

# The SA-US AGOA Negotiations: A Game of Chicken

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# Overview

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- II. What are the benefits of AGOA for South Africa?
- III. What are the Costs of AGOA for South Africa (Poultry)?
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  3. the 30 Day out of cycle Review – “the three meats”
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# Background

- The African Growth and Opportunity Act (AGOA), enacted in 2001 by President Clinton, is a preferential programme for about 6400 tariff lines - US offers to 48 African sub-Saharan countries.
- US concerns about the anti-dumping duties (ADD) on US bone-in chicken in 2000 (9.40c/kg at the last review). MFN duty - 37 percent.
- Senators Coons (Delaware) and Isakson (Georgia) - the demands of USAPEEC USA Poultry & Egg Export Council (USPEEC) – threatened to block AGOA .
- The Minister Rob Davies, encouraged (SAPA), to engage with the US poultry industry with a view to find an amicable solution.
- The first meeting between the poultry associations and Govt -September 2014 in Washington.

# How does SA Benefit from AGOA?

- South Africa is a significant beneficiary of AGOA – helping to expand its exports in significant high value growth sectors of the South African economy, such as automobiles, chemicals, and agriculture products (citrus, macadamia nuts, wine, etc).
- Total two-way trade between South Africa and the United States increased from R56,7 billion in 2001 to R141 billion, in 2014.
- South Africa's exports to the US grew from R30 billion in 2001, to R69,8 billion, in 2014. US exports to South Africa grew from R26,6 billion in 2001 to R71 billion in 2014. South Africa has been enjoying a trade surplus, since 2010, but experienced a deficit of about R1,6 billion in 2014.
- Of total SA exports to USA, 38% went under AGOA (including GSP) in 2014. South Africa's AGOA exports (including GSP of US\$1.4 billion) amounted to US\$3.1 billion in 2014.

# What are the benefits of AGOA for South African exporters?

- Total tariff revenue that South African exporters are relieved of paying as a consequence of AGOA is \$46 884 859.70
- The largest beneficiary of this tariff relief is the auto sector that gained a benefit of \$32 678 025.00 in 2014 (BMW/MERC./Ford etc).
- The second largest beneficiary was the base metals sector that stands to lose \$6 284 121.00 of benefits under AGOA
- The third largest sector is the agriculture sector that was relieved of paying duties amounting to \$5 715 891 (107 000 tons of citrus)
- The fourth largest sector was the chemical sector that gained \$1 186 813 (SASOL)
- About 62 000 jobs are created by AGOA in South Africa (TIPS)

# Tariff implications for our key Agri. exports

HTS Number	Exports in 2014	Share in Total SA AGOA Exports in 2014	Quantities Exported for 2014	MFN Duty in USA	Cost of Losing AGOA, US\$
	In 1,000 Dollars		In 1,000 units		
08051000 Oranges, fresh or dried	41 158	2.36%	36 293	1.9 c/kg	689 567
22042150 Wine other than Tokay (not carbonated), not over 14% alcohol, in containers not over 2 liters	33 154	1.90%	6 706	6.3 c/l	422 478
08026200 Macadamia nuts, shelled	31 626	1.81%	2 664	5.00 c/kg	133 200
22071060 Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	16 943	0.97%	25 097	2.5%	423 575
08052000 Mandarins (including tangerines and satsumas); clementines, wilkings and similar citrus hybrids, fresh or dried	9 474	0.54%	7 744	1.9 c/kg	147 136

# What are the costs of AGOA for Poultry?

- The Poultry Sector in South Africa is the largest agricultural sub-sector (22 percent of agricultural income) and the largest consumer of maize (about 30 percent).
- It employs about 126 000 people directly and indirectly (10 percent of all agricultural workers).
- South Africa produced about 1 529 000 tons of white meat in 2012/3 and consumed about 1 899 000 tons of white meat in the same period.
- Total imports of poultry in 2013 amounted to 393 303 tons while total imports of bone-in chicken pieces amounted to 157 118 tons.
- An impact analyses undertaken by the National Agriculture Marketing Council (NAMC) and SAPA indicates that an increased quota of 65 000 tons of imports into South Africa of bone-in chicken pieces from the US would reduce South Africa's production of poultry by 3-4 percent and result in a loss of about 6500 jobs.
- However, this situation would arise if all the US exports to South Africa were additive and not substitutive.
- Although SAPA will take measures to restructure and increase its exports to new markets, there is likely to be some significant impact on the industry.

# Macro & Socio Economic Impact

Impact on production
Impact on capital investment
Impact on operational impact
impact on governmental income
Impact on disposable income
Total incremental impact
Total dynamic impact

Macro Economic Impact		
3,54%	between	4,29%
-R 196 686 326	between	-R 237 990 455
-R 491 558 969	between	-R 594 786 352
-R 534 535 088	between	-R 646 787 457
R 945 474 622	between	R 1 144 024 292
-R 277 305 762	between	-R 335 539 972
R 5 019 109	between	R 6 073 122

Labour Impact		
3,54%	between	4,29%
-1854	between	-2243
-7011	between	-8483
-6041	between	-7310
6409	between	7755
-8496	between	-10281
-6491	between	-7854

- The dynamic net effect in terms of GDP is positive and employment is negative which means that the economy will win in terms of economic growth (GDP) and employment creation. This is only if a the total benefit of cheaper poultry meat is transferred to the consumer.
- The GDP will increase between R 5 and R6 million and about 6500 to 7850 potential jobs can be lost .
- It is important to note that the GDP as well as the potential jobs, is an average value/number over the period 2013-2033. This means, for example, the potential jobs will decrease between 6500 and 7850 on average for a specific year over the programming period;
- The positive GDP figure is relative small but the impact on employment is significant. In South Africa, where employment is crucial, this aspect should be taken into account.
- The negative impacts on the economy is created by the less investment between R200 million and R240 million with a loss in employment of 1850 and 2250.
- Reduction in the local production of broilers of R490 million and R595 million with job losses of 7000 to 8500.
- Government income will decrease with R535 to R650 million and job losses of 6 000 to 7 300
- If the reduced price is passed on to the consumer disposable income will increase R945 million and R1.15 million and job creation will take place with an increase in employment of between 6400 and 7800.
- The total incremental impact is negative to the economy of R277 to R336 million with job losses of between 8500 and 10300.
- The dynamic impact (over time when the economy finds equilibrium) is positive for the GDP, between R5 to R6,1 million. The net effect on employment for the economy is between 6500 and 7850.



# 1. Ext. of AGOA and SA's Incl.

- South Africa campaigned for AGOA to be renewed for *all* sub-Saharan African Countries for 15 years.
- President Obama signed the AGOA Extension & Enhancement Act (AEEA) of 2015 into law on June 29, extending AGOA benefits for 10 years. The ACT INCLUDED South Africa.
- However, the US lobbies insisted that some issues of interest to them such as poultry, pork and beef needed to be addressed for South Africa to remain in AGOA

## 2. The Paris Deal – 5-6 June, 2015

- Minister Davies urged the 2 countries' poultry industries to engage with each other since Nov 2014
- US Industry lobbies first demanded complete removal of AD duty and then demanded 140 000 ton quota
- At a meeting of the SA and US industries and Govts in Paris Agreement was reached on a quota of 65 000 t/a for import of US bone-in chicken pieces, without AD duties, with an annual growth factor.
- At least 50 percent of the quota will go to HDI's.
- On the 18<sup>th</sup> of December 2015, ITAC published the regulations - opening the South African market for US chicken under the quota.

# 3. 30 Day out-of cycle Review

- South Africa was included in AGOA by President Obama subject to a 30 day out-of-cycle review to consider SA's eligibility...
- AGOA eligibility requires “progress towards”.. “market-based economy”....and “elimination of barriers to US trade and investment”...etc.
- A large number of US lobbies submitted complaints and concerns - to the Public Hearing held on the 7 August in DC - including on SA's policies on IP, BEE, Investment, Private Security Bill ..Poultry AD duties, beef and pork etc.
- Dti responded to all these concerns in meetings with AMCHAM and other US stakeholders
- USTR Amb Froman – reduced the US demand to the “three meats”; poultry, beef and pork (meeting with Minister Davies at the Gabon AGOA Forum held on the 25-27 August,2015)

# US Stakeholders raised Concerns

- USTR raised concerns – Poultry, Beef, Pork SPS
- EU – Equivalence - US identified 387 products to be reduced to the level currently enjoyed by the EU as a result of the SA-EU TDCA and EU-SADC EPA.
- USAPEEC – demanded rapid implementation of the Paris deal
- AMCHAM raised concerns with policy uncertainty on Investment – BEE, Private Sec. Bill etc,
- Pork Council called for SA to be excluded from AGOA if more pork cuts not included in SPS
- Public Citizen raised concerns with US Gov. on IP impact on health of poor

## 4. Poultry: Avian Flu and Salmonella

- In the first half of 2015 almost 20 US States had Avian Flu... and the US demanded that South Africa negotiate a Poultry Trade Protocol to secure continued exports of poultry from those STATES/Areas in the US that are NOT AFFECTED by Avian Flu. This agreement was finalized on the 13<sup>th</sup> of November (after a missed deadline of 30<sup>th</sup> of October).
- In addition SA and US Vets negotiated a Poultry Health Certificate a normal requirement finalized on the 6<sup>th</sup> of January 2016.
- The US also insisted on a “side-letter” on Salmonella that clarifies SA’s existing standards and procedures. This was finally agreed on the 6<sup>th</sup> of Jan 2016.
- On both the Avian Flu and Salmonella issue some complex technical issues arose due to the differences between the US and South African approaches and systems

## 4. Cont...Poultry SPS

- In each case South Africa's Vets were able to negotiate BALANCED agreements that took into account the need to ensure SAFE Trade – a balance between animal and human health, and; the need to allow for trade to take place.
- The contentious issue between the two countries was achieving the appropriate level of protection (ALOP) on animal and public health risk mitigation measures.

# 5. Beef

- A ban was imposed by Cabinet on countries with Bovine Spongiform Encephalopathy (BSE)/ Mad Cow disease including the United States in 2003.
- Boneless beef is considered safe for trade as the risk material is removed and the market was therefore open for US boneless beef.
- Cabinet approved the lifting of a ban on boned beef from several countries on the 24<sup>th</sup> of June, 2015, including the US.
- In the negotiations on the Health Certificate SA's Vets sought assurances that cattle imported into the US from neighbouring countries would comply fully with US Health requirements.
- US has given guarantees that livestock imported from third countries would comply with US domestic requirements. A Health Certificate was finalized on 6 January and initialled by Vets from the SA and US on 7 January 2016.

# 6. Pork

- On Pork, the Animal Health Authorities of both governments have been undertaking the necessary technical work to ensure safe trade from at least three diseases, namely, Trichinella, Porcine Reproductive & Respiratory Syndrome (PRRS) and Aujeszky Disease.
- South African Vets negotiated a list of pork cuts to ensure safe trade from the above potential diseases.
- However, the US demanded that a side-letter be negotiated for the treatment of Shoulder Cuts (particularly hazardous in PRRS)
- SA is among a countries without PRRS – imports are controlled by allowing countries with PRRS to export recognisable cuts (risk materials such as lymph nodes and connective tissue have been removed) for direct unrestricted trade.
- An agreement on both the Health Certificate and Pork Side-Letter were finalized on 7 January 2016- US agreed to apply mitigation measures including removal of risk material before exportation to SA.



# 7. The threat of suspension of AGOA agriculture concessions

- On 4th of November, 2015, President Obama announced a 60-day deadline to Suspend SA's Agriculture benefits...unless US poultry (pork and beef) were able to enter the South African market by the 31<sup>st</sup> of December 2015.
- South Africa's Vets worked throughout the festive period to finalize the negotiations on salmonella and the health certificates on poultry, pork and beef concluding the negotiations on the 6<sup>th</sup> of January on all the animal health issues. All the agreements were signed by the Vets from both sides on the 7<sup>th</sup> of January.
- Ministers Rob Davies, Senzeni Zokwana, and Aaron Motsoaledi announced the successful conclusion of the negotiations at a press conference on 7 Jan. 2016.

# The threat of suspension of AGOA agriculture concessions cont....

- The USTR, Ambassador Froman, announced his satisfaction with the agreements in a press statement on the 7<sup>th</sup> of January. However, he indicated that US Stakeholders wanted to see their poultry on the shelves of retail stores in South Africa as a final benchmark
- On the 11<sup>th</sup> of Jan. 2016 President Obama issued a Proclamation extending the deadline to suspend SA's Agri Concessions to the 15<sup>th</sup> of March 2016.
- Dti/DAFF issued a Press Statement the same day clarifying that the procedures were in place to ensure that US poultry would enter the market in the next few weeks averting any threat of a suspension of AGOA Agri. Concessions
- On the 26<sup>th</sup> of February the 1<sup>st</sup> Shipment of poultry arrived at Durban Port and cleared..
- On the 2<sup>nd</sup> of March Amb. Froman recommends to Pres. Obama to lift the threat of Suspension
- Obama formally revokes threat of Suspension on 14<sup>th</sup> of March 2016

# Timelines...

- 2000- AGOA – launched in 2000 and extended to 30 September 2015
- 4 August 2014 – AGOA Forum of Ministers call for 15 year extension
- 5 August 2014 – USA-Africa Business Forum – Obama agrees to support extension of AGOA
- 17 September, 2014 – SAPA-USAPEEC meeting in Washington DC – agreed on need for Quota
- January-February 2015 – SAPA/USAPEEC exchange offers 30 000 and 140 000 tons pa
- 2-6<sup>th</sup> March, 2015 Senior Officials – Washington lobbying
- 13-16 April 2015 SA Delegation lobbying campaign in the USA
- 16-17 April 2015 TIFA Ministerial
- 16 April, 2015 US-SA Trade and Investment Framework (TFA) Council meeting in Washington
- 5-6 June 2015 – Paris Breakthrough on quota – agreed on 65 000 tons pa
- 29 June 2015 – President Obama signs the Extension of AGOA 2015
- 21 July 2015 – Federal Register announces 30 day Out-of-Cycle Review for SA
- 7 August 2015 –Out-of-Cycle Public Hearing is held
- SA-US Vets - DVCs on Poultry, Pork and Beef: June, 27 July, 14 Sept, 9, 15, 30 Oct, 6 Nov....Dec/Jan 2016

# Timelines cont...

- 30<sup>th</sup> October “deadline” to resolve Avian Flu Trade Protocol missed...
- 5 November – Obama sends Letter to Zuma - 60 day warning to withdraw AG Concessions
- 13 November-Poultry Trade Protocol signed by Vets from SA and US
- 18 December – ITAC publishes Regulations creating Annual 65 000 tons QUOTA
- 6 January 2016 – US President to announce the decisions on eligibility of SA and other AGOA beneficiaries
- 6/7 January SA- US Vets conclude and Initial Health Certificates on poultry, pork and beef
- 11<sup>th</sup> January – Obama Proclamation extends deadline to 15 March 2016 –for poultry to be on shelves
- 26<sup>th</sup> February – first consignment of chicken legs lands in DBN Port
- 1<sup>st</sup> March Froman sends letter to Obama recommending lifting of threat of Suspension
- 14<sup>th</sup> March – Obama formally revokes the threat of Suspension

# The different players/interests

## *Within South Africa:*

SAPA, AGBIZ, NAAMSA and NAACAM, BMW, Ford, Citrus Growers Assoc, Fruit SA, AGRi SA, SASOL, BUSA, dti, DAFF, Vets

AMIE, AMCHAM, US Embassy, ANC, DA, Press

## *Within the United States:*

USAPEEC and NCC, Senators, Coons and Isakson, the Black Congressional Caucus, AMCHAM, USTR, State Dept, Vets (FSIS)

# Different Perspectives

South Africa:

Government, DA, AMIE, SAPA

Research Groups and Consultants:

TIPS, Tralac, SAAIA, NAMC...

Independent Analysts/Opeds

USA:

Government: Senators, USTR, Congressional Research Service

AMCHAM, USAPEEC, Pork Council, Security Alliance, Brookings, Heritage Foundation....



# The cartoonist take....

