Chapter 8

Regional integration in SACU's agricultural sector

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Key points

In considering regional integration in southern Africa there is no better place to start than the Southern African Customs Union (SACU), the world's oldest customs union, and there is no better sector to examine than the vital agricultural sector in SACU. This paper will do just that and draw some conclusions and lessons for the future of regional integration. The report starts with an overview of production and input use trends in the five member states of SACU. The following conclusions were drawn from this analysis:

- While agriculture in the five member countries contributes on average less to the Gross Domestic Product (GDP) than the average for the Southern African Development Community (SADC) countries, it remains an important sector, contributing more than 10% in Lesotho, Namibia and Swaziland, and less in Botswana and South Africa;
- Only South Africa has been able to maintain a positive growth in per capita output from agriculture since 1990. In this regard, per capita output declined by as much as 25% in Botswana, 16% in Lesotho, 14% in Swaziland, and 9% in Namibia;
- In the case of Botswana, Namibia, Lesotho and Swaziland, the increase in the physical output of maize has been largely the result of expansion in the area under cultivation rather than an improvement in yields. In the case of sorghum, however, yield increases have played the major role;
- Similarly, beef output has increased rapidly, but not as rapidly as the case with the production of poultry meat. Namibia and Botswana have made the largest relative contribution to beef production, while South Africa has made the largest relative and absolute contribution to poultry production.

This analysis is followed by a section that briefly enumerates the agricultural situation and policies in each of the member states, followed in turn by sections on the sugar sector and on international competitiveness. The general conclusion from the discussion of competitiveness is not encouraging: the SACU countries have not succeeded in building competitiveness in 'new' agricultural industries, but have rather concentrated on traditional export sectors, such as fruit and wine (South Africa), beef (Botswana and Namibia), sugar (South Africa and Swaziland).

Overall, we consider that there are five issues that should form the basis of further discussions on regional integration in SACU agricultural policy circles. These are:

1. The role that the (lack of) SACU-wide institutions play in agricultural and trade policies.
2. Future policy towards the sugar sector in particular.
3. The particular actions of Namibia with respect to a range of products such as small stock and horticultural products.
4. The impact of competition policy on agriculture in SACU.
5. The sharing of land reform lessons among members.

1. Introduction and objectives

Central to the new 2002 SACU Agreement is Article 39 (Agricultural Policy), which states (1) that member states recognise the importance of the agricultural sector to their economies; and (2) that member states agree to cooperate on agricultural policies in order to ensure the coordinated development of the agricultural sector within the Common Customs Area. Linked to this is Article 31, Trade Relations with Third Parties, which states that (inter alia**)** member states shall establish a common negotiating mechanism for the purpose of undertaking negotiations with third parties. The objectives of this paper are:

- To outline the role of agricultural production and trade in SACU;
- To briefly discuss agricultural policy in the member countries and to outline where these policies seem to be diverging from the suggested coordinated SACU approach.

2. The performance of agriculture in SACU

Table 1 shows the relative size and structure of the SACU member countries. South Africa dominates, contributing 92% to the regional economy of SACU, 70% to the regional economy of SADC, and 40% to the sub-Saharan economy. There are also large disparities in per capita income, with Lesotho at $516 per annum at the one extreme, and Botswana with almost $3400 at the other. The distribution of income within each of the member countries is also highly skewed. Finally, the economies of the member countries are structurally different, with agriculture making a small GDP contribution in Botswana and South Africa (countries with a relatively large mining sector). However, agriculture's contribution in all five countries is smaller than the average for the SADC region.

Table 2: The economic structure of the SACU economies, 2000-2004 averages

	GDP (constant 2000 US$m)	GDP per capita (constant US$)	Agricultural value added (% of GDP)	Manufacturing value added (% of GDP)
Botswana	5798.7	3396.5	2.5	4.5
Lesotho	917.8	516.4	17.4	18.6
Namibia	3616.3	1831.0	10.7	11.5
South Africa	141368.3	3132.4	3.7	18.9
Swaziland	1451.7	1337.3	14.0	38.5
SADC	203826.1	1606.6	20.2	14.3
Sub-Saharan Africa	356554.8	517.2	17.0	13.9

Source: World Development Indicators database http://devdata.worldbank.org/query (Accessed 25 March 2008)

Table 3 shows some basic indicators of agriculture in the SACU region, using data from 2002. The first five rows show that of the BLNS (Botswana, Lesotho, Namibia and Swaziland), the two largest BLNS countries (Botswana and Namibia) are each roughly one-third the size of South Africa, while Lesotho and Swaziland are far smaller. Botswana and Namibia are situated in the drier west of the region and Lesotho and Swaziland in the higher-rainfall east, while South Africa has, on average, a better agricultural resource endowment than the other SACU members. This is clear from the higher proportion of land that is available for agriculture, the higher proportion of land that is arable, and the higher availability of arable land per person. Only Swaziland has a higher proportion of irrigated land.

The level of agricultural production can be deduced from the next three rows: South Africa leads in fertiliser use per hectare of arable land and in cereal yields per hectare, followed by Swaziland and Lesotho, whose climate is more conducive to crop production than that of Botswana and Namibia. Nevertheless, value added per worker and exports as a proportion of merchandise exports were higher in South Africa, Swaziland and Namibia, which have a higher proportion of commercial farmers (in Swaziland this is largely restricted to the sugar industry). South Africa is also less dependent on food imports than the other SACU member countries.

Table 3: Agriculture in SACU (2002)

	Botswana	Lesotho	Namibia	South Africa	Swaziland
Agricultural land (sq. km)	259800	23340	388200	996400	13920
Agricultural land (% of land area)	45.84	76.9	47.15	82.04	80.93
Arable land (% of land area)	0.67	10.87	0.99	12.15	10.35
Arable land (hectares per person)	0.21	0.18	0.42	0.33	0.16
Irrigated land (% of cropland)	0.26	0.9	0.98	9.53	26.04
Fertilizer consumption (100gm per ha of arable land)	122.02	342.42	3.68	654.17	393.26
Cereal yield (kg per hectare)	349.9	1053.7	412.6	2772.2	1020.7
Agriculture value added per worker (2000 US$)	406.03	423.17	1073.4	2455.88	1142
Food imports (% of merchandise imports)	16.04		12.48	4.98	18.24
Food exports (% of merchandise exports)	3.54		37.48	10.64	14.61

Source: World Development Indicators database http://devdata.worldbank.org/query (accessed 25 March 2008)

Finally, in examining the performance of agriculture in the five member countries in global perspective (taking an index of per capita output as indicator), it is evident from the data that member countries have all fared worse than the global average, and worse than the average for Africa as a whole over the past 16 years. The poorest performance was posted by Botswana, whose per capita production has declined by 25% over this relatively short period. Botswana is followed by Lesotho, Swaziland and Namibia. Only South Africa has been able to maintain per capita output, but at a lower rate than the global average.

2.1 Output

In this section the output performance of a number of agricultural commodities of importance to the SACU region is summarised.

Maize is the staple food of most people in eastern and southern Africa, and the region is one of the largest producers of white maize for human consumption. Production has increased in each of the member states, and South Africa has produced more than 95% of the region's maize output for the past five decades. As the crop is mostly non-irrigated, production is highly variable and the influence of the region-wide droughts of the early 1980s and of the early 1990s is evident. With respect to area planted, while South Africa has maintained its dominance, it has done so using about a third less land than was the case in the 1970s. Swaziland shares this trend, while in contrast the other three members have increased the area under maize over the period. This is balanced by industry average yields that have more than doubled since the early 1960s in Swaziland and South Africa, while they have been static in Lesotho and Namibia and declining in Botswana.

SACU is a net importer of **wheat**. In South Africa production (more than 95% of the total) which increased from 1961 to more than 2 500 000 tonnes in 1986-1990, but has since declined to lower levels. The area planted with wheat has declined by over 50% from almost two million hectares in 1981-85 to less than 900 000 hectares, but this has been compensated by a rapid increase in wheat yields.

Sorghum is an important staple food in southern Africa, and is relatively important in Botswana and Lesotho although production is dominated by South Africa.

South Africa and Swaziland are the only **sugar cane** producers in the region, with Swaziland's share doubling from less than 8% in 1961-65 to around 17% in 2000-04. South Africa's total production has doubled since the early 1960s, while production in Swaziland increased by more than fivefold. The increase in both countries is largely due to increased acreage as average yields have been declining. As discussed in

Chapter 9 in this publication, this sector has not undergone the policy reforms in South Africa that all other sectors have, and it consequently becomes one of the most important issues to be dealt with within SACU's agricultural policy framework.

The data shows that the production of **vegetables** in the SACU region increased by well over double since the 1960s, with this increase largely due to the increased production in South Africa.

Although both Botswana and Namibia specialise in **beef** production, with both countries recording impressive increases in production since 1960, South Africa again dominates overall production. The yield of meat per animal slaughtered has declined in Botswana and Lesotho, while it has hardly increased in Swaziland or Namibia – only in South Africa has there been a significant yield increase.

Since 1961 Botswana and Swaziland have seen **sheep and goat** numbers increase over the years, with both countries experiencing an increase in flock size up to 1996-00 and then a subsequent decline. Flock size peaked earlier: in Lesotho in 1986-90, in Namibia in 1975-80, and in South Africa in 1966-70 before retreating, and the trend suggests that regional numbers of goats and sheep will continue to decrease. Changes in productivity have meant that production overall has remained relatively stable over the period.

The production of **hides and skins** has been relatively stable in Swaziland and South Africa, but in contrast has increased by almost fourfold in Namibia, and by 80% in Lesotho and 52% in Botswana.

One of the main reasons for the decline in sheep numbers discussed above has been the long-term decline in **wool** production, where output in Lesotho has declined by a third, in South Africa by two-thirds and in Namibia by half.

The highest growth in the production of **fresh milk** was recorded by Lesotho, followed by Botswana, then Swaziland, South Africa and Namibia. Unfortunately, the data on milk yield per cow is patently inaccurate, rendering it difficult to provide any insights into an increase, if any, in productivity.

The increase in SACU **poultry** production has been dramatic: whereas total poultry production was less than 10% of total beef production in 1961-65, it was 20% higher in 2001-04, having overtaken beef production as recently as 1996-00. Even Lesotho, where growth in total poultry production lagged behind that of the other members, growth of some 270% was recorded over the period. The rate of growth was highest in Botswana, followed by Namibia, South Africa and Swaziland. South Africa has continued to produce more than 97% of the total since the 1960s.

2.2 Conclusion

These trends illustrate important features of agriculture in the SACU area. These include:

- While agriculture in the five member countries contributes on average less to GDP than the average for the SADC countries, it remains an important sector, contributing more than 10% in Lesotho, Namibia and Swaziland, and less in Botswana and South Africa (both countries with a large mining sector);
- Only South Africa has been able to maintain a positive growth in per capita output from agriculture since 1990. In this regard, per capita output declined by as much as 25% in Botswana, 16% in Lesotho, 14% in Swaziland, and 9% in Namibia;
- In the case of Botswana, Namibia, Lesotho and Swaziland, the increase in the physical output of maize has been largely the result of expansion in the area under cultivation rather than an improvement in yields. In the case of sorghum, though, yield increases have played the major role. This is important for Botswana, whose sorghum harvest is nearly three times larger than the maize harvest;
- Similarly, beef output has increased rapidly, but not as rapidly as the case with the production of poultry meat. Namibia and Botswana have made the largest relative contribution to beef production, while South Africa has made the largest relative and absolute contribution to poultry production.

3. Botswana

Agriculture's contribution to the economy, in terms of GDP and exports, is overshadowed by diamonds. The contribution of agriculture to Botswana's exports is very low at about 1% in case of raw materials and 3% in case of food exports. The beef sector used to be the major agriculture product of importance to exports, but now accounts for about 7% of total export revenue, compared to about 70% from diamond. Although the country is a net exporter of beef, it has always been a net importer of staple food commodities, such as sorghum and maize, which together account for over 90% of domestic cereal production.

The dualistic agriculture sector consists of commercial and traditional subsistence subsectors; each undertakes both crop and livestock activities. Commercial agriculture covers about 30% of arable land, comprising mainly cattle grazing on freehold or leased holdings. The major subsistence crops are sorghum, maize, millet, and pulses. Beans, groundnuts, sunflowers, cotton, and horticultural crops, such as cabbages, tomatoes, and potatoes, are also grown. Although the economic significance of subsistence agriculture is declining, it remains important for many people, particularly in rural areas where there are few alternatives. Botswana is about 20% self-sufficient in grains, 15% in vegetables, 25% in fruits and 3% in dairy products. It produces almost all of its poultry requirements, and is a net exporter of beef, exporting some 90% of production to the EU under preferences and to South Africa behind a 40% SACU tariff.

A controversial feature of policy is that the beef sector has been the state's monopoly over exports, implemented by the Botswana Meat Commission (BMC). The role of the BMC may have been important to the beef sector's export success in early years, but it has recently come under increased criticism in light of its continuing (and sometimes heavy) losses. Meanwhile, the BMC continues with monopoly control over beef exports and the export of live cattle into South Africa.

Before 1991, food self-sufficiency was a key objective of agricultural policy, despite the fact that only a small proportion of the country is suitable for crop production. This policy was replaced in 1991 with a food security policy, stressing the need for diversification within the rural sector and shifted the focus of attention from raising cereal production to raising rural incomes. Rather than promoting food self-sufficiency through trade controls, the government invested heavily in domestic crop production and Botswana has been unusual in the degree to which the government has invested in the agricultural sector – spending on agricultural support schemes has reached over 40% of agricultural GDP - close to the highest in the world.

With respect to trade policies, imports of fresh pork are banned and poultry imports are permitted only when there is a shortfall in the domestic market. In a normal year Botswana produces only about 30% of its annual cereal demand. Imports of maize, wheat, sorghum and related products, pulses, fresh milk, major fruits (e.g. oranges, watermelons) and vegetables (e.g. cabbages, rape, spinach, potatoes, and tomatoes) are restricted; through to early 2008 imports required a permit from the Ministry of Agriculture, but this has been abolished. This system is designed to protect an infant horticultural industry, which meets about 20% of requirements.

4. Lesotho

Lesotho, a small mountainous and land-locked country is not only resource-poor, but it also faces considerable problems associated with environmental degradation and soil erosion on its nine% (and shrinking) portion of the total land that is classified as arable. The only substantial natural resource is water. Agriculture is the dominant sector in Lesotho, as 80% of the population of around two million live in rural areas deriving their livelihood from agricultural crop and animal production. The sector is dominated by crop production, with maize as the main staple crop. Wheat, sorghum, beans and peas are also cultivated. Other higher-value crops include sunflower, asparagus, garlic, paprika, soya beans, potatoes, fruits and other vegetables. Livestock production (around 30% of agricultural value-added) includes cattle, goats, sheep, donkeys and horses under extensive range management systems, with wool and mohair the only significant agricultural export. Cattle exports have traditionally accounted for around one-third of agricultural exports, but to rural people livestock functions as a store of wealth and is used to perform cultural activities. While this sector plays an important role in rural income, the uncontrolled numbers have an adverse impact on rangeland and water resources, and the cattle herd in Lesotho is far from the international 'norms' for beef or milk production.

One cannot isolate agricultural policies in Lesotho from its food security, and a disturbing aspect of its agricultural performance is that in recent years Lesotho has been a regular recipient of food aid[1]. Furthermore, accentuating the problems, there

[1] Downloaded from World Food programme at http://www.wfp.org/interfais/2007/xls/Table15.xls.

are no open commercial land markets[2]; and because of the role of inheritance in land allocation, it is difficult to match land 'ownership' with investment opportunities because of security issues. Thus, Lesotho's communal land tenure system is generally seen as a major constraint to development and land tenure reform is a necessary condition to move towards a situation where food security no longer becomes a dominating aspect of Lesotho's political economy. Meanwhile, perhaps 60% of the population is considered to be below the poverty line, and that percentage has actually increased over the last decade as increasingly Basotho are 'living on the edge' – perilously close to chronic and irreversible food insecurity, poverty and depredation.

After independence (October 1966) agricultural policies were shaped by the need to obtain a greater degree of food self-sufficiency. By the late 1970s there was extensive state intervention in the production, marketing, processing and pricing of agricultural commodities in response to the very real fear that Lesotho may have to survive a situation whereby its only land borders with apartheid South Africa were closed. This inevitably led to distorted market signals, an inefficient allocation of resources and a weakened private sector. The general failure of these interventionist policies led to their revision in the late 1980s through to the mid-1990s. The specific commodities with remaining supporting policies (including import protection) that are being investigated are bread, fruit and vegetables, pulses, poultry meat and eggs, dairy products, wool and mohair, and, to a lesser extent, sugar packaging.

5. Namibia

Commercial farming is undertaken by some 4,500 farmers and focuses mainly on beef production for export to the EU under preferential arrangements and live cattle, sheep, and goats to South Africa, while some maize, wheat, and cotton is also produced. Communal farming supports 95% of the nation's farmers, and covers about half of total agricultural land. This sub-sector is home to 65% of the population, and in a normal year produces grain and supports around half of the beef and small

[2] There is currently a dual land tenure/administration system in Lesotho, whereby urban land administration is based upon a formal Dutch-Roman law while rural areas operate on a customary system. This creates problems at the urban/rural interface as urbanisation is spreading into the better land around the major towns. In addition, the rights of women and non-Basotho are in need of modernisation.

livestock populations. Overall, beef production accounts for about 80% of Namibian meat production and for 40% of total agricultural output and cereals provide about 50% of the total calorie intake. The country imports about half of its cereal requirements and imports of sugar and dairy products are important.

Namibia has recently introduced a set of measures in support of downstream processing of meat and of the local production of horticultural products and fruits. Export levies are imposed on the export of live slaughter cattle and unprocessed hides and skins, and recently a scheme was introduced to increase the local slaughtering of sheep. For fresh product imports of fruit, the National Horticulture Market Share Initiative imposes a levy on fresh produce imports and currently requires fresh produce importers to source 25% of their purchases locally. The government recognises that output price fixing, guaranteed prices and price controls create market distortions. Import restrictions on controlled crops of wheat and maize result in higher staple food prices than would be the case if the government allowed market forces to determine prices of domestically produced and imported food and agricultural products. But it also places a high priority on maintaining and increasing national food security, and it continues to use border controls to protect strategic food production industries such as UHT milk, poultry and horticultural products.

Imports are prohibited for white maize meal, yellow maize meal, wheat flour (a SACU agreement), honey and bees' eggs from overseas and African sources (except when imported through South Africa), fresh apricots, cherries, peaches, plums and sloes from overseas destinations, coloured, polished, steamed or additive-coated coffee beans, coffee substitutes containing less than three-quarters of its mass of coffee, and wines, other fermented, beverages, spirits and vinegar not conforming to the provisions in the Liquor Act (with larger volumes subject to taxation).

6. South Africa

In 2002, agriculture employed 9.7% of employment in the formal sector (451,000), plus a similar number (459,000) of casual and seasonal workers. Agricultural exports have declined as a percentage of total exports – from 35.21% in 1965-69 through to 8.18% on 2000-2005. About one-third of agricultural production is exported, and processed agricultural exports have overtaken unprocessed exports in recent years to the extent that around 65% of all agricultural exports are processed products. At the same time, South African agriculture is highly dualistic with a small number of commercial operations run predominantly by white farmers and large numbers of subsistence farms run by black farmers. In 2002, fewer than 2500 farmers (6.6% of the total) earned more than 50% of the total gross farming income of the sector.

By the late 1970s, the racial segregation of South African agriculture was complete, subsidisation of commercial farming peaked and the productive base of the farming sector in the homelands ceased to provide any meaningful income opportunities to all but a handful of farmers. In the period around 1980, however, farm policy started to change. After 1994, South Africa adopted a policy of openness and limited intervention in markets. The policy objective was to promote trade and therefore competition that would result in efficient allocation and use of resources as well as increased economic activities. This led to the deregulation of both agricultural and trade policies as supports were reduced, markets deregulated, border tariffs reduced and export subsidies eliminated. These changes were dramatic and South Africa now has a very lightly protected (but still very dualistic) agricultural sector.

With the implementation of a programme that started in 1994 land reform has become an issue. These reforms were to consist of land restitution, redistribution and tenure reform programmes. To date, however, the net effect has been limited, as after almost 14 years of state sponsored land reform less than four million hectares of agricultural has been transferred through the formal programme. While applauding the concepts of the reforms, we caution that there is a danger of locking small farmers in the realities of an open market system and that efforts to provide more support to these farmers may compromise SACU's agricultural policy harmonisation. The Comprehensive Agricultural Support Programme (CASP)[3] is designed to provide agricultural support to targeted beneficiaries of the land reform and agrarian reform programme within six priority areas, yet questions regarding its efficacy remain, largely because the small farmers who need the most support (i.e. those in the former homelands) have been designed out of the programme.

An area where regional agricultural cooperation is working well is the general regulatory aspects of the management and reduction of risks such as those that are

[3] See NDA 2004).

related to animal disease, food safety standards and developing of agricultural risk and disaster management strategies. Here the South African Department of Agriculture generally plays a lead role and the BLNS countries operate beneath this umbrella.

7. Swaziland

Swaziland has all the characteristics of a dual economy and is a small land-locked country with high levels of poverty and income inequality (Sandrey and Vink 2007). Agriculture is the backbone of the economy, but yet again the sector is acutely dualistic. A dynamic commercial sub-sector occupies 26% of the land, holds an estimated 90% of available irrigation infrastructure, and uses modern technologies to produce mainly cash crops (sugar). A traditional sub-sector involves semi-subsistence smallholder agriculture with communal grazing and low-productivity subsistence agriculture and animal husbandry.

Sugar and sugar-related products are the major export, and these are heavily dependent upon preferential access into the European Union (EU). Around 60% of agricultural production is focused on the sugar sector and it contributes some 11% of the GDP. Swaziland has not been self-sufficient in cereal production since 1980, and by the early 2000s the food production had further declined to only 40% of the nation's needs. Many people are vulnerable and food-insecure in the country, with the main contributing factors the high poverty rate, inequality of income distribution, the high incidence of HIV/AIDS, chronic drought, widespread soil erosion and land degradation, lack of agricultural land, isolation from markets, limited alternative income generating opportunities, gender restrictions for women to access land and resources, and lack of implementation of appropriate policies. Achieving a productive and competitive agriculture sector will require addressing this complex set of constraints. Meanwhile, there is an issue of opportunity cost when, on the one hand, economic rents from preferential access to the protected EU sugar market are reducing and, on the other hand, there is a major food security concern in the country, it might be appropriate for Swaziland to reconsider devoting its prime land and irrigation resources to the production of sugar.

In pursuit of achieving its mission and vision of seeing every household in the country attain food security, the Ministry of Agriculture and Cooperatives has developed various policies as well as an institutional framework for the implementation of these policies. The Comprehensive Agriculture Sector Policy focuses on the contribution of the agriculture sector to the realisation of the country's aspiration of Vision 2022 and to the achievement of national development goals. Specific objectives to be pursued by CASP are to increase agricultural output and productivity, to increase the earnings for those engaged in agriculture by promoting adoption of diversification and sustainable intensification and use of appropriate technology, to enhance food security, to ensure sustainable use and management of land and water resources and to stabilise agricultural markets. The National Cooperative Development Policy promotes the provision of an environment for the development of a viable cooperative movement, while the guiding vision of the National Rural Resettlement Policy (NRRP), adopted in 2003, is to establish a durable, practical and participatory framework for the planning and sustainable management of land and the appropriate application of resettlement strategies in rural Swaziland.

8. Trade policies

The relevance of SACU in South Africa's trade policy cannot be ignored, but, conversely, given South Africa's regional dominance in virtually all facets of the trading relationships, the role of South Africa in SACU's trade policy similarly cannot be ignored. Thus we have examined trade policy in a separate section rather than as part of South Africa's policy as the new SACU Agreement represents an important element in the reshaping of the southern African region. Prior to this, the external trade relations of SACU were driven by bilateral and regional alliances of individual members despite being a customs union for well-nigh a century.

Of importance in trade policy is the issue of SACU tariff pool revenues for the BLNS countries as Free Trade Agreements (FTAs) and tariff concessions are either negotiated or kick in from earlier agreements. Currently these revenues contain a large transfer element from South Africa to the BLNS, and they constitute over half of the total government revenues for Swaziland and Lesotho in particular. As tariff concessions reduce the tariff revenue pool, this erosion of revenue poses a special problem for these countries (Sandrey 2007).

In discussing the trade policy regime for SACU/South African agriculture, it is useful to place these policies into a framework of the 'four pillars':

- Unilateral policies (what South Africa in particular does to its own policies);
- Bilateral policies (in particular the Trade, Development and Cooperation Agreement (TDCA));
- Regional (the SACU and SADC dimension and the way ahead); and
- Multilateral (the World Trade Organisation (WTO)).

Unilateral policies

After 1994, South Africa adopted a policy of openness and limited intervention in markets. The policy objective was to promote trade and therefore competition that would result in efficient allocation and use of resources as well as increased economic activities. This led to the deregulation of trade policies as border tariffs reduced and export subsidies were eliminated. South Africa now has a very lightly protected agricultural sector. This is the policy that informs South Africa's offensive approach in all the trade negotiations with third parties and within the multilateral institutions. This policy approach provides opportunities for cooperation areas where the BLNS do not have production capacity and rely on imports; but divergences will occur where the BLNS wants protection for some of their industries that South Africa might not need to protect.

Bilateral policies

The Trade, Development and Cooperation Agreement for merchandise trade between South Africa and the EU entered into force on 1 January 2000 with a transition period of twelve years for South Africa and ten years for the EU, on a time path that will eventually lead to trade becoming almost duty-free. Exceptions are concentrated in agricultural imports into the EU (and motor vehicles imports into South Africa), and by year nine any significant duties into the EU from South Africa will almost exclusively remain on agricultural products and fish. Demonstrating the blur between bilateral and regional policies, the agreement did not technically cover imports from the European Union into BLNS, although it does *de facto* apply to their imports from the EU.

Regional policies

The SACU member states, together with Mozambique and Angola, are negotiating with the EC towards an Economic Partnership Agreement (EPA). The negotiations have raised some difficulties on issues that complicate SACU's unity. The issues include mainly text provisions, such as the proposed Most Favoured Nation clause, free circulation of goods, duties, taxes and other charges on exports[4], customs duties and the infant industry protection clause. Although these are advanced negotiating issues at present, the outcomes could potentially impact on SACU's policy environment. Meanwhile, the EC has offered duty-free, quota-free market access for all products originating in Botswana, Lesotho, Namibia and Swaziland (except sugar and rice which will be phased over a transitional period), but not to South Africa. As part of SACU, South Africa submitted its offer as part of the SACU offers to the EC to ensure that it did not undermine the integrity of the customs union. It is difficult to see how, in practice, the BLNS can do anything other than acquiesce to the TDCA on imports. Note also that the interim EPA removes the BLNS infant industries policy tool, which undermines any effort to include this principle in a common SACU industrial policy.

SADC is currently ostensibly working towards an FTA by 2008, but, to date, any sign of meeting that deadline is rather one-sided. At this stage only SACU has made a definite policy change or even really shown any inclination towards the FTA deadline. In other regional agreements, negotiations have been concluded between SACU and Mercosur[5] and SACU-EFTA (Iceland, Liechtenstein, Norway and Switzerland), while they are ongoing between SACU and India under the initial stewardship of Namibia.

Multilateral policies

More than three-quarters of WTO members are developing or least-developed countries (LDCs), with many of the latter situated in Africa. Members have recognised that liberalisation in these developing countries' own markets needs to be more gradual than for developed countries, but this is tempered where least developed countries are an integral part of a common external tariff (CET) arrangement. Such is the case within SACU, with Botswana, Namibia and Swaziland,

[4] Namibia uses export taxes to address the challenges facing their economy.
[5] Mercado Comun del Sur (Argentina, Brazil, Uruguay and Paraguay).

along with South Africa itself, developing countries, while Lesotho is a least developed country. Currently South Africa has been mandated to coordinate the SACU team at the WTO, but there appears to be some (perhaps minor) differences in policy stances in areas such as the food security, food aid and state trading nexus, definitions and conceptualisation of special products[6] and in the Lesotho request that bottled water be bound at 200% rather than the current RSA zero. These differences generally have a genesis in the different WTO groupings that SACU members belong to in Geneva such as the G-20 for South Africa and the LDC group for Lesotho, along with the interesting policy position that the BLNS, with generally preferential access to many markets, always have an eye on preference erosion as a threat.

9. Agricultural policies lessons from other agreements

In searching for a precedent on how to create fully operational customs unions we are left with SACU and the EU as examples. Problems in SACU's agricultural trade policies were highlighted in the negotiations between the African Caribbean and Pacific (ACP) countries and the EU during the EPA negotiations where there has been a conspicuous lack of a coordinated focus from the SACU side. Can the EU provide some pointers, and therefore how did the EU evolve from the original six members to 27 and counting? The EU example clearly demonstrates that the integration process will not succeed without a) the political will to integrate; and b) the financial means to contribute to the establishment of regional institutions or to implement regional policies. The lessons for SACU are that the EU is regulated by a system of primary legislation, secondary legislation and case law. Primary legislation consists of the various treaties, while secondary legislation consists of regulations, directives, decisions and recommendations. Treaties and regulations are binding upon the member states of the EU and need not be incorporated into the national law of each state through the process of ratification, as is the norm regarding international agreements. Directives are binding only to the extent of dictating what has to be achieved or done and by when, although it is up to the individual state to decide on how the goal is to be achieved.

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[6] It can be anticipated that both dairy and sugar will become 'special' products, along with perhaps some of the TDCA/EPA products above. Swaziland is concerned that the nexus between special products and special safeguard measures (SSM) may be ignored by South Africa, as may the whole issue of preference erosion compensation for preference receiving countries.

11. Areas of concern for suggesting regional integration

Namibia (and to a lesser extent Botswana in the case of beef) has been somewhat innovative in a range of policy measures taken to protect the beef, sheep, horticulture, wheat flower and other industries. While there are certainly arguments for and against the 'legality' of such policies within the Customs Union Agreement, these carry the potential risk of eventually splitting SACU via its influence on e.g. the EPA negotiations, and by extension the potential WTO position of SACU. It can also be argued that these moves are not within the spirit of the agreement, even if they are within the law. They are, at least potentially, symptoms of divergence rather than convergence.

The South African Competition Commission has recently investigated a number of cases of alleged breaches of the Competition Act in the agricultural sector. These include the fixing of bread prices (for which penalties have been imposed), participation in a cartel in the grain milling industry, and alleged abuse of market power in the grain storage and dairy industries. This has obvious impacts on the South African market for consumer products that originate from these industries. It is, however, unclear to what extent these actions will impact on the SACU market, and is an issue that requires further investigation.

Agriculture in the SACU region is characterised by the dualism between commercial crop and livestock farmers and crop and livestock farmers on communal lands. In South Africa and Namibia, at least, this divide formed the basis of grand apartheid policies.– therefore there was also an ethnic divide. In practice, this ethnic divide is also found in other member countries, despite the land reform policies and programmes that have been implemented. This issue, which has been made more explosive because of the way in which it has been dealt with in neighbouring Zimbabwe, cannot be left untended. We caution that BEE policies in South Africa may be locking in protection to the sugar industry, and may be used as an argument for protection in other industries in South Africa.

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