIC categories 355 and 356.
507. While import control still affects the large majority of rubber products, plastics have recently been removed from the negative list. Rubber and plastics are subject to average nominal tariff protection of above 20 per cent; protection is increased by the incidence of the import surcharge and formula duties, which apply to approximately one-third of the industry. Protection to upstream products, polyethylene and polypropylene, and subsidised feedstocks translated into estimated effective rates of protection for these two major inputs to the plastics industry of 356 per cent and 104 per cent respectively in 1982. Over the course of the 1980s, effective protection fell sharply with the removal of quantitative restrictions and the lowering of the ad valorem duty, but formula duties keep prices above world levels; estimates place the effective rate of protection at 25 per cent for polyethylene in 1991. Apparently, SASOL operates a two-tier pricing system, under which export prices and prices to exporters of plastic products are 50 per cent below those for domestic users, so that the local economy bears the cost of exports.

(ii) Metals

508. Amongst South Africa's wealth of mineral resources, iron ore, copper, and manganese figure prominently as major raw material inputs to the metals industry. With the decline in output and export of gold, other metals have increased in importance. In order to overcome the declining terms of trade for raw materials, the Government has begun to introduce measures, mainly in the form of accelerated depreciation allowances for beneficiation projects and GEIS export incentives, to increase value added in resource-based exports.

(a) Iron and steel products (Table AV.11; Tariff Study category 08.02)

509. South Africa ranks amongst the top ten in world reserves and production of iron ore, producing over 30 million tons of iron ore, and over 8 million tons of raw steel, in 1990. The Iron and Steel Corporation (ISCOR), recently privatized, dominates South African iron and steel production. With its small market and limited capacity in downstream industries, South Africa exports a higher share of output than many other steel producers; in 1991, roughly 40 per cent of output was exported, equivalent to nearly R 6 billion.

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112 ISIC category 3710.
510. In spite of international trade restrictions applied both unilaterally to South Africa, and multilaterally within the context of structural adjustment in the major industrialized countries, South Africa's iron and steel exports have expanded rapidly, their share in total exports doubling between 1980 and 1991. Leading products are stainless steel and ferro-alloys, including ferrochrome and ferromanganese (Charts V.16 and 17). The direction of trade has altered considerably, with East Asian markets buying 18 per cent of South Africa's exports in 1980 and 44 per cent in 1991, and Turkey becoming an important intermediary market for both steel and iron ore. In parallel, North America's share has fallen from 26 per cent to less than 10 per cent in the intervening years. In the EC, ferrochrome imports from South Africa are duty-free within an annual quota of 2,950 tons.

![Chart V.16](source: Department of Minerals and Energy Affairs, South Africa's Minerals Industry 1990.)

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114 IDC data.

Chart V.17
Production and exports of high and medium carbon ferromanganese, 1986-90

Source: Department of Minerals and Energy Affairs, South Africa's Minerals Industry 1990.

511. Average tariffs are low, although on certain processed items, they can range as high as 70 per cent. Import control applies to ferrous and non-ferrous waste and scrap. Formula duties cover nearly 70 per cent of tariff lines, with the reference price equal to the domestic price.

512. Domestic users complain that ISCOR is cross-subsidising its exports through a two-tier pricing system, under which South African users pay up to 50 per cent more than the international steel price. Not only do domestic users of steel subsidize the industry's exports, but electricity was sold at a discount to the metals beneficiation industry under the previous Power Rebate Scheme. To replace this subsidy, abolished at the end of 1992, depreciation allowances, under Section 37 (E) of the Income Tax Act, have been introduced to promote minerals beneficiation. There are plans to develop a major stainless steel plant, the Columbus project, partially with financing from the Industrial Development Corporation.

\[\text{Business Times, 27 September 1992. This is supported by reports suggesting that domestic prices are well in excess of international prices: examples include wire rod, which sells in South Africa for R 1,250/ton compared with the export price of R 750/ton. (Business Times, 16 August 1992.)}\]
After the initial start-up period, the plant is projected to generate annual output of 400,000 tons of stainless steel, about four times current South African capacity.

513. Export control is applied to ferrous and non-ferrous scrap metal. Scrap is initially offered to local manufacturers at a discount from the export price and export permits are issued once local demand is met. Primary forms of ferrous ores and base metals, ferro-alloys and scrap, do not qualify for GEIS. Semi-manufactured products are eligible for GEIS subsidies as beneficiated or predominantly material-intensive products. The iron and steel industry received the largest share of GEIS export subsidies in 1991, nearly R 400 million, or about 7 per cent of the value of sectoral exports.

514. The EC is investigating dumping of ferrosilicon and manganese steel wearparts by South Africa. South Africa faces similar action in the Japanese market against exports of silico-manganese. In the United States, ISCOR was found neither to subsidize nor dump its steel products.

(b) Non-ferrous metals (Table AV.11; Tariff Study Category 08.03)

515. Over one-third of this sector's output is exported. Products are eligible for Category 2 and 3 GEIS incentives. This sector is likely to benefit from new tax incentives and subsidies to beneficiated products with the decision to develop an aluminium smelter. Alusaf is constructing a new smelter that will increase its capacity from 170,000 to 466,000 tons by November 1996, making South Africa the world's fifth largest primary aluminium producer. This beneficiation project is expected to cost R 7.2 billion, of which R 700 million will be written off as pre-production tax credits under Section 37(E).

(c) Metal products (Table AV.11; Tariff Study category 08.04)

516. Sales by the metal products industry were valued at R 10.2 billion in 1991. Although value added showed little change between 1985 and 1990, the share of output exported doubled to 6 per cent. Exports of beneficiated metals are eligible for GEIS subsidies, which are estimated to have amounted to 13 per cent of 1991 exports of R 1.4 billion. In spite of an

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118 ISIC category 372.

119 ISIC category 381.
average tariff in 1992 of 12.4 per cent, compounded by an average import surcharge of 7 per cent, imports represent a growing share of demand; there is little import control and the estimated effective rate of protection, at 20 per cent is lower than the average for manufacturing.

(iii) Food processing

517. Food processing is one of South Africa's largest manufacturing industries, accounting in 1991 for sales of some R 26 billion, equivalent to 14 per cent of manufacturing sales. Since South Africa is self-sufficient in most staple foods, and having concentrated on developing its own consumer goods industries behind high protective barriers, it is not surprising that the share of imports in domestic demand in the sector is 5 per cent.

518. Import control applies to over 88 per cent, and formula duties to over 40 per cent, of tariff lines in the food processing sector. Average nominal tariff protection for the industry is 11.5 per cent but rates rise to 70 per cent. The average import surcharge is 8.7 per cent, with rates of 40 per cent on such locally produced consumer items as chocolate, ice cream, nuts and candied fruit, as well as on luxury goods like foie gras and caviar. Exports of food products draw subsidies under GEIS, with benefits averaging 7 per cent of 1991 exports. Effective protection for the entire sector was estimated at 42 per cent in 1992 (Table AV.1). For subsectors, effective rates of protection in 1990 ranged from -46 per cent for meat processing to 139 per cent for bakery products (Table AV.2).

519. Food prices, which have increased quite rapidly in the last few years, with consumer prices considerably exceeding producer prices, have been the subject of a recent investigation by the Board on Tariffs and Trade. The introduction of VAT is believed to have added 5 to 6 per cent to retail prices for food. Unnecessarily high health and hygiene standards were pinpointed as factors that pushed up costs, while on the input side, the surplus removal schemes of the control boards were estimated to add an average of 1.5 per cent to food prices (Chapter V(2)(a)).

(iv) Motor vehicles (Table AV.11; Tariff Study category 13)

520. The motor vehicle industry is the third largest manufacturing sector, with 1991 sales of nearly R 17 billion. There are seven manufacturers, either licensees or subsidiaries of foreign carmakers, producing roughly 200,000 vehicles a year and employing approximately 80,000 workers.

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120 See also Chapter V(2)(i). ISIC categories 311 and 312.
521. Although the customs duty on cars and commercial vehicles is 100 per cent, since a number of parts enter at zero or low rates of duty, average sectoral tariff protection is close to 30 per cent. The escalation of tariffs leads to high effective protection for motor vehicles and parts, assessed at nearly 46 per cent in 1992. However, it is arguable that import duties act as fiscal, rather than protective, measures since the local content programme - effected through rebates on excise duties - prevents foreign competition for assembled vehicles.

522. Content protection for the automotive components industry was introduced in South Africa in 1962. A distinctive and unusual feature of the original system was that the required minimum domestic-content ratio was stated in physical, rather than value terms, and expressed as a proportion of the weight of the vehicle; as a result, the industry failed to develop high value components. The sector was particularly hard hit by the 1982-1983 recession; sales volume nearly halved between 1981 and 1986. The depreciation of the rand added to the cost of imported materials, which increased twice as fast as the cost of local materials, raising the average import content, by value, from 33 to 44 per cent. In 1986, the authorities undertook an extensive review of the industry, resulting in the adoption of Phase VI of the local content programme on 1 June 1989. Its aim is to raise the average local content level of the industry from 55 per cent to 75 per cent by 1997. Concurrently, the local content formula was changed to one based on value, expressed as the difference between manufacturer's wholesale sales and net foreign exchange used.

523. The local content programme operates through an excise duty of 37.5 per cent, payable on the wholesale price. Above a certain minimum local content level, currently 55 per cent including exports or 50 per cent excluding exports, the excise duty is rebated at the rate of 50 cents for each rand of local content; at the maximum level of 75 per cent, the entire duty is rebated. In the first few years of Phase VI, the local content target was raised more rapidly than originally scheduled, and by 1992 stood at 75 per cent. Until December 1991, duty rebates were financed from a central pool, funded by those manufacturers not able to meet minimum

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121 BTT, Investigation into the industry manufacturing passenger cars and light motor vehicles, Report No. 2627, Table 3.18.


123 The excise duty is in fact 40 per cent but 2.5 per cent is a non-refundable fiscal duty.
In fiscal year 1992, the Department of Trade and Industry provided R 292 million in industry assistance.

Exports of motor vehicles are not eligible for GEIS incentives. However, since local content can be achieved by reducing imports or increasing exports - participants in the local content programme may import components duty free - companies, faced with declining domestic demand, have turned to exports in order not to be penalized for underachievement.

Although exports, mainly to the rest of Africa, have grown faster than imports since 1985, the growing trade deficit in motor vehicles, rising from R 1.4 billion in 1985 to R 4 billion in 1991, indicates that local content has had no lasting effect on foreign exchange conservation (Table I.7). Local components manufacturers contribute only 15 per cent to the vehicle's local content. The program has succeeded in raising the local content level to 71 per cent, but at great cost. By one estimate, Phase VI is responsible for adding from 9 to 12 per cent to the price of a car.

The trade deficit in motor-vehicle components is growing, with a decline in passenger-car imports since 1989, replaced in part by increased component imports (for assembly). Due to the high cost of material inputs and imported capital equipment for component manufacturers, the price of local components is 30 per cent above imported components.

Both industry and Government admit that Phase VI is seriously flawed, not least because the system is abused. A task force has been set up to come up with an alternative strategy. The mandate of the task force is to investigate (a) the feasibility of reducing the number of models manufactured locally; (b) the industry’s potential for economic growth, employment and human resource development; (c) the affordability of vehicles, parts and accessories; (d) the impact on the balance of payments; (e) South Africa's obligations under the GATT; and (f) the imbalance in purchases of new vehicles by corporations and individuals. The motor industry, represented by the National Association of Automobile

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125 Department of Trade and Industry.
126 The average in September 1992 was 71 per cent. Source: Finance Week, 10-16 September 1992.
128 BTT, No. 2627, op. cit., p. 44.
129 Finance Week, op. cit.
Manufacturers (Naamsa), has proposed annual reductions of tariffs on cars of about 5 per cent during five to eight years starting in 1993.

(v) Machinery and equipment

(a) Non-electric machinery (Table AV.11; Tariff Study category 11)

528. In general this sector, with sales of R 7 million in 1991, receives relatively little import protection. Import control and formula duties occur only rarely. At 7.6 per cent, the average import tariff is one of the lowest in manufacturing and effective protection is estimated at just over 7 per cent (Table AV.1). Import penetration is rising; in 1990, imports accounted for 57 per cent of domestic demand, compared to 49 per cent in 1985. In office and accounting machinery, there is virtually no local production. The share of production exported has also grown in recent years, from 5 per cent in 1985 to 10 per cent in 1990. All machinery exports are eligible for Category 4, maximum 25 per cent, GEIS assistance; an estimated 16 per cent of 1991 industry exports were financed by the taxpayer.

529. Atlantis Diesel Engines, a subsidiary of the Industrial Development Corporation, has the sole right to manufacture diesel engines for motor vehicles. Import duties on diesel engines vary from zero to 20 per cent. A local content programme has recently been started for the manufacture of stationary diesel engines, protected by a 25 per cent tariff. A 40 per cent local content target has been set; above this level, manufacturers are entitled to full duty rebates on imported components.

(b) Electrical machinery (Table AV.11; Tariff Study category 12)

530. The share of imports in the domestic market for electrical machinery has grown since 1985, with, in particular, that for telecommunications equipment moving from 37 per cent in 1985 to 43 per cent in 1990 (Table AV.2). Exports as a share of production have also risen, but, at 4 per cent in 1990, remain a small part of the total claim on output (Table AV.1). Electrical machinery, including telecommunications equipment and other electronics products, is protected by an average tariff of 16 per cent; that for telecommunications equipment is close to 25 per cent. The estimated effective rate of protection, at 22 per cent, is in line with nominal protection but on electrical appliances it reaches 44 per cent. Protection of various electrical products was reviewed in

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1990 by the Board on Tariffs and Trade, resulting in a structural adjustment programme for insulated electric cables. This set initial tariff protection at 20 per cent, to be reduced to 12.5 per cent over the course of six years, as long as specified export requirements were met. A 15 per cent tariff was applied to certain electrical switchgear and parts, while components were made eligible for full duty rebates. Protection for electric light bulbs was increased in 1991 by raising the unit reference price for imports from R 0.24 to R 0.70.

531. The build up of an arms industry has contributed significantly to an impressive technology infrastructure. Now that defence spending has been drastically cut, the process of transforming the embodied know-how in military applications to commercial products has begun, with the transfer of most of Armscor's manufacturing facilities to Denel Group, a commercialized public enterprise, early in 1992. The company aims to convert to 70 per cent civilian products within five years, compared to 85 per cent of sales under arms contracts at present.

532. In the field of electronics, government direct-support policies are limited in scope. The Department of Trade and Industry's Innovation Support for Electronics Programme (Chapter IV(4)(iv)) provides partial funding, within a limited budget, for approved product development. State procurement procedures have applied temporary preferences for locally designed or locally manufactured electronics components, systems and equipment.

533. The retail cost of consumer electronics in South Africa is inflated by tariff protection, excise duties and surcharges. For example, an import surcharge of 40 per cent applies to a number of audio/video products, to which an excise duty of 37.5 per cent also applies. Certain branches of the electronics industry, including those for television sets, microwave ovens and avionics, where electronic cockpit equipment accounts for 30 per cent of the cost of military aircraft, have been targeted for increased local content, to stimulate the local electronics components manufacturing industry.

534. The local content programme for microwave ovens, terminated on 31 March 1993, was originally established with the aim of increasing local

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132 Board on Tariffs and Trade, Annual Report 1990.
134 In 1989/1990, arms represented the largest share of manufactured exports.
content to 55 per cent of the sales value. Imports are subject to 30 per cent duty. Full rebates on components used in manufacturing were available to producers who met the local content target.

535. Some 400,000 television sets are sold each year in South Africa, at an average price more than R 1,000 higher than abroad. Local content in television manufacture, defined as a set’s value for excise tax purposes less the net foreign currency component, is rewarded by a proportionate rebate of the 35 per cent excise duty.

536. From 1 July 1991, a customs duty of 90 per cent, which combines the previous 50 per cent tariff and 40 per cent surcharge, is applied to imported fully assembled sets, topped by an ad valorem excise duty of 3 per cent. This fiscal duty is levied on locally manufactured sets as well. The tariff is to be reduced by 10 per cent per annum to 30 per cent. Parts for televisions are liable to a 15 per cent surcharge, but exemption is given to approved manufacturers. In December 1991, tariff protection on electronic components was removed following the recommendation of the Board on Tariffs and Trade.

537. Standards, set by the South Africa Bureau of Standardization, protect local manufacturers by requiring costly modification of imported television sets. In the case of car and cordless phones, South Africa is moving to adapt international standards.

538. The grey market, that is, sets sold outside of official distribution networks, as well as smuggled televisions, are a growing share of domestic sales. It is reported that a local manufacturer operating under foreign licence has requested that duties on assembled sets be removed, as direct imports are a cheaper alternative than local manufacture.

539. An obvious handicap of local content targets is that as long as industry fails to meet the percentage, it pays more excise or customs revenue to the Government - extra costs which will be passed along to the

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136 Department of Trade and Industry.

137 The extent of the rebate is determined by an amount equal to 0.35 multiplied by the local content factor multiplied by the value for excise duty purposes. BTT, Amendment of the Development Programme for the Industry Manufacturing Television Sets, Report No. 3099, 20 December 1991.


user. For corporate users, high costs of computer equipment are recouped by tax deductions so that what the Government gains in import taxes it loses in corporate tax receipts. Emphasis on domestic component manufacture is inappropriately expensive in a small market where cost-reducing economies of scale cannot be reached except through exports in a fiercely competitive global environment.

(vi) Paper and printing (Table AV.11; Tariff Study category 04)  

540. The pulp and paper industry, with sales of approximately R 6 billion, accounts for about 3 per cent of GDP. The industry is highly capital-intensive with direct employment of 17,500. Between 1970 and 1988, world output of paper and board grew by 3.3 per cent per annum while South Africa's output increased at double that rate, significantly outperforming other manufacturing sectors. By 1991, South Africa produced close to 3.8 million tons of pulp and paper and exported some 0.9 million tons. In the 1970-1988 period, growth in exports averaged 18.6 per cent per annum; in the shorter term, in particular since 1985, exports of paper and printing have also grown considerably faster than manufactured exports as a whole. Exports of the industry qualify for export incentives, which amounted to nearly R 200 million on R 1.6 billion of 1991 exports.

541. Until protection was reduced in 1992, the highly concentrated, oligopolistic pulp and paper industry had been protected by a complex tariff structure combined with binding import control and generous tax allowances. As a result, substantial import replacement has taken place. In the early 1970s, imported paper and board accounted for 34 per cent of total domestic consumption compared to 12.5 per cent in the early 1990s. According to the Board on Tariffs and Trade, import replacement has reached its limit; between 1989 and 1991, imports, mainly of specialty and coated papers, not produced locally, increased by 30 per cent. Given the high cost of capital, a real constraint since the abolition of capital allowances, and the price of imported equipment, South African manufacturers' capital costs are estimated to be about 30 per cent higher than those of competitors; most grades of paper can be imported at 15 to 25 per cent below domestic prices.

542. Abolished in 1992, import control in 1991 applied to 105 paper and paper products, in some 25 per cent of applicable tariff lines; R 173 million of imports required an import permit. In addition to the complete removal of import control, the tariff structure was significantly

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141 ISIC categories 341 and 342.

simplified, reducing the number of tariff lines from over 400 to less than 100, while formula duties were replaced by ad valorem duties of between 10 and 15 per cent. The majority of rebate provisions were abolished although provisions still exist for duty-free import for specific industries.

(vii)  Textiles and clothing (Table AV.11; Tariff Study category 05)

543. Together, the value of textiles and clothing sales in 1991 was close to R 11 billion, representing about five per cent of manufacturing production. The sector employs over 200,000 people, equivalent to 15 per cent of employment in manufacturing. Since the start of the recession, the industry has slumped, with production in the first half of 1992 off nearly a quarter from its peak in the late 1980s.

544. As in other consumer goods industries, past import replacement policies succeeded in increasing the level of domestic demand satisfied by local production. Since 1970, the share of imports in domestic consumption declined. However, after 1985, this trend was reversed as textile imports rose rapidly, accounting for 19 per cent of apparent consumption in 1990 (Table AV.1). The share of production exported has also increased rapidly with clothing exports amounting to nearly one-quarter of total sales in 1990, compared to 15 per cent in 1985. In the case of textiles, the share of production that is exported has risen from 11 per cent in 1985 to 20 per cent in 1990.

545. South Africa supplies some of its own raw materials, particularly natural fibres, to the textiles industry and much of the cotton crop is purchased by textile manufacturers. By contrast, less than three per cent of mohair produced in South Africa, the world's largest supplier of mohair, is used by the manufacturing industry. Woollen fabrics, which receive the lowest tariff protection compared to other fabrics, are considered the most competitive textile by clothing exporters. However, in 1991, the IDC provided R 21 million in additional working capital to the local wool

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144 The Star, 20 August 1992; Business Times, 27 September 1992. The clothing industry estimates that high interim tariff protection on textiles since 1989 has cost the clothing industry 18,000 jobs.
145 The import penetration ratios for yarns and fabrics rose from 12 to 20 and from 20 to 40 per cent respectively between 1980 and 1991; (Source: EIU, Profile of South Africa’s Clothing and Textiles Industry (1992)).
processing industry as international prices plunged. The lack of competitiveness appears most evident in synthetic fibres.

546. In 1983, the Report of the Commission of Inquiry into the Textiles and Clothing Industry identified textiles as "inward-oriented and largely uncompetitive in terms of price". Given the high cost of domestically produced textiles, clothing and textiles firms have traditionally been in opposition over the levels of protection for textiles. The National Clothing Federation is reported to have estimated that 4 clothing workers are laid off for every textile job saved by government intervention.

547. In September 1986, the Board of Trade and Industry undertook an investigation for the structural adjustment of the textiles and clothing industry. Certain of its recommendations were put into place during April 1989. In order to encourage adjustment, a new duty structure decreased ad valorem duties by 5 per cent but increased formula duties. The formula duties did not allow for upward movement of the reference prices and lost their effectiveness by 1991. In addition, a programme for duty-free imports for manufacturers that export at least 2.5 per cent of their production, with duty-free privileges based on a fixed proportion of export sales and/or local purchases, was introduced (Chapter IV(3)(v1)). These protective measures, however, were ineffective in restraining imports and between 1988 and 1991, imports of fabrics are reported to have risen by 78 per cent.

548. Also, in the last few years, the Board has received numerous complaints of, inter alia, unfair and disruptive competition, refusal of domestic textile producers to supply, and abuse of the duty-free permit system. The permits can be legally traded and have, at times commanded a significant premium over the value of imports; but, there are reports of widespread counterfeiting. The quite porous borders with SACU members,

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147 EIU, 1992.
149 The Star, 6 November 1992.
150 Yarns: 20 to 15 per cent; fabrics 25 per cent to 20 per cent; clothing 35 per cent to 30 per cent.
151 During 1990, roughly 20 per cent of fabrics were imported under rebate provisions.
153 With respect to disruptive competition, industry alleges that international sales of cotton are often heavily subsidized.
and the incentive for smuggling when customs duties are high, suggest that control is difficult to administer.

549. In February 1991, at the request of yarn manufacturers, duties on yarn were increased.

550. In November 1991, a Working Group, the Hatty Committee, was appointed to devise a transitional plan for the sector. On 1 May 1992, duties were increased on a wide range of textiles and clothing and a system of tariff quotas introduced, for the first time in a decade, on an interim basis, until 1 November 1992. Under the tariff quotas, imports above 1989 volume levels were made subject to double duties. The duty-free import system, instituted in 1989, was revised so as to limit the importation of certain products within categories. For example, the allocation for cotton yarn was reduced to 11 per cent of yarn imports; similarly, the proportion of the import quota available for knitted fabrics and knitwear was reduced. Only exports up to 31 March 1993 qualified for these duty free benefits. Permits for rebate of duty in terms of the programme will be valid, however, until 31 March 1994.

551. Toward the end of 1992, a Panel and Task Force, consisting of the private sector, the public sector and organized labour, have been appointed to investigate and advise Government on a suitable long-term strategy for the textiles and clothing industries. A new scheme to support the export of textiles and clothing has been approved for one year as a phasing-out period of the current system, that is, in respect of exports in the period 1 April 1993 to 31 March 1994. This scheme is intended as a bridging measure until the long-term strategy is put in place.

552. A revised tariff structure was put into effect from 13 November 1992, to last until November 1993, while the Panel and Task Force continue to work towards a final plan. The tariff structure currently in place is in the form of ad valorem duties with alternate minimum and maximum specific duties, that is, a new version of a formula duty. Such duties apply to 85 per cent of some 2,300 tariff lines in the sector. The new ad valorem rates range from 35 per cent on yarns, 50 per cent on fabrics and 100 per cent on clothing; they represent an increase of 15 percentage points on yarns, 30 on fabrics and a reduction of 30 percentage points on clothing.

553. The most recent data available to the Secretariat indicate that the simple average tariff on imports of textiles and clothing is 48 per cent and 50 per cent, respectively; individual duties can be as high as 500 per cent, including the formula equivalent. Further, import surcharges apply to a wide variety of items in the sector, averaging 15 per cent on clothing. Less than five per cent of tariff lines are bound.
554. Estimates of effective rates of protection in 1990 vary within the industry from negative on wool and cotton processing to over 239 per cent for clothing. In 1985, the effective rate for clothing was calculated as 39.3 per cent.

555. Nearly 60 per cent of clothing, and just under 10 per cent of textile products, remain subject to import control; import controls on most fabrics were removed on 4 August 1989. Textiles and clothing exports are also eligible for GEIS subsidies and clothing benefited from government assistance on exports at the rate of over 20 per cent. Exports to Canada are limited to annual quotas under a Memorandum of Understanding (Chapter IV(3)(x) and VI (1)).

556. Not only has there been tremendous uncertainty generated in the industry by the frequent changes in import policy but the industry, by seeking increasing protection under the most recent strategy, moves further away from adjustment and international competitiveness. The sector represents a clear-cut case of rent-seeking by entrenched special interests, with no final arbiter to guide the industry towards international competitiveness on the basis of freer trade.

(viii) Non-metallic minerals (Table AV.11; Tariff Study category 06)

557. Pottery, glass and other non-metallic mineral products account for R 6 billion in production and less than 1 per cent of external trade. Import control no longer applies to any of these products. In the case of glass and other non-metallic mineral products, average tariff protection is almost 11 and 13 per cent, respectively, although individual duties rise to 50 per cent. Pottery is dutiable at over 40 per cent and the import surcharge increases the level of nominal protection to more than 50 per cent. Effective protection for pottery is over 110 per cent (Table IV.1). Exports are eligible for GEIS and 1991 exports, particularly of pottery, received substantial assistance.

155 BTT, Report No. 2646, op. cit.
157 ISIC categories 361, 363 and 369.
Wood and furniture (Table AV.11; Tariff Study category 03)\textsuperscript{158}

558. The industry, with sales of R 5 billion, is largely inward-oriented; less than 10 per cent of domestic demand is met by imports. Exports gain assistance under GEIS and 1991 furniture exports received the highest rate of assistance, at 24 per cent of sales, amongst manufactured exports.

559. Tariff protection rises from 13 per cent for wood products to over 20 per cent on furniture; the surcharge on imported furniture is 13 per cent. Effective rates of protection in 1992 for wood and furniture were, estimated, respectively, at 44 and 34 per cent (Table AV.1). Nearly one-third of tariff lines are subject to GATT bindings but close to one-fifth of wood products are still under import control. Formula duties occur only infrequently.

Leather and footwear (Table AV.11; Tariff Study category 15)\textsuperscript{159}

560. The value of output in leather products and footwear industries in 1991 was in the order of R 2.8 billion, providing employment for 40,000 workers, 2 per cent of the labour force in manufacturing employment. The share of imports in the domestic leather market rose from 13 per cent to 28 per cent in the period 1985 to 1990; in the case of footwear, the share over the same period rose from 11 per cent to 15 per cent, primarily because of increased imports of non-leather footwear from the Far East (Table AV.1).

561. South Africa took safeguard actions under GATT Article XIX on footwear in 1984 and 1988 (Table IV.11). At the end of 1987, import control on leather and footwear was abolished, but interim protection was extended to the footwear industry in the form of formula duties. Effective rates of protection for footwear are estimated to have risen from 51 per cent in 1985 to 87 per cent in 1990 and 118 per cent in 1992.

562. Following the recommendations of the Board on Tariffs and Trade, a new import tariff structure for footwear was put into place during 1991. On footwear made from synthetic material this structure entailed a duty of 60 per cent ad valorem, including a minimum specific duty, to be reduced, starting in June 1994, by 5 per cent annually to 30 per cent. Footwear made from leather is subject to a 30 per cent ad valorem rate. \textsuperscript{160}

\textsuperscript{158}ISIC categories 331 and 332.

\textsuperscript{159}ISIC categories 323 and 324.

tariff average for the footwear industry is 34 per cent, with an import surcharge of 12 per cent. In addition to import protection, footwear manufacturers selling on foreign markets received assistance through GEIS on nearly 20 per cent of the value of their exports in 1991.

(xii) Other manufacturing

563. This product group includes professional and scientific equipment (Tariff Study category 14), which is highly import-intensive. The size of the domestic industry is less than R 700 million. No import control applies to these goods, the average tariff is less than 7 per cent and over 40 per cent of tariffs are bound.
VI. TRADE DISPUTES AND CONSULTATIONS

(1) GATT Dispute Settlement

(i) Articles XXII and XXIII

564. No complaints have been lodged against South Africa under GATT dispute settlement procedures.

565. Only one Article XXIII case has been brought to GATT by the South African Government. In 1984, South Africa requested bilateral consultations under Article XXIII:1 concerning the application of the retail sales tax by the provincial government of Ontario to the sale of gold coins in a manner which afforded protection to domestic production of gold coins. Consultations did not result in a mutually satisfactory solution and a panel was established to examine whether the action taken was in accord with the provisions of Articles II and III of the General Agreement and whether Canada had carried out its obligations in terms of Article XXIV:12 of the General Agreement.

566. The Panel report, which to date has not been adopted, found that the action did not accord with the provisions of Article III:2 (on national treatment) and recommended that Canada compensate South Africa for the competitive opportunities lost as a result until efforts under Article XXIV:12 (on relations between federal and provincial governments) had secured the withdrawal of the measure. The Ontario government removed the differential tax treatment on 7 January 1986.

567. At the November 1991 Council meeting, Canada indicated that it would be in a position to agree to the adoption of the Report in the light of the final outcome of the Uruguay Round.

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1 Article XXIII of the General Agreement provides for procedures for bilateral consultations (XXIII:1) and for dispute settlement through panels (XXIII:2) whenever a contracting party considers that benefits accruing to it under the Agreement have been nullified or impaired as a result of (a) the failure of another contracting party to carry out its GATT obligations, (b) the application by another party of any measure, whether or not in conflict with the Agreement, or (c) the existence of any other situation.

2 The Ontario government exempted the Maple Leaf from retail sales tax but not imported gold coins, including Krugerrands.

3 Article XXIV:12 refers to the obligation of contracting party to take such reasonable measures as may be available to it to ensure observance of GATT provisions by the regional and local governments within its territory.


5 GATT document C/M/253.
568. In 1988, South Africa submitted a notification to the Uruguay Round Surveillance Body concerning a measure imposed unilaterally by Canada. From 1 January 1988 to 31 December 1991, imports of wool worsted fabrics and clothing items included in the Import Control List and originating from South Africa were made subject to fixed quota restrictions.

569. Article XXII consultations were held in December 1988. An inter-governmental arrangement, a Memorandum of Understanding, setting quantitative limits on fabrics and clothing and including annual growth and flexibility provisions, was concluded for the period 1 January 1989 to 31 December 1991. This bilateral agreement has since been extended.

570. As an interested third party, South Africa made a written submission in the course of a dispute settlement panel requested by Chile concerning quotas on imports of dessert apples into the European Communities. South Africa claimed discriminatory treatment in the administration of quotas. The panel report, finding the actions by the EC inconsistent with Articles X, XI and XIII, was adopted by the Council in June 1989.

(ii) Tokyo Round Agreements

571. No consultations or disputes under the Tokyo Round Agreements have involved South Africa.

(2) Other Disputes

572. Under the Southern African Customs Union agreement, Articles 17 and 20 provide for bilateral and general consultations. The agreement does not include provisions for dispute settlement. The Customs Union Commission and the Trade and Industry Liaison Committee are standing Committees where trade matters between members can be discussed. Such discussions have focused on tariff issues and trade in agricultural and manufactured products. Under the Agreement, South Africa has to consult with its partners regarding the tariff.

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7Article XXII enables a contracting party to request consultations with other contracting parties with respect to any matter affecting the operation of the General Agreement, whether or not it is in conformity with the Agreement.

8GATT document COM.TEX/SB/1571, 8 February 1991.


10GATT document C/M/234.
573. Under the trade agreement with Malawi, parties to the agreement shall, whenever possible, consult in advance when action which might affect the benefits accruing to the other party is being considered. (Article 13). The trade agreement with Zimbabwe makes provision for consultations in cases where emergency action, affecting concessions on imports of particular products, is contemplated or taken by a party.

574. South Africa has lodged complaints against its trading partners in the following cases: (i) apple quota in the EC; (ii) orange quota in Japan; (iii) request for a reclassification of defatted maize germ exported to the EC; (iv) request for an increase in the cotton quota to the United Kingdom; (v) iron and steel export quota to the EC, terminated unilaterally by the EC in 1981.
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