Impact of Economic Partnership Agreements on livelihoods in Southern Africa

• SUGAR • GRAPES • COTTON •

By Rangarirai Machemedze and Ludwig Chizarura





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Workers at Simonsig vineyard, South Africa. Photo: Heidi van der Westhuizen

Executive summary 1

The Economic Partnership Agreements (EPAs) that are being negotiated by the African, Caribbean and Pacific (ACP) countries on one hand and the European Union on the other are essentially Free Trade Areas covering trade in goods, services, trade related areas and other non trade issues. This report looks into the effects EPAs will have on the countries in Southern Africa, focussing on the effects on the production and value chain of three products; sugar, grapes and cotton.

HISTORICALLY, EU AND ACP-COUNTRIES have been trading for over three decades under the Lomé Conventions that allowed ACP exports onto the lucrative EU market on a non-reciprocal basis. This was challenged by Latin American countries in the World Trade Organisation (WTO). In 2000 the Lomé Conventions were replaced by the Cotonou Partnership Agreement, allowing EU and ACP-countries to negotiate Economic Partnership Agreements that is compatible with the WTO rules by the end of 2007.

The negotiating parties agreed to a two phase process in the EPAs negotiations. The first phase was at the ACP-EU level where cross cutting issues on both sides were going to be addressed. The second phase, which became problematic for most African regions, was to negotiate EPAs at a regional level to address local issues. In preparation for the negotiations with the EU at the regional level, the ACP States configured themselves into six regions as follows: Cariforum (Caribbean States), West Africa (ECOWAS), East and Southern Africa (ESA), Central Africa (CEMAC), Southern Africa (SADC EPA) and the Pacific Forum (Pacific States). However, towards the expiry of the Cotonou waiver at the end of 2007, the East African Community (EAC EPA configuration) was formed from the ESA grouping.

Objectives of this study

AFRICA GROUPS OF SWEDEN commissioned SEATINI to undertake the research on analysing the impact of EPAs on Southern Africa zeroing on Mozambique, Namibia, South Africa and Zimbabwe with special focus on the value chain of three selected products; namely cotton, sugar and fruits (grapes). More specifically, the study covered the following areas:

- **Analysed the economic and social significance of the cited crops in terms of employment, contribution to Gross Domestic Product (GDP) and export earnings to the Southern African countries.**
- **Established the backward (input supplies) and forward linkages (value addition) of the production of the overall economies of the country.**
- **Established the volumes of trade in the cited products between the EU and southern Africa.**
- **Determined the value of the three crops, proportion destined for domestic consumption as well as that destined for export.**
- **Identified the gender dimensions in the production, marketing and consumption of the cited products.**
- **Ascertained the impacts of trade on the production, marketing and consumption of these products, and finally.**
- **Suggested alternatives to EPAs for the Southern African countries.**

Methodology

THE STUDY WAS CONDUCTED through desk research where SEATINI reviewed the relevant documents relating to the SADC EPA negotiations process and the literature around the cited crops in the various countries. A review was also made of the initialled and signed interim EPAs including the Trade and Development Co-operation Agreement between South Africa and the EC which has direct relevance to the issues under review. Use was also made of annual reports from the different companies involved in the production and trade of the cited crops.

Findings

- All the three crops support significant segments of the population in the SADC region as reflected below.

	Malawi	Mozambique	South Africa	Zambia	Zimbabwe	Namibia
Sugarcane workers	5,300 permanent. 8,000 seasonal[1]	21,500	129,000	2,000 permanent, 4,000 seasonal.	25,000	n.a.[2]
Wine workers	n.p.[3]	n.a.	275,600	n.p.	n.a.	10 000
Cotton producers	220,000	300,000[4]	2,450[5]	280,000	220,000	n.a.

- Therefore all the three are important for sustenance of livelihoods either as direct or indirect workers in the case of sugar and grapes or as small-scale producers in the case of cotton.

- Traditionally working conditions in the three sectors have been relatively worse than those in urban centres as the industries tend to depend on seasonal labour.

- All the three sub-sectors are under threat from the present levels of liberalisation that has taken place. In order to survive under the present global trends the big companies in the wine and sugar industries have been compelled to restructure their operations, which has meant a reduction of permanent workers in favour of casual workers, whose status is less secure. Therefore, continued liberalisation will worsen livelihoods insecurity through the casualisation of labour.

- In the case of cotton the earnings have sunk so low that it has driven producers into debt. The nascent textile industries have collapsed under competition from cheap subsidised imports.

- Employment opportunities are decreasing as companies in the process of restructuring cut down on labour or substitute it for mechanisation.

- Representation of workers and organisation of producers is very limited and thus they cannot effectively push for the recognition of their rights. Labour unionisation is limited due to the previous order in the case of vineyard workers and representation of small-scale farmers is still in its infancy.

- The major victims of these changes are women who form the bulk of casual labour. Enforcement of progressive labour codes to protect the rights of workers even in a much more developed country like South Africa is weak particularly in the rural areas where the industries of the three sub-sectors are located.

- The countries are in a difficult position. Signing means sacrificing food security, infant industries and destruction of employment opportunities. On the other hand not signing the EPAs means lucrative market opportunities for some products will be lost. For example Namibia will lose preferential market access to the EU for grapes worth 2 million Euros per year.

Recommendations: An alternative development paradigm

THE PAPER RECOMMENDS that trade should not be an end in itself but a means to an end, meaning emphasis should be put on production and giving incentives to producers to spur development in the SADC region. In this sense it is recommended (among others) that:

- The SADC countries, as part of their regional integration agenda, must build a domestic regional market where supply chain management should take precedence. It is important to study how supply chain management has been successful in other regions e.g. the Canadian dairy sector.

- Companies domiciled in one country but with regional operations face difficulties in accessing markets especially where the countries are negotiating trade agreements under different conditions. As is the case with South African companies having operations in Zimbabwe, the issue of rules of origin may complicate the negotiations for a favourable and harmonised trade deal with the EU as the two countries are negotiating under different circumstances yet they are neighbours and have a lot more in common than each would have with the EU. Rules of origin including the controversial cumulation mechanisms can then be used to disrupt regional integration initiatives. It is therefore recommended that countries belonging to one regional grouping like SADC should close ranks and come together in the negotiations for an EPA to guarantee combined negotiating strength based on the complementarities arising from common regional strategies.

[1] These figures were taken from the "Review of Ilovo operations report 2010", the sole sugar-cane producer in the two countries available at http://www.illovosugar.com/Libraries/2010_Annual_Report/Annual_Report_2010_Part_3.sflb.ashx

[2] n.a. =not available

[3] n.p.= not produced

[4] Oxfam America estimate available at http://www.oxfamamerica.org/articles/cotton-farmers-get-organized/?searchterm=None

[5] Figures taken from Cotton industry FactSheet available at http://www.nda.agric.za/docs/FactSheet/cotton06.pdf

Cotton worker, Zimbabwe. Photo: Eva Engelsöy

- With regards to market access for SADC countries to the EU, they (SADC countries) must negotiate a sustainable, stable and predictable arrangement especially on sugar and cotton which are vulnerable to price fluctuations. The current arrangement where there is a guaranteed price only up to 2015 is not only unsound but misleading as no one knows what happens beyond 2015. SADC countries must advocate for a permanent guaranteed price which is subject to regular reviews by all parties, as the Cotonou agreement states.

- The fact that there are fluctuations in the prices of commodities at the international level as seen in the sugar and cotton industries strengthens the need for SADC countries to have a permanent and easy to use agricultural special safeguard mechanism. The mechanism should be treated as an integral element in all WTO and EPAs negotiations which can be invoked when the prices of products drop below a certain point. It is important to also point out that the special safeguard mechanism should not only be price-based but should also be volume-based, meaning the government could invoke its usage if there are massive imports for example of certain volumes of sugar that could trigger some negative impact on producers. South Africa has such tools in place and it is crucial that these tools be introduced in other countries as well before agreeing on a liberalisation schedule with the EU in the agricultural sector.

- Some producer associations e.g. Cotton growers Associations in Zambia Zimbabwe and Malawi are not fully capacitated to represent the interests of their producers well. This is why they are not involved in some negotiations especially under the EPAs. This report recommends an analysis of the operations of farm producer associations in the sugar, grape and cotton industries with the view of capacitating them in different areas especially in analysing global trends and legal capacity to deal with contracts with companies as well as advocacy issues with their governments.

- Some Least Developed Countries (LDCs) are currently exporting to the EU duty free and quota free under the unilateral Everything But Arms Initiative (EBA) of the European Union. Although this is a unilateral non-binding arrangement, it is better than the current EPAs being negotiated and LDCs should advocate for this initiative to be made a permanent feature of their trade arrangements with the EU. The African Growth and Opportunity Act of the US has been given a waiver to continue until 2015 by the WTO. EBA can also be made permanent and LDCs will benefit.

- SADC countries should diversify their markets by exploring new and emerging markets in the Far East, Middle East and the Americas rather than remaining locked in the rigid EU arrangements.

2 Introduction and background

The European Union and African, Caribbean and Pacific (ACP) countries have been trading for over three decades under the Lomé Conventions that allowed ACP exports onto the lucrative EU market on a non-reciprocal basis. This meant that ACP nations enjoyed preferential access to European markets without having to provide similar access to EU nations.

HOWEVER THIS ARRANGEMENT WAS challenged by the Latin American countries who argued that the EU was giving preferential market access treatment to its former colonies against the World Trade Organisation (WTO) rules of fair trade and non discrimination as indicated by the Most Favoured Nation treatment clause. The WTO Dispute Settlement Body ruled in favour of the Latin American countries, prompting the EU to negotiate a new trade arrangement with the ACP countries that was compatible with the WTO.

The Lomé Conventions that had guided trade between the ACP and EU countries were then replaced by the Cotonou Partnership Agreement in 2000, as a waiver allowing the two parties to negotiate EPAs by the end of 2007. The Cotonou agreement is a 20-year agreement with a clause allowing its revision every five years. It is meant to be a comprehensive arrangement governing aid and trade relations between the EU and ACP countries. It indicates the commitment of the countries involved to negotiate, starting from September 2002, a new set of trade arrangements compatible with the World Trade Organization that were supposed to come into force on 1 January 2008.

The agreement clearly indicates that the trade elements will represent a major departure from those associated with the Lomé Conventions that previously governed trade relations between the two parties. In particular, it is implied that as long as they are WTO compatible, the nonreciprocal trade preferences embedded in the Lomé Convention will be transformed by the new arrangement into a relationship (EPAs) based on reciprocity. It is important to point out the core principles of the Cotonou agreement on economic and trade cooperation viz:

- **Economic and trade cooperation shall be based on a true, strengthened and strategic partnership.**
- **Economic and trade cooperation shall build on regional integration initiatives of ACP states, bearing in mind that regional integration is a key instrument for the integration of ACP countries in the world economy.**
- **Economic and trade cooperation shall take account of the different needs and levels of development of the ACP countries and regions. In this context, the parties re-affirm their attachment to ensuring special and differential treatment for all ACP countries and to maintain special treatment for ACP LDCs and to taking due account of the vulnerability of small, landlocked and island countries.**[1]

THESE ARE ALL FUNDAMENTAL principles that are defining the economic and trade cooperation between the SADC countries and the EU.

EPAs state of affairs

SINCE SEPTEMBER 2002 when EPAs negotiations were formally launched in Brussels, the negotiating parties (ACP countries on one hand and the European Union on the other hand) had been given a deadline by the WTO of 31 December 2007 to bring their trade relations into conformity with the institution's norms. A new trade pact should have been signed and operational by 1 January 2008. Technical and political hurdles stood on the way of concluding full and comprehensive EPAs by the end of 2007, including the divergence in understandings of what pro-development EPAs constitute that persisted for most part of the previous phases of the negotiations among some negotiators.[2]

None of the SADC countries irrespective of the groups they are negotiating under was able to reach a final agreement on EPAs. Instead most of the non-LDC countries in the region initialled interim EPAs with the EU, covering only trade in goods, "to avoid trade disruption", while others have already signed an interim agreement. Technically, exports from non-LDC countries faced the threat of higher tariffs in the EU if no agreement was reached to replace the preferences established by the Lomé Conventions. Least developed countries (LDCs) have another arrangement with the EU, the Everything But Arms (EBA) Initiative that allows their exports to enter the EU duty free and quota free.

[1] ACP-EU Partnership Agreement, 2000
[2] Machemedze, 2009

Table 1. Comparative analysis of African Regional EPA Groupings.
The table shows the state of affairs with regards to African countries. Members of the Southern Africa Developement Community are highlighted.

EPA Region	Countries that initialed interim EPAs (December 2007)	Countries that did not initial interim EPAs	Countries that signed interim EPAs	Countries that initialed interim EPAs but did not sign the EPAs
ESA	Comoros **Madagascar** **Mauritius** **Seychelles** **Zambia** **Zimbabwe**	Djibouti Eritrea Ethiopia **Malawi** Sudan	**Madagascar** **Mauritius** **Seychelles** **Zimbabwe**	Comoros **Zambia**
EAC	Burundi Kenya Rwanda **Tanzania** Uganda	-	-	Burundi Kenya Rwanda **Tanzania** Uganda
SADC	**Botswana** **Lesotho** **Mozambique** **Namibia** **Swaziland**	**Angola** **South Africa**	**Botswana** **Lesotho** **Mozambique** **Swaziland**	**Namibia**
CEMAC (Central Africa)	Cameroon	Chad Central African Rep. Congo Brazzaville **DR Congo**	Cameroon	-
ECOWAS (West Africa)	Côte d'Ivoire Ghana	Benin Mali Burkina Faso (Cape Verde) Gambia Guinea Bissau Liberia	Cote d'Ivoire	Ghana

Source: Machemedze R., 2009

The SADC interim EPA

AS CONTAINED IN ARTICLE 1 of the SADC-EU interim EPA (signed by 4 of the 7 SADC countries), one of the fundamental objectives of this agreement is to "contribute to the reduction and eventual eradication of poverty through the establishment of a trade partnership consistent with the objective of sustainable development, the Millennium Development Goals and the Cotonou Agreement".[3] This is a fundamental objective in the context of this study, which is focussing on the impact of the EPAs on livelihoods in the Southern African region.

According to article 25 of the SADC interim EPA, the EC provided duty free and quota free treatment for all imports from Botswana, Lesotho, Mozambique, Namibia and Swaziland (the 5 SADC countries that initialled an interim EPA), with transition periods for rice and sugar (2010 and 2015 respectively). Botswana, Lesotho, Namibia and Swaziland will liberalise 86 percent of EU imports over four years (2008–2012). The 4 countries are together with South Africa members of the Southern Africa Customs Union (SACU) and the liberalisation period corresponds to that underway under the Trade and Development Cooperation Agreement (TDCA) between South Africa and EU. Mozambique will liberalize 81 percent of imports from the EU by 2023. Whilst the SADC-five countries liberalised mainly industrial and fisheries products they also provided a list of goods excluded from liberalisation, covering mainly goods in the agricultural, textiles and processed agricultural sectors. Zimbabwe, which is also the focus of this study but has signed a different agreement under the ESA grouping, will liberalise 80 percent of its imports from the EU over a period of 15 years to 2024. Angola has not initialled any agreement but trades under the Everything But Arms initiative.

The interim EPAs signed by the SADC countries cover only trade in goods but have rendezvous clauses allowing negotiations to take place on other issues. As the table below shows, some of the issues to be covered under a full and comprehensive EPA are not common in all of the regions.

[3] SADC-EC interim EPA

Table 2 IEPAs scope of areas for further negotiations

SADC EPA	ESA EPA	EAC EPA	CENTRAL AFRICA EPA
Trade in services	Trade in services	Trade in services	Trade in services
Cooperation in services			
	Customs and trade facilitation	Customs and trade facilitation	
	Current payments and capital payments		Current payments and capital movements
Investment Cooperation on investment Competition and Government Procurement	Trade related issues (competition policy, investment and private sector development, trade, environment and sustainable development, intellectual property rights, transparency in government procurement)	Trade related issues (competition policy, investment and private sector development, trade, environment and sustainable development, intellectual property rights, transparency in public procurement)	Competition Intellectual property Public procurement Sustainable development
	Outstanding trade and market access issues, including rules of origin, trade defense measures and outermost regions	Outstanding trade and market access issues including rules of origin	
	Technical Barriers to Trade (TBTs) and Sanitary and Phytosanitary (SPS) measures	Technical Barriers to Trade (TBTs) and Sanitary and Phytosanitary (SPS) measures	
	Agriculture	Agriculture	
	Development issues	Economic and development cooperation	
	An elaborate dispute settlement mechanism	An elaborate dispute settlement mechanism	
	Cooperation and dialogue on good governance in the tax and judicial area		
	Any other areas	Any other areas	

Greyscale rows-coding shows broad similarities in coverage.
Source: Munyuki E. (2009, unpublished).

EPAs and livelihoods

FROM THE FOREGOING, it is clear that the EPAs are not just trade agreements but are agreements that touch on the very basic lives of ordinary citizens in African countries in general and Southern African countries in particular. While the whole countries' economies will be affected in one way or another, the impacts will be greater on agriculture and nascent industries such as textiles. The current world economic order shows that developing countries have been specialising in the production and exporting of raw materials for the benefit of the industrialised countries while at the same time becoming dependent on the latter for their food security.

As a result of the influx of the cheap Asian apparel and second hand clothing from Europe, the textile industries have collapsed resulting in loss of jobs and incomes, a direct threat to livelihoods. The largest economy in the SADC region, South Africa is also facing a serious threat in the same sector. It should be pointed out that textiles had been chosen as an industrialisation strategy by most Southern African countries, but its fate has almost been sealed as it cannot compete with cheap products from high technology production industries of the Asian countries.

Up to 80 percent of the SADC population live in rural areas, trying to make a living from often marginal

Table 3. Economic performance of SADC countries and the total value of the AU, COMESA, SADC, and EAC Market, 2007

Country	GDP, US$ Millions	Population, Millions	GDP per capita, US$	GDP Country Share
AU Total	**1,065,228**	**917,564**	**1160.93**	
COMESA Total	**286,775**	**398,130**	**720.30**	
EAC Total	**46,593**	**121,571**	**383.26**	
SADC Total	**379,256**	**248,002**	**1,529.25**	
South Africa	277,581	47,391	5,380.60	40.84
Angola	58,547	16,391	2,686.41	7.05
Tanzania	16,181	39,477	323.83	2.05
Zambia	11,363	11,862	919.49	1.75
Botswana	11,781	1,758	5,874.86	1.65
DRC	8,955	59,338	143.97	1.37
Mozambique	7,752	20,144	377.68	1.22
Mauritius	6,363	1,253	5,146.05	1.03
Namibia	6,740	2,051	3,106.78	1.02
Madagascar	7,326	19,087	288.1	0.88
Zimbabwe	3,418	13,086	382.85	0.80
Swaziland	2,648	1,126	2,351.69	0.42
Malawi	2,232	13,163	169.57	0.36
Lesotho	1,476	1,789	825.04	0.24
Seychelles	750	86	8,720.93	0.12

Source: World Bank, 2006 data[4]

land with little opportunity to earn wages. Three-quarters of those living in rural areas also live below the poverty line obviously raising the question of subsistence and sustainability. Agriculture contributes 35 percent to the Southern African regional GDP and 13 percent of total export earnings.[5] In addition, the rural population of the region depends on agriculture for food, income and employment. The table below show the economic performance of SADC countries and the comparative total value of the African Union (AU), the Common Market for Eastern and Southern Africa (COMESA), SADC and the East African Community.

Main export products for SADC countries

OVER THE YEARS, COUNTRIES IN the region have rapidly moved away from the goal of securing national food security through investing in local agriculture and rural livelihoods towards focusing upon a few key agricultural exports and relying upon food imports to feed an increasingly urbanised population under conditions of trade liberalisation.

It should be reiterated that after the Second World War, European countries invested heavily into agriculture partly because of their experiences during the war when large quantities of food had to be imported at great risk both in finance and human lives.

Thus the developed countries were able to boost agricultural output through innovations in farming technology (machinery, chemical fertilisers, pesticides, multiplication techniques) financed by huge government subsidies.[6]

THE REALISATION OF SURPLUSES implored developed countries to seek new markets for their products, hence the demand for liberalisation through the steep cut in tariffs in developing countries in the EPAs and the on-going WTO Doha Round. From a marketing point of view, these negotiations are all about market opening for EU goods and services that are produced en mass. A flood of cheap goods on ACP markets may result in depressing prices and even reach levels where the goods are sold below their cost of production, a practice referred to as dumping, while at the same time erecting barriers to developing countries exports onto their market. This is also made worse by the removal of export taxes that African countries have been levying on exported raw materials. The unprecedented growth in manufactured goods and services in the industrialised countries has drastically reduced the importance of agricultural output which at present represents 2–3 percent of total economic output. This is in sharp contrast to the economies of developing countries where agriculture makes significant contributions to the Gross Domestic Product (GDP) and employs 80 percent of labour.[7]

Data that is available for the year 2009 indicate that the major exports for SADC countries still remain raw materials in agriculture and the mining sectors. Only South Africa exhibits a diversified economy that can export machinery and transport equipment. The rest still export sugar, cotton, timber and mineral ores.

[4] World Bank (2006) World Development Indicators. World Bank: Washington DC.
[5] SADC, 2009
[6] Ibid
[7] Agriculture's contribution to GDP is 36 percent, 22 percent and 18 percent in Malawi, Zambia and Zimbwe respectively (World Factbook, 2009)

Diamond mine, Zimbabwe. Photo: Tsvangirayi Mukwazhi

Table 4 Main export products of SADC countries in 2009

Country	Commodities
Angola	Diamonds, oil, minerals, coffee, fish & timber
Botswana	Diamonds, copper, nickel
Lesotho	**Clothing,** wool, livestock
Madagascar	**Clothing,** crustaceans
Malawi	Unmanufactured tobacco, tea, **sugar**
Mozambique	Unwrought aluminium, electrical energy, unmanufactured tobacco, seafood, **cotton**
Mauritius	Clothing, **sugar,** fish
Namibia	Diamonds, copper, gold, zinc, lead, uranium, livestock, **seedless grapes**
Seychelles	Fish, beverages, tobacco
Swaziland	**Sugar,** wood pulp, minerals
South Africa	Platinum, coal, machinery and transport equipment, Ferro alloys
Tanzania	Gold, precious mineral ores, fish
Zambia	Refined copper, copper ores and concentrates, cobalt mattes, tobacco
Zimbabwe	Unused postage or similar stamps, inedible crude materials, cut flowers, unmanufactured tobacco, **cotton,** agricultural products, gold, minerals

Source: Compiled from COMTRADE data[8]

THE EXPORT OF MAINLY raw materials has created massive dependency on food imports from developed countries accelerated by the undermining of the prices of agricultural commodities and products because of agricultural subsidises especially given to European farmers under their Common Agricultural Policy. The Institute for Agriculture and Trade Policy has calculated that US subsidies mean that major crops are put on the international market at prices well below their production costs: wheat by an average of 43 percent below the cost of production, soybeans at 25 percent below, cotton at 61 percent below and rice at 35 percent below.[9] This depression of commodity prices is having a devastating effect on farmers in developing countries.

It is against this background that the likely impact of EPAs on livelihoods in Southern Africa is being analysed with specific reference to cotton sugar and grapes, which are discussed in the following chapters.

Sugar, cotton and grapes

AS THIS STUDY IS FOCUSSING ON three sectors viz the sugar, cotton and wine industries, it is imperative to evaluate the social and economic significance of these in relation to their role in the development of various SADC countries.

It should also be pointed out that a number of countries in the SADC region went into the EPAs negotiations with the EU because of their relative comparative advantage in some of these sectors e.g. sugar industries for Swaziland and Mauritius which are major producers.

[8] The COMTRADE data for 2009 does not include export profiles for Angola, the DRC and Lesotho.
[9] IATP, 2004

3 Sugar: Social and economic significance

Sugar production in the region is controlled by South African companies whose operations extend into neighbouring countries. It is worth noting that South Africa and its neighbours receive different treatment on the EU market and regulate their domestic markets differently. For example Malawi, Mozambique, Swaziland, Zimbabwe and Zambia get preferential treatment which they stand to lose with the launch of the reciprocal trade arrangements whereas South Africa, considered a middle-income country, does not receive such treatment. South Africa is able to protect its domestic market against volatile global sugar price fluctuations using a dollar-based reference price tariff system (explained below), which other SADC sugar producing countries do not have.

ABOUT 80 PERCENT OF SOUTH AFRICAN sugarcane is grown in the Kwazulu-Natal region as well as Mpumalanga and Eastern Cape. The crop contributes about US$ 852 million annually in revenue. Average sugar production is around 2.5 million tonnes per year. Since 1996, an average of 22 million tonnes of sugarcane has been delivered to the mills each season, from which 2.5 million tonnes of raw sugar are extracted. Around 60 percent of the sugar is marketed within the Southern African Customs Union (SACU). The rest is exported to other African countries, Middle East, North America and Asia. In the 2005–2006 season, the EU produced 22 million tonnes of sugar (14 percent of global production) against South Africa's average of 2.5 million tonnes. The EU then exported 37 percent of its sugar making. The EU is not a major sugar market for South Africa. The cane-growing region has extensive infrastructure and facilities for export. Durban, the major seaport, is located in the region. In 2002–2003 South Africa was the seventh largest exporter of raw sugar on the global market.

At the primary production level 129,000 workers are employed by 50,000 farmers (35,300 registered), more than 45,000 of whom are small-scale particularly in Mpumalanga and Kwazulu-Natal. According to the South African Cane Growers Association, small-scale growers are those growers who produce less than 2,100 tonnes of sugar per season, or who deliver on average not more than 225 tonnes of Recoverable Value (RV) per year, cultivating a maximum of about 40 hectares. Indirect employment is estimated at 350,000 people in the support industries.[1] An estimated population of one million, more than 2 percent of South Africa's population is dependent on sugar for a living. The small-scale growers produce 8.4 percent of the total crop and the large scale growers numbering about 1570 (including 385 emerging blacks) produce 85.1 percent of total sugarcane production. Milling companies with own estates account for the remaining 6.5 percent of the total crop.[2]

THE GROWERS ARE ORGANIZED into a Cane Growers Association. The association administers the interests of the independent sugarcane growers. There are 26 grower groups that make up the member organizations of the CANEGROWERS. The mandate of the Association is;

- **Ensure that cane growers receive fair value for their sugarcane.**
- **Provide cane growers with relevant research, data and support services to facilitate farming operations.**
- **Ensure that CANEGROWERS is recognized by all stakeholders as the duly mandated and effective representative of all cane growers in South Africa.**[3]

SOUTH AFRICA IS ONE OF the most competitive producers of high quality sugar and the industry makes an important contribution to employment, particularly in rural areas, as well as to sustainable development. Its contribution to the national economy is significant in terms of foreign

[1] Mthimukulu, 2007, Department of Agriculture and Environmental Affairs, Engineering News
[2] SASA, 2010
[3] SASA, 2010

exchange earnings, employment, and its linkages to producers, support industries and customers. The industry brings together the primary cultivation of cane and the processing of raw and refined sugar, syrups, specialized sugar and a range of by-products.

There are six milling companies with 14 sugar mills operating in the cane-growing area. Illovo Sugar and Tongaat Hulett Ltd own four mills each. Tsb sugar owns three while Gledhow Sugar and Umfolozi Sugar Mill Ltd own one each. The sector employs over 7,000 employees. Four of the mills produce refined sugar while the rest process raw sugar. The Tsb sugar is refined at Malelane and exported via Maputo sugar terminal. The rest of the raw sugar is freighted to Durban where it is either refined at the central refinery of Tongaat Hulett Sugar Ltd or stored at the South African Sugar Millers' Association Ltd terminal prior to export.

The millers are organized into a body called the South African Sugar Millers' Association Ltd. The objectives of the Association are to cover partnership administrative matters, legislative measures affecting the industry, and support for training in addition to scientific and technological research. Thus it works closely with CANEGROWERS and the South African Sugar Association (SASA) on matters concerning the industry. The members of the millers' association include Illovo Sugar Ltd, Tongaat Sugar RSA Ltd, Gledhow Sugar Company Ltd, UCL Company Ltd and Umfolozi Sugar Mill Ltd.

Competitiveness

ACCORDING TO ONE OF the independent surveys on costs of production of more than 100 global sugar industries; South Africa consistently remains in the top 15 sugar producers globally. This is attributed to its efficient export infrastructure, world renowned research and efficient industrial organization.[4]

Nonetheless, it does encounter from time to time difficulties in exporting sugar at a profit on the world market. Unlike its neighbours, South Africa has not enjoyed preferential treatment on the European Union market before. Sometimes the global sugar price gets eroded on the global market due to overproduction in other major sugar producing countries induced by subsidies. Access to the lucrative world markets is moreover restricted by high tariffs and preferential treatment arrangements extended to developing countries by the European Union such as its neighbours, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe. These distortions jeopardize the maintenance of a profitable and stable price on the world market. In fact, if South Africa was to conclude an EPA with the European Union, its chances of getting favourable prices would further be jeopardized since the global price has always been fluctuating and in many instances lower than the regional price. South Africa, as records show, does not suffer from a market crisis for its sugar. It has penetrated most markets on the continent and this has worked in its favour. The international market is unstable and cannot be relied on.

As a result of the above, the industry does get government support to protect it from the volatile global price distortions. The support takes the form of tariff protection against disruptively low world sugar prices, provision for the establishment of equitable export obligations for millers and growers and the Sugar Cooperation Agreement between the members of the Southern African Development Community (SADC).

THERE IS A DOLLAR-BASED reference price tariff system that is based on the long-term average world price for sugar, adjusted for distortions. It only delivers protection when the world price drops below the calculated reference price. In 2007, the import tariff reference price was increased from US$ 330 to US$400 per tonne to protect domestic market against duty paid imports in times of low world prices. As stated earlier, exports profitability is at times severely affected by a subsidy-induced oversupply of global demand. Approximately 40 percent of total production is exported at prices substantially below the domestic price. In order to distribute exposure equitably between millers and cane growers, a redistribution of proceeds is effected through SASA. The Sugar Act and the Sugar Industry Agreement provide regulatory support for this redistribution of proceeds.[5]

SADC Sugar Cooperation Agreement

A SADC Sugar Cooperation Agreement has been established and is incorporated into the SADC Trade Protocol. The main objectives of the SADC Sugar Cooperation Agreement are:

- **To promote, within the region, production and consumption of sugar and sugar-containing products according to fair trading conditions and an orderly regional market in sugar for the survival of the sugar industries in all sugar producing member states, in anticipation of freer global trade.**
- **To create a stable climate for investment, leading to growth and development of sugar industries in the member states.**
- **To improve the competitiveness of the sugar-producing member states in the world market.**
- **To facilitate the sharing of information, research and training with a view to improve the efficiency of growers, millers and refiners of sugar in member states.**
- **To facilitate the development of small and medium sugar enterprises.**
- **To create stable market conditions in the member states so as to encourage the rehabilitation and development of all sugar industries with a view of facilitating direct foreign investment and the creation of employment opportunities.**

Source: SADC 2010

Regional company operations

SUGAR-CANE PRODUCTION AND processing in the SADC region is dominated by big South African Companies, namely Illovo Sugar Pvt. Ltd, Tongaat Hulett Sugar Ltd and TSB South Africa.

Tongaat Hulett Sugar Milling is a world leader in sugar milling technology. It has four mills in South Africa, two mills each in Mozambique and Zimbabwe and extensive cane operations in the two countries as well as Swaziland. Besides its raw sugar capability, it has a central refinery in Durban with an annual refining capacity of some 600,000 tonnes. This is complemented by additional refinery capacity in Triangle Sugar, Hippo Valley Estates (Zimbabwe) and the recently commissioned White Sugar Mill at Felixton (South Africa).

Regional market sales are around 460,000 tonnes (including Zimbabwe and Mozambique). On the international market, there was a reduction of raw sugar export volumes to 245,000 tonnes in 2007 from 316,000 tonnes in 2006. Nonetheless, the price per pound did not change as a result of the firming of the rand against the US dollar.

TRADE ARRANGEMENTS CONTINUED unhindered until September 2009 when the then sugar protocols expired to be replaced by an interim EPA signed earlier in the year by Mozambique, Swaziland, Lesotho and Botswana. This has witnessed an increase in imports to the EU from 1.6 million tonnes to 3.5 million tonnes annually. Owing to the WTO rulings (2006) in which the EU was compelled to reduce subsidies to sugar-beat producing farmers, the EU will reduce sugar exports into the world sugar market from levels of 5–7 million tonnes to no more than 1.4 million from 2007 onwards. The announced EU sugar reforms provide for an institutional reference price of Euro 335,20/tonne until 2015. This seems a positive move under the WTO regime. However, the increase in EU sugar imports does not translate to an increase in sugar exports from the exporting companies in the SADC region since other regions throughout the world can also export to the EU. However, if there is an increase in volumes of sugar exports from the SADC sugar producing countries, they will have a guaranteed price of €335,20 per tonne only until 2015. Beyond that, it is not clear whether the guaranteed price would continue or it would be left to the markets to determine the price. In this regard, it can be concluded that the export arrangements under EPAs of such important commodities like sugar be clearly stated for sustainability and predictability purposes. This is the essence of the WTO that is to establish a predictable and stable multilateral trading system. As it is, SADC countries will not benefit under EPAs from exporting their sugar as there are limitations in terms of improving export volumes.

Sugar operations in Mozambique

THE OPERATIONS IN MOZAMBIQUE consist of the sugar mills and estates surrounding Xinavane and Mafambisse. The operations produced 108,000 tonnes of sugar in 2007 compared to 106,000 tonnes in 2006. Mozambique is expected to produce 320,000 tonnes of sugar by 2010. The sugar industry is the principal employer in the private sector and the second after the public sector. The industry employs 21,500 permanent and casual workers, 14 percent of whom are women. These figures exclude small-scale out-growers and employees of hired companies for cutting, collecting and transport of cane on contract. Xinavane estate is the third largest in the country employing 16 percent of the labour and has a female component of 56 percent. Women with babies have limited access to employment as tasks such as fertilised application are considered too strenuous for them.

The company is planning for future 'bio-fuels production by expanding operations at Xinavane and Mafambisse that will scale up cane production. Mozambique is also the only country in which Tongaat-Hulett operates that benefited from the EU's sugar reforms, as it is part of a group of 22 other sugar producing countries classified as least-developed countries, and would stand in line to benefit as the EU reduces exports. This means the unilateral better and effective Everything But Arms initiative of the EU could be made a permanent feature of the trade arrangements to allow more market access for the least developed countries. This would be effective Special and Differential Treatment which is far much better than the reciprocal trade arrangements being negotiated to conclude EPAs. The unfortunate situation is that if Mozambique concludes EPAs with the EU then the EPA will take precedence over EBA according to the Vienna Convention on the Law of Treaties.

[4] SASA, 2010

[5] SASA, 2010

Sugar operations in Zimbabwe

THE OPERATIONS IN ZIMBABWE include Triangle and Hippo Valley estates. The sugar industry is arguably the third largest agricultural industry in Zimbabwe after tobacco and cotton. In 2005 it contributed 1.4 percent to the Gross Domestic Product (GDP) and generated US$ 65 million in foreign currency earnings. It provides direct employment to 25,000 workers and indirectly to more than 125,000 people. Tongaat Hulett owns Triangle Sugar estate and has 50.35 percent share of Hippo Valley estate. Triangle estate is the biggest sugar estate in Zimbabwe with an annual crushing capacity of 2.5 million tonnes of cane and can produce up to 300,000 tonnes of raw sugar. Hippo Valley is the second largest sugar operation and has a mill of almost the same capacity as Triangle. In addition, there are small-scale out-growers at Mkwasine estate cultivating about 10 hectares each and a group of 17 cultivating 35 hectares each. The two estates including out-growers at Mkwasine have a potential production capacity of 600,000 tonnes. Sugar production sharply declined from a high of 570,000 tonnes in 2000 to a historic low of 259,000 tonnes in 2009/10 season due to the harsh economic environment induced by the effects of the Land Reform process, the price and quota controls as well as the associated economic and inflationary conditions. However, with the aid from the EU for the out-growers and additional expansions from the Tongaat Hulett for expansion it is expected to achieve the target in 2010/11 season. Tongaat-Hulett has expressed confidence in its Zimbabwean sugar investment which it views as a sound asset despite serious political land issues in the country. The intended additional investment is expected to boost sugar production from Zimbabwe by some 400,000 tonnes/year. The expansion is a response to the global trend towards bio-fuels and electricity cogeneration from biomass. Ethanol has been produced since 1980.

THERE ARE TWO INDEPENDENT sugar refineries located in Bulawayo and Harare that produce white sugar with a capacity of 260,000 tonnes per annum. In addition, brown sugar comes from the two mills at Triangle and Hippo Valley.

Around 65 percent of the sugar is produced for the domestic market and the remainder exported to the region, the EU and the United States. About 148,000 tonnes of raw sugar were exported to the EU in 2009, and the market is secure from 2010 to 2015 as it can be exported duty free and quota free. Nonetheless production had fallen by 13 percent compared with the previous season but it is on a recovery path.

The Tongaat Hulett operations in Zimbabwe enjoy preferential market access to the EU as it does in Mozambique. In 2007, the domestic price was well below the regional and international markets prices fuelling the smuggling of the product onto the regional market.

IF ZIMBABWE CAN EXPORT sugar to the EU market duty free and quota free up to 2015 then the EPAs would disrupt this arrangement as reciprocity entails the EU exporting the same to the Zimbabwean market. If 65 percent of the sugar produced in the country is for domestic consumption, then this pattern is most likely to be changed when the EU starts exporting to the country as well under the phased liberalisation programme.

Illovo sugar group limited

ILLOVO SUGAR IS THE LARGEST sugar-producing company in the region. It supplies sugar and downstream products to the domestic, regional and world markets. Sales to the domestic markets in which the group operates accounted for 69 percent of the total revenue and exports accounted for the rest (2009). Sales to the domestic as well as the premium-priced export market (EU) accounted for 76 percent of production and 91 percent in value.[6]

The Southern African Customs Union (SACU) market is of paramount importance to the group's South African and Swaziland sugar. About 56 percent of its total South African sugar production was sold in the SACU region during the 2009 season while Swaziland's to the same market was 51 percent of its total sales. The group sold 1.926 million tonnes, 80 percent being refined sugar and the balance brown sugar.

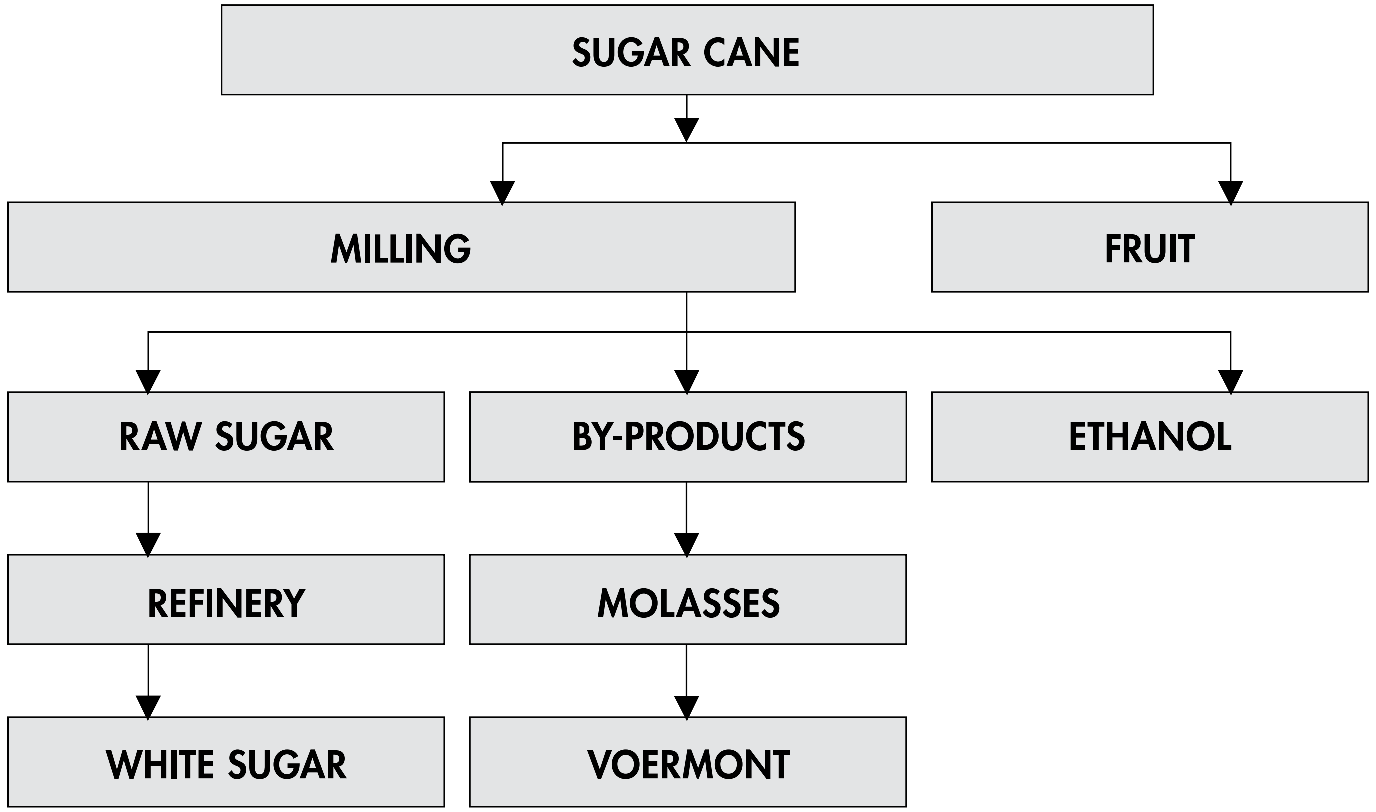
Around 87 percent of Zambian sugar is produced by its subsidiary Zambia Sugar which accounts for 61 percent of domestic sales. In Malawi Illovo is the sole producer of sugar and accounted for 67 percent of domestic sales in 2007.

The by-products from sugar milling and refinery include:

- ***Voermol***
  These are bagasse and molasses- based animal feeds under the voermol brand continue to increase and boost earnings.
- ***Bio-fuels***
  Amatikulu mill (South Africa) is the one selected for ethanol production. At present it crushes 1.9 million tonnes of cane (2007) producing 215,000 tonnes of sugar and 76,000 tonnes of molasses. It is expected to produce 80 million litres of ethanol as a fuel blend.
- ***Electricity Cogeneration (Tongaat Hulett)***
  Felixton is earmarked for large-scale electricity cogeneration due to its boiler capacity. It is expected to export 38MW to the South African national grid.

[6] Illovo 2009

Diagram 1: Sugar cane value chain



Volatility of sugar markets

FIRST, THERE ARE SEVERE distortions in world sugar markets as a result of government policy interventions and preferential trade agreements. The South African sugar industry plays an important role at the national, regional and international levels. Evidence suggests that the export performance of the South African sugar industry will have ripple effects in the region if the on-going attempts to liberalise world agricultural trade via the World Trade Organisation (Doha Round) prove successful then there will be substantial changes in sugar prices and trade flows.

CURRENTLY, SUGAR COMPANIES are enjoying high prices from regional sales as compared from the international market. Liberalisation of the sugar sector means more players at the regional market and that may bring the regional price down to the global level affecting the sales and profits of companies and growers which they have been enjoying all along. Given the scale of sugar production in South Africa it would be expected that substantial changes in the global sugar market are likely to have significant implications for the South African economy and those of its neighbours. The domestic sugar price in SACU is twice the global price, an issue that users of sugar as a raw material such as the confectioneries have taken up with SASA preferring to import rather than depend on the domestic suppliers. Ironically when the wrangle broke out in 2009 the end users bought their supplies of refined sugar from the Far East who had originally imported the same product as raw sugar from South Africa, but were able to sell it at half its price. Thus the full liberalisation of the sugar industry will hurt the regional sugar operations. Under normal circumstances, full liberalisation of the sugar industry would mean a reduction of prices especially for the consumers and other users in the value chain. But this is in theory as markets have been proved not to be stable but volatile. As for producers, including small holder farmers and large corporations, the fortunes are different as they will suffer from reduced producer prices when they were used to enjoy high prices at the regional level. The effect would be to drive especially small producers out of production due to competition, hence affecting their livelihoods and a domestic supply of sugar. This would also have an effect on employment figures in the sugar industry and usually the first victims and casualties are the vulnerable; women and the youths in the production as well as the down stream industries.

White sugar. Photo: Ingrid Bergman

Labour relations

ALL THE SUGAR PRODUCTION companies have a corporate social responsibility programme specifying what they provide to workers and what they intend to do in the future for the welfare of workers. For Tongaat Hulett, accommodation is company-provided, as well as basic services such as medical and education facilities. Nonetheless, there is disharmony between the workers and the company management as evidenced by the burning of mature crop over wage disagreements at Triangle in Zimbabwe in 2009. During the 2009 season 100 hectares of mature cane crop was destroyed by fire after disagreements over wages when the workers were demanding that the lowest worker be paid US$ 130 per month. The previous minimum wage could not be ascertained as it was given in Zimbabwe dollars whose value was on a free fall.

Gender dimension

THERE IS NO CLEAR EVIDENCE of the gender dimension on this topic. The employment figures could not be clearly disaggregated to show the proportion of women labour in the industry. Nonetheless one can discern from the Zimbabwean data an increased participation of women in packing sugar at the processing stage. Labour at the estates appears to be seasonal particularly during weeding and harvesting of the crop and casual labour tends to be dominated by women.

As a result of pressure from globalisation and competition, companies have been forced to restructure which inevitably involves retrenchments. Permanent labour is replaced by casual labour, a sub-sector dominated by women. During previous restructuring programmes, such as the structural adjustment programme women bore the brunt of adjustment costs. They are the ones who lost the most and gained the least, and the gender dimension is an issue that is not being adequately addressed in the full EPA negotiations.

Conclusion

THE SUGAR INDUSTRY IS OF significant importance to the SADC countries in terms of employment and foreign exchange earnings. However, it is under threat from the on-going globalisation process that entails liberalisation of markets. Prices at the global level remain volatile. Tariff protection has enabled the companies to sell sugar on the regional market at twice its global price. Pressure from liberalisation and end-users to lower the domestic price will compel the companies to restructure in order to cut costs. The preferred route for the companies has been to transform permanent labour where possible into casuals thus worsening the working conditions of the workers which are already precarious.

With the arrangement that has been agreed to for SADC countries where they will export sugar to the EU market at a guaranteed price until 2015, this may sound lucrative but what about beyond 2015? Will the countries still export at that price or will EU ask for reciprocity, meaning exporting sugar also to these countries. There is no concrete evidence that SADC countries have excluded sugar from liberalisation. In fact, since transitional periods have been put in place for sugar and rice until 2015, then conclusive information will only be available then. EPAs are a reciprocal trade arrangement and this is what should be understood throughout the negotiations. It is imperative that the SADC countries negotiate for a clause that allows regular review of the sugar arrangement in terms of pricing and quotas. They can seek the consent of the WTO to be given that preferential market access like what happened with African Growth and Opportunity Act.

African Growth and Opportunity Act (AGOA)

THE AFRICAN GROWTH AND OPPORTUNITY ACT is a US law passed in 2000 that provides eligible African countries with trade preferences for quota and duty-free entry into the United States for certain goods. For a country to be AGOA-eligible, it must have (or be making progress towards) a market based economy and implement or adhere to the following policies: Severe cuts in government spending, sales of government assets, rights for foreign investors to buy resources and public enterprises without restriction, deep cuts in tariffs, imposition of US monopoly and intellectual property rules, binding membership and adherence to all WTO regulations, compliance with all IMF and other international financial institutions' rules, and refrain from activities that undermine US national security or foreign policy interests (war against terrorism).

Notably, the US under AGOA provides market access for textile and apparel goods. This resulted in the growth of an apparel industry especially in Southern Africa, and created hundreds of thousands of jobs. However, the expiry of the Multi Fibre Agreement for textile and apparel trade in January 2005 reversed some of the gains made in the African textile industry due to increased competition from other countries, particularly China. Already, many factories have been shut down in countries like Lesotho and Namibia, where most of the growth occurred. In addition to growth in the textile and apparel industry, some countries have begun to export new products to the US, such as cut flowers, horticultural products, automotives and steel. AGOA was supposed to expire in 2008 but the US government passed the AGOA Acceleration Act of 2004, which extended the legislation to 2015.

AGOA, LIKE THE EUROPEAN Union Lomé Conventions that were replaced by the Cotonou Agreement, is a preferential market access tool for African countries. Although the conditions for export are different with the Lomé Conventions, AGOA has the same effect of violating WTO rules of non discrimination. However, on 27 May 2009, the United States was granted a waiver '(WT/L/754) to permit it to provide duty-free treatment to eligible products of certain sub-Saharan African countries as authorized by the provisions of AGOA without being required to extend the same duty-free treatment to like products of any other Member.' (WTO 2010) This waiver expires on 30 September 2015.

What this means is the US can continue providing preferential market access to African countries without challenges from other countries. Already, countries like Paraguay that have been objecting to this arrangement have withdrawn their cases. Although the waiver is expiring in 2015, there is no pressure from other WTO members not to allow the US to seek another waiver.

Wine bottles at Simonsig vineyard, South Africa. Photo: Viktoria Olausson

Grapes: Social and economic significance 4

Grape production in South Africa takes place in the Western Cape Province, 91 percent of the production comes from this province. Being concentrated around Cape Town, the principal vineyard and production centres being Paarl, Stellenbosch and Worcester. Other centres include Constantia, Walker Bay, Robertson and Franschhoek.

Wine production

THE VINEYARDS IN SOUTH AFRICA cover an area of approximately 101,325 hectares producing around 780.7 million litres of wine.[1] South Africa is the seventh largest producer of wine with a 3.1 percent global market share.[2] The production trends are given in the table below.

Table 1: Wine Production (Million Gross Litres)

	2005	2006	2007	2008	2009
Wine	628.5	709.7	730.4	763.3	805.1
Rebate	82.9	82.1	101.5	86.6	71.4
Juice	64.6	73.2	65.2	72.5	34.7
Distilling wine	129.2	147.9	146.4	166.5	122.1

Source: WOSA, 2009

AROUND 60 PERCENT OF THE GRAPES harvested are used for wine production. Initially the white varieties dominated wine production (82 percent as against 18 percent for red varieties in 1994), but increasingly as exports firmed the share of reds has increased to about 40 percent. The principal varieties are: white-chenin, chardonnay and sauvignon, and reds-cabernet, merlot, pinotage and shiraz.

The number of primary wine producers has been falling while that of wine cellars has been increasing. Between 1991 and 2009, the number of producers declined from 4786 to 3667 while the number of cellars increased from 212 to 604. A possible reason could be the deregulation of the industry that involved the removal of subsidies to create a free market environment that small producers could not withstand. At the same time producing cellars increased during the same period from 6 to 23. Although hectarage did increase, it has stabilised at around 101,000 hectares.

AT THE PRIMARY PRODUCTION level, the majority of producers are organised into cooperatives, the biggest being the Winegrowers Association (KWV) which accounts for 85 percent of the total primary production and is responsible for 60–70 percent of the exports. Then there are small wine estates and non-estates. Estates produce wine from own production while non-estates produce wine from own and bought in production. Recent technological improvements have decreased the minimum economic size for viable wine production allowing small specialised units to enter the market with relatively low volumes. These small units specialise in the production of medium and high quality wines. Wholesalers then buy in bulk wine from the wine cellars for further refining, bottling and packaging. The biggest wine producer Distell is focused on the domestic market producing low quality wines. However in recent years the previously dominant role of wholesalers has been undermined by the greater responsibility that wine producers are taking for their own marketing. Besides the above, there are also retailers and exporters. All the players in the wine industry are organised under the Wine Organisation of South Africa (WOSA).

There are serious concerns over the profitability of the South African wine industry. Some critics believe that the profitability will be short lived as a result of the overproduction of low quality white grapes and the problem prominent amongst growers linked to KWV members. The industry has historically experienced boom and bust over its 350 year history. Private estates and non-estates make strenuous efforts to tailor their output to the changing international preferences, which appears not to be a major concern of KWV and Distell involved in bulk buying of grapes and mass production of wine respectively.

[1] WOSA 2008
[2] WOSA 2009

Gross domestic product contribution

SOUTH AFRICA'S WINE INDUSTRY'S share of the gross domestic product in 2008 was 2.2 percent and is on the increase contributing R26.2 billion to the economy.[3] A 2004 South Africa Wine Industry Information and Systems (SAWIS) study found that the wine industry contributed 8.2 percent to the Western Cape's gross geographic product (GGP) and that in that year of the R16.3 billion contribution to the national GDP, some R4.2 billion was indirectly generated through tourism activities within the vineyards. The sector has witnessed a rapid growth since the attainment of democracy in 1994 with exports having risen dramatically. It is the leading agricultural commodity exporter falling third after minerals and motor vehicles at national level.

The industry employs 275,600 workers both directly and indirectly. Indirect workers are involved in packing, retailing and tourism. Tourism on its own employs 59,000 workers and contributes about a quarter of the realised total revenue.[4]

The export sector is dynamic and has witnessed a dramatic growth. Exports have increased by 335 percent during the period 1995–2007. In absolute terms there was a dramatic rise from 138.4 million litres in the year 2000 to 407 million litres in 2008. In 2009, 389.1 million litres were exported out of a total wine production of 1.089 million litres. The exporters are issued export licences after submitting samples to the Wine and Spirit Board for tests and chemical analysis, stating source of origin, vintage and grape variety. After the stringent procedures have been completed, an official seal is then issued to each bottle by the Wine and Spirit Board verifying that the claims made on the label with regard to origin, vintage and variety are true. The major export markets are the United Kingdom, Netherlands, Scandinavian countries, Germany and USA. The export trend is given in the table below.

THUS THE SIGNIFICANCE OF the South African wine industry can be seen from its employment generation, revenue generation together with contribution to the gross domestic product and even tourism attraction. The vineyards have attracted tourist visits to South Africa just for the purpose of experiencing how they are prepared and managed.

Value chain

IN 2008 THE TOTAL TURNOVER of the wine alcohol industry amounted to R19.2 billion. Out of this total value, exports directly generated R3 billion. During the same period imports into the South African market amounted to R237 million or about 2 percent of domestic sales.

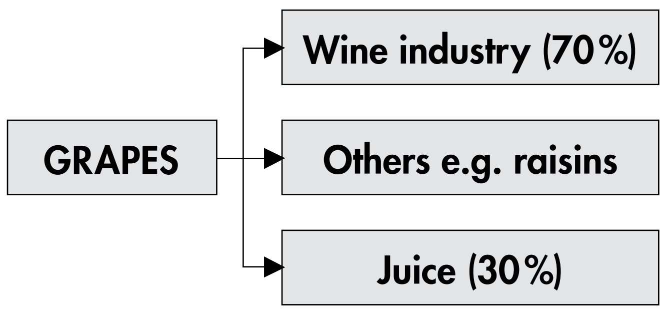
During the year 2009 primary grape production was valued at R3.3 billion. Through the various steps of value addition that include crushing the grapes, refining and blending up to packing, the value was increased to R19.2 billion (excluding wine tourism which accounted for another R4.3 billion), five times the initial value of the raw materials. This represents a phenomenal increase in value addition taking place at domestic level that is important for job and wealth creation. Thus the industry is important for economic growth. Over the period 2003–2008 turnover grew by 79 percent mainly as a result of export performance that almost doubled. At the same time domestic sales increased by 76 percent while tax and excise duty increased by 71 percent. Thus the wine industry is a dynamic sector in the South African economy. What is praiseworthy is the export of the finished product even though some of it is sold in bulk, not packaged.

Table 2: Trend in South African Exports (year on year increase of exports)

Year	Litres	Trend (percent)
1996	99 900 000	140
1998	116 800 000	108
2000	138 400 000	108
2001	176 100 000	126
2002	215 800 000	123
2003	237 300 000	110
2004	266 500 000	112
2005	280 084 116	105
2006	271 777 534	97
2007	313 885 785	115
2008	407 319 610	129
2009	389 141 149	95

Source: WOSA, 2009

Diagram 1: Grape value chain



[3] South Africa Wine Industry Information and Systems (SAWIS) 2009
[4] SAWIS 2009

Labour relations

ON PRODUCTION CONDITIONS, the most contentious issue is on labour relations. The primary producers are struggling to adapt to the new labour legislation. South Africa has a comprehensive labour legislation covering the rights and welfare of workers. The legislation among other things covers basic conditions of employment, occupational health and safety, compensation for occupational injuries and diseases, extension of security of tenure, unemployment insurance benefits and skills development. The new legislation is targeted at eroding the paternalism associated with the old order under apartheid. Under the previous regime, all power on labour relations lay with the farmer who would then take care of workers at his own discretion.

While wine cellars appear to comply with the law, the grape growers find it difficult to adhere themselves to the commitments of the new legislation. As in any changing situation there is a "conservative core of farmers that has hitherto refused to accept and adapt to the changes imposed by the new labour legislation".[5] Although there has been a quick rise of fortunes in the wine industry, it has not been matched by a corresponding expansion of the labour force. This is in part due to the fear by growers of organised labour which is viewed as increasing the costs of production. The trend has seen an increase in mechanisation to substitute labour particularly at harvesting, a peak period of labour demand. For example between 1995 and 1996 the number of mechanical grape harvesters in the industry rose by over 50 percent.[6] Owing to material constraints besetting the labour authority (transport and manpower), the new labour codes have not been strictly enforced and the old order has to a large extent gone unchallenged.

On the housing issue, fearing the extension of security of tenure, the farmers have preferred to house workers off-farm and make greater use of casual seasonal labour. Thus adherence to this regulation is very low.

ON NON-DISCRIMINATION OF workers, the employers continue to discriminate against women in remuneration on the grounds that they work shorter working hours due to their pre-occupation with household chores and can only perform less strenuous tasks. Coloured employees are preferred to their black counterparts based on the absurd belief that the former are more disciplined and come from the surrounding neighbourhoods. It is claimed continued harassment and abuse on racial terms goes on unabated as if they are second-class citizens well after apartheid.

The new labour regulations prohibit the employment of children under the age of 15. Nonetheless children less than 15 years are seen working on the vineyards during out of school hours helping their parents. However, the children are not formally employed and merely assist their farm worker parents to accomplish their tasks. But strictly speaking adherents of the new codes should have monitored and prohibited such practices.

Workers must enjoy the freedom of association and bargaining collectively. On farms the employers claim that unions are poorly organised and do little to improve the welfare of workers and are there to collect union dues, therefore labour unionisation is still very low on the farms. This however does not imply that the situation is all bleak in the region. There are other farm worker unions that have the potential to change the situation. For example the South African Sikhula Sonke, a women-led trade union which operates as a social movement dealing with all livelihood challenges of farm women; domestic violence, food insecurity and alcoholism, among others. The overall mission of Sikhula Sonke is to empower and to serve farm women.[7] With the likes of Sikhula Sonke, farm worker environments could be changed for the better.

THERE ARE NO OFFICIAL MINIMUM wages in the industry, though the act gives the responsible Minister the authority to set up living wages depending on the circumstances of employment. Under SA 8000, auditors are expected to apply a "food basket cost" formula for calculating a living wage. Wages on farms are low but on cellars they are seen as meeting "living wage" levels. In practice the auditors are willing to listen and accept explanations of special circumstances such as low wages for casual labour during harvesting and consider it as a social responsibility of providing employment rather than going for mechanised harvesting. For permanent labour the wages vary between R800–R1200 while the calculated living wage approximates R1573.26.[8] Thus the farmer is let off the hook. While the employers are expected to implement formal systems and procedures for managing all aspects of labour relations, remuneration contracts and welfare, in practice it is done at the discretion of the individual farmer.

There are no standard housing schemes specified on the new labour legislation. As a result the housing provided on the farms varies widely. In most cases cellars do not provide accommodation, but may help permanent workers secure accommodation depending on the proximity to towns. On the farms the workers are provided with poor housing while the casuals have to seek their own accommodation.

In conclusion it can be seen that farmers accustomed to the old order are not willing to give up their paternalistic approach to labour management and have developed a strategy of circumventing the requirements of the new legislation through hiring casual labour. Thus the dilemma of the new labour codes is that they have to be enforced against considerations of increasing unemployment as worker status can be easily changed from permanent to casual or replaced by mechanisation.

[5] C Collins, 2004
[6] Ibid
[7] Sikhula Sonke- http://www.ssonke.org.za
[8] Bureau of Market Research

Gender dimension

UNTIL 1996, AGRICULTURAL WORKERS were excluded from the Labour Relations Act and most other basic rights and collective bargaining was illegal. Within the wine industry, although no concrete data is available, women are discriminated against in hiring labour and when hired are paid less than their male counterparts. Furthermore indications show that they could be the bulk of what is referred to as casual labour. Wives of permanent workers participate in production as casuals where they are paid less than permanent labour. According to the Wine industry Ethical Trade, the facts on the vineyards are that:

- **The economic pressures of liberalisation have forced farm owners to cut labour or turn permanent workers into casual labour, and it is generally women who are the first to go.**

- **Female farm workers face harsher treatment and conditions whilst earning only 78 percent of what their male counterparts earn.**

- **The new minimum wage legislation does not provide enough income for households to compensate for increasing food prices.**

Women working at Simonsig vineyard, South Africa. Photo: Eva Åberg

Emergence of Sikhula Sonke

SIKHULA SONKE IS A WOMEN-LED trade union operating mainly in the Western Cape Province registered on 1 December 2004. It addresses all livelihood challenges of the female farm workers such as domestic violence, food insecurity, alcoholism, provision of decent housing, access to adequate and improved health and education facilities, alcoholism, etc. The mission statement of the movement is to empower and serve farm women. It has become a vehicle for women's voices to be heard. Farm men can also join the organisation provided that they sign a declaration denouncing domestic violence. It has 4000 employed and unemployed members in its ranks. The emergence of Sikhula Sonke represents an organic development arising from the mobilisation work by Women on Farms Project.

Their constituencies are primarily women on farms and those involved in agro-processing industries. Men and children are considered as secondary constituents.

Campaigns are targeted at increasing and strengthening the voice of farmwomen in order to influence decision making at policy level. This can be both proactive and reactive depending on the circumstances on the farms. The campaigns also involve incidences of rights violations during the course of work at farms. The incidences include evictions, labour inspections on farms, health and safety. They also facilitate the engagement of women in policy and legislative processes.

Sikhula Sonke has built social structures at all levels to ensure that the members are well informed and active and 85 percent of the leadership are women.

Achievements

IT MIGHT BE TOO EARLY to fully assess the success of Sikhula Sonke given its short-term lifespan of 6 years. Nonetheless, Sikhula Sonke has made tremendous progress in organising farmwomen workers into an organisation that is addressing the challenges confronting farmwomen as confirmed by an external evaluator. Thus trade unionism has been effectively introduced to the farmwomen and collective bargaining is taking place replacing the previous paternalism of vineyard owners. The benefits that have been achieved include:

- **Paid maternity leave.**

- **Housing contracts in the names of the members.**

- **Introduction of daycare for their children.**

- **Wage increases have been raised from 7 percent to 15 percent.**

- **Protective clothing has been provided to 100 percent of the membership.**

- **Construction of toilets in the orchards and vineyards, annual bonuses, transport and medical aid cover.**

THE MOVEMENT IS ALSO putting pressure on the state to ensure that they have access to their rights including access to land. A democratic constitution replaced apartheid laws, but the reality on the ground suggests freedom and equality for all has not yet been attained owing to lack of enforcement. The workers still face discrimination 16 years since non-racial democracy replaced apartheid. A 2004 study by the Nkuzi Development Association and Sikhula Sonke showed roughly a million black workers had been evicted from farms in the decade following 1994, and there are no signs the trend is slowing down.

Government programmes for redistribution of land are underfunded and behind schedule. The government land redistribution programme has focused on large-scale farms producing export crops such as grapes and sugar-cane. It has not prioritised farm workers for land redistribution. Sikhula Sonke together with Women on farm project organised campaigns to demand access to land for the landless farmwomen. They threatened to boycott the 2009 April elections under the theme, No Land! No Home! No Vote!

Further information: www.ssonke.org.za

Namibian grapes

NAMIBIA GROWS TABLE GRAPES for export principally to the EU market unlike South Africa which focuses on wine production. The history of grape production began in the early 1990s when one entrepreneur came to the conclusion that the Namibian mild coastal climate is ideal for the production of grapes for the European Union market at a time when other producing countries would be vulnerable from the frequent occurrence of frosts.

The total table grape production has increased from 1,000 tonnes (produced by Aussenkehr, the pioneering company) in 1991 to more than 12,000 tonnes in 2003. It is estimated that the value of the exports is around N$180 million (US$29 million).[9] Since then the area planted for grapes has increased as well as the number of players. The Namibian Government has acquired some private land for its parastatal agency the Namibia Development Corporation to increase grape production. There is also a black empowerment corporation the Namibia Grape Company (NGC). At the NGC's irrigation project next to Aussenkehr Farms, 30 small-scale farmers have taken up grape production. The more experienced Aussenkehr unit has taken the responsibility of packing and marketing their grapes through existing channels which would otherwise be inaccessible to the low volumes produced by individual farmers.

Synergies are being formed between larger commercial farms and new small farmers, as evidenced by the formation and strength of the Namibian Orange River Table Grape Association, which gives newer entrants all the benefits of access to established market channels and quality certification systems, which small farmers would be unable to develop individually.[10]

More land has been acquired in new areas such as Tandjeskoppie, with assistance from the Arab Development Bank. Another grape producing area has been opened to the east along the Orange River 200 kilometers away from the original coastal belt. Owing to the scarcity of rainfall and the rising cost of irrigation, some innovative farmers at the Hardap irrigation scheme, 600 kilometers away in the South Central region of Namibia who originally concentrated on maize, wheat and raisins are switching to high value crops such as grapes principally for export. Thus, grape production is witnessing an expansion. Some 12 individual farmers have taken up the challenge to grow grapes on small plots with the capacity to create around 150 permanent jobs in Hardap.

Employment and market access

THE GRAPE INDUSTRY SECTOR at present employs around 3,500 permanent workers and another 7,000 workers as part-time employees for three to four months a year, mainly for grape harvesting.[11] The industry has become the largest employer in the impoverished, underdeveloped Karas Region where Aussenkehr is located.

Entry into EU market

NAMIBIA ATTAINED INDEPENDENCE in 1990, and two years later (1992), successfully applied for membership of the Lomé IV Convention in order to gain preferential access for its agricultural products namely beef, lamb and table grapes to the EU market extended to developing ACP countries by the EU. The agreement lasted until 2000, to be replaced by the Cotonou Agreement. Entry into the EU market appeared to be a protracted struggle despite the fact that it was the only country able to produce grapes in December and January, at year end.

There are European grape-producing states, (Spain, Italy and France), as well as several non-EU grape states (Brazil and Chile) which lobbied to make any duty-free grape access time-bound.[12] Finally the EU decided that all the ACP countries could export a relatively small quota of 600 tonnes of fresh seedless table grapes duty-free to the EU from 1 December to 31 January each year. EU fresh grapes deteriorate in quality after long, expensive periods in cold storage. Fresh table grapes sell wholesale for about $3,800 per tonne (after duty) in Europe.[13] Today, Namibia exports about 75 percent of its total table grape production to the EU. Since then as negotiations continued, Namibia was granted tariff-free market access for seedless table grapes of 800 tonnes, a preferential treatment applicable only during the month of December.

EPAs or GSP?

GIVEN ITS PRESENT LEVEL of production it is not surprising that Namibia has adopted a powerful position in the SADC EPA negotiations of demanding a duty-free and quota free access for beef and grapes. If the EU does not budge, then that could cause problems to Namibian beef and table grapes producers. If EPA is not signed the Namibian grapes could lose the preferential access and with it its clients in the EU due to higher import duties which the importers would have to pay.

To date the Namibian Government has refused to sign the Interim EPA with the EU because of many contentious issues regarding policy space and food security that has not yet been solved in the interim EPA. The deadlock has left grape exporters in a quandary, facing serious losses of trade preferences and a considerable increase in marketing costs. Namibian grapes will be placed under the stricter General System of Preferences (GSP) that attract a tariff rate of 11.3 percent, a substantial increase in marketing costs. Thus exporters are seriously looking for alternatives such as the US where exports have been approved. Nonetheless 16,650 tonnes of grapes were exported to the EU market in December 2009, generating N$ 250 million despite the threat. It appears that unfavourable climatic conditions in Brazil detrimentally affected grape production in that country to the advantage of Namibia with its mild climate, therefore it affords to export more. In the event that the EU continues with its demands and threats of GSP status, Namibia will find itself in a less favourable position compared with its major competitors. The costs that will be incurred will result in the suspension of exports to EU.

Some analysts have argued that the value of taxes that Namibia will incur in the form of tariffs at the present level of trade will be four times the official EU aid to Namibia. This development will ruin export earnings for the country as well as rural employment particularly in the remotest regions desperately in need of development. The country is demanding policy space to sustain food security, protection of infant industries, free flow of goods to the EU and the removal of import duties on its exports.

Conclusion

THE WINE INDUSTRY IS ONE of the fastest growing sectors in the South African economy that has been buoyed by exports since democracy in 1994. It employs a significant proportion of both permanent and casual labour. Although it has made giant strides on the global market, the bubble might burst if the quality is not closely tailored to the foreign consumer preferences. With regard to labour it depicts the same trend as sugar as it increasingly relies on casual labour at the primary production level. It should be noted that with the signing of the TDCA in 1999, South Africa stopped subsidising its wine producers in the interest of the agreement and this is likely to take place when other countries sign the EPA. Many smallholder wine growers were forced to amalgamate in order to survive in an environment without subsidies. In a move to cut costs, it is cheaper to employ casual rather than permanent labour.

Namibia depicts the same trend of having a thriving grape industry but which increasingly appears to be employing both permanent and casual labour. If companies in the grape industry are subjected to stiff competition from major producing countries such as Chile and Brazil, the companies will also revert to more seasonal labour than before.

While it may look favourable for both countries to secure the European market through EPAs, it should be emphasised that the EPA will not be about grapes only. It is true that Namibia and South Africa have a comparative advantage in terms of grape production but are grapes the mainstay of the South African and Namibian economies? Certainly they are not and surely the countries do not need an EPA to secure their market in the EU. It is critical for Namibia and South Africa to diversify their markets so as not to mortgage the other important and critical sectors of their economy to the EU. The EU will use the EPAs to enter the markets of SADC countries in every other respect, meaning SADC countries will only be left with sectors that are vulnerable to diminishing returns especially in the agriculture sector. There are other sectors like services and manufacturing that should be protected.

[9] Hoffman 2007
[10] Jürgen Hoffmann, accessed September,26, 2010
[11] Ibid
[12] Ibid
[13] Ibid

5 Cotton: Social and economic significance

Cotton is grown by around 220,000 smallholder farmers in both Zimbabwe and Malawi and 280,000 in Zambia.[1] Therefore it supports significant populations in all the three countries. The reasons given for growing it are that it is the principal source of cash income, inputs are readily available and the market is guaranteed.

PORTIONS OF LAND ALLOCATED to the crop on average range between 2 hectares in Zimbabwe and less than a hectare in Malawi, though in some parts of Zambia where draught power is available the hectarage can be as high as 10 hectares.

Production support

CONTRACT FARMING HAS BECOME almost the only exclusive source of inputs for smallholder farmers since the three countries relinquished their state functions of providing inputs on credit and marketing of produce to the private sector following the implementation of the IMF structural adjustment programmes in the early 1990s. Prior to the economic reform programme, state owned financial institutions supplied inputs on a credit basis with the Cotton Marketing Boards buying seed cotton at guaranteed prices. The number of participants under contract farming is on the increase in all the three countries. The proportions of farmers under contract farming are 100 percent in Zambia, around 95 percent in Zimbabwe and Malawi, since the 2006/7 season.[2]

Interestingly, the roles of providing inputs on a credit basis and buying produce are dominated by two major companies in all the three countries, Cotton Company and Cargill in Zimbabwe, Dunavant and Cargill in Zambia and Great Lakes and Clark Cotton in Malawi in a "free market" environment. Such a setup enables the companies to enjoy a duopolistic position in which they collude and then dictate the terms of trade in the cotton business. The companies are in certain quarters accused of collusion in setting up producer prices and determining the cost of inputs provided on credit (the companies offer the same conditions). While there has been over the years an increase in the number of companies buying cotton giving a semblance of competition by offering higher prices, their activities have been curtailed by the new statutory instruments regulating cotton trade pushed through by the big players in Zimbabwe in September 2009. The new stringent regulatory measures particularly in Zimbabwe have been put in place to exclude the purchasing of seed cotton by those companies not providing production support. The number of players in Zimbabwe declined from 26 to 11 as a result of the stringent conditions put in place by the statutory instrument.

IN ZIMBABWE AND MALAWI, the contracts are drafted by the investor companies without the involvement of either the growers or farmer organisations. The commodities associations are inactive due to a host of constraints therefore farmer organisations are bypassed in the contract arrangements. Companies view the loans as a benevolent gesture to growers as they are advancing a risky loan without the corresponding collateral. Consequently the contracts are heavily tilted against the growers in favour of the companies. The clauses are very clear on the obligations of the grower to the company but remain silent on obligations of the company to the grower, hence grievances inevitably arise.

The Zambian growers have since 2005 organised themselves into an active commodity association, Cotton Association of Zambia which since 2006/7 season onwards is representing their interests in negotiations for fair input and producer prices. It has signed a memorandum of understanding with the buyers. The latter have come to respect the power of the commodity association due to the threat to their business that occurred during the 2006/07 season when an estimated 30–35 percent of growers decided to opt out of cotton production due to low returns. It is being assisted by Smallholders Enterprise Marketing Programme which has developed a producer price model.

The contract clauses are crafted in such a way that they protect the interests of companies by giving them dictatorial power to determine the cost of inputs and the producer price and prescribe penalties that the grower will face should he/she breach them. The key provisions of the contract are that once signed, the grower should:

- **Not enter into contract with another party.**
- **Deliver entire produce to the contracting company independent of the producer price offered.**
- **Agree that the contracting company solely determines the costs of inputs and producer price.**
- **Agree that weighing and grading are the prerogative of the contracting company.**
- **Agree that he/she is liable to penalties for any contamination of the produce.**

THESE KEY PROVISIONS represent the dictates of the contracting company to the grower and are at the same time the latter's weaknesses. The growers are with the exception of Zambia, fragmented and scattered without an umbrella organisation to represent them. It appears that the investor companies have exploited this institutional vacuum to the maximum.

Producer price disputes

GROWERS IN THE PAST TRIED to beat the contract arrangements by delivering to the contract company quantities equivalent to the value of the loan, and then marketing the remainder to the highest bidder, which are the new companies, a practice referred to as side-marketing by contracting companies. The practice is punishable by denial of inputs or in extreme cases in Zimbabwe, seizure of assets of the culprit. Enforcement is less stringent in Zambia though there are also defaulters. The growers complain about the low producer prices and the relatively high costs of inputs. Until the introduction of the multi-currency approach in Zimbabwe, as a result of hyperinflation, the grower was charged the replacement value of the inputs. Overall the cotton global price has been on a downward trend for the last 5 years due to the subsidisation policies of the EU and US that spur production without a corresponding increase in global demand thereby resulting in the realisation of surpluses and simultaneously a depression of prices.

THE WORST PRICE WRANGLES between growers and buyers occurred during the 2010 marketing season in Zimbabwe. Growers refused to sell their crop at US$ 0.30 per kilogram demanding a price of US$1.50 per kilogram. The impasse forced the government to intervene setting the price at US$ 0.33 per kg for the lowest grade and US$ 0.42 per kg for the highest grade, a resolution that remained still unacceptable to growers, who held onto their crop demanding a minimum of US$ 0.65 per kg for the lowest grade.[3] Despite the government intervention companies continued with their price schedules driving growers into debt even when they delivered the entire crop to the investor company. The companies have wasted no time in seizing the assets of growers such as scotch carts, ploughs and livestock using private debt collectors. The practice is illegal as it is not legally sanctioned by the courts, but continues unabated. At present the issue is being discussed at cabinet level.

The costs of production for the three countries are very different. For example a 50 kg bag of ammonium nitrate fertiliser goes for US$ 5.00 in Malawi and Zambia while in Zimbabwe it was sold for US$ 30.00 which is six times more.[4] Therefore the cost of production of seed cotton is far higher in Zimbabwe than in its two neighbouring countries.

A comparison of the international domestic prices between Zambia and Zimbabwe reveals that Zimbabwean grower receive 10–15 percent and their Zambian counterparts 20–40 percent of the global producer price. Thus Zambian growers are far better off than their fellow Zimbabwean growers. Thus the major contentious issues on the contract arrangements that determine net returns to growers are the producer price paid and the costs of inputs. In Zimbabwe it creates uncertainty since these are not known until the marketing stage. Other areas of grievances are the late delivery of inputs, provision of wrong and expired inputs, under-weighing of produce and the downgrading of cotton.

Gender dimension

ANY SLIGHT DECLINE IN the producer price directly hurts the growers; hence they have been the major losers in the cotton value chain. This is seen through the school children dropout rates and failure to access medical services. The full effects are yet to be measured, but

[1] Chizarura L. (2007) Assessment of Regional Cotton Contract farming, SACAU
[2] Ibid
[3] SEATINI (2010) Strategies for enhancing livelihoods and protecting the rights of small scale cotton farmers, Zimcodd Policy Brief No. 2
[4] Chizarura, Op. Cit

one can empirically observe emaciation of bodies amongst the producers which is a sign of malnutrition. Long queues can be observed of women waiting to receive food aid from outside even during a normal rain season.

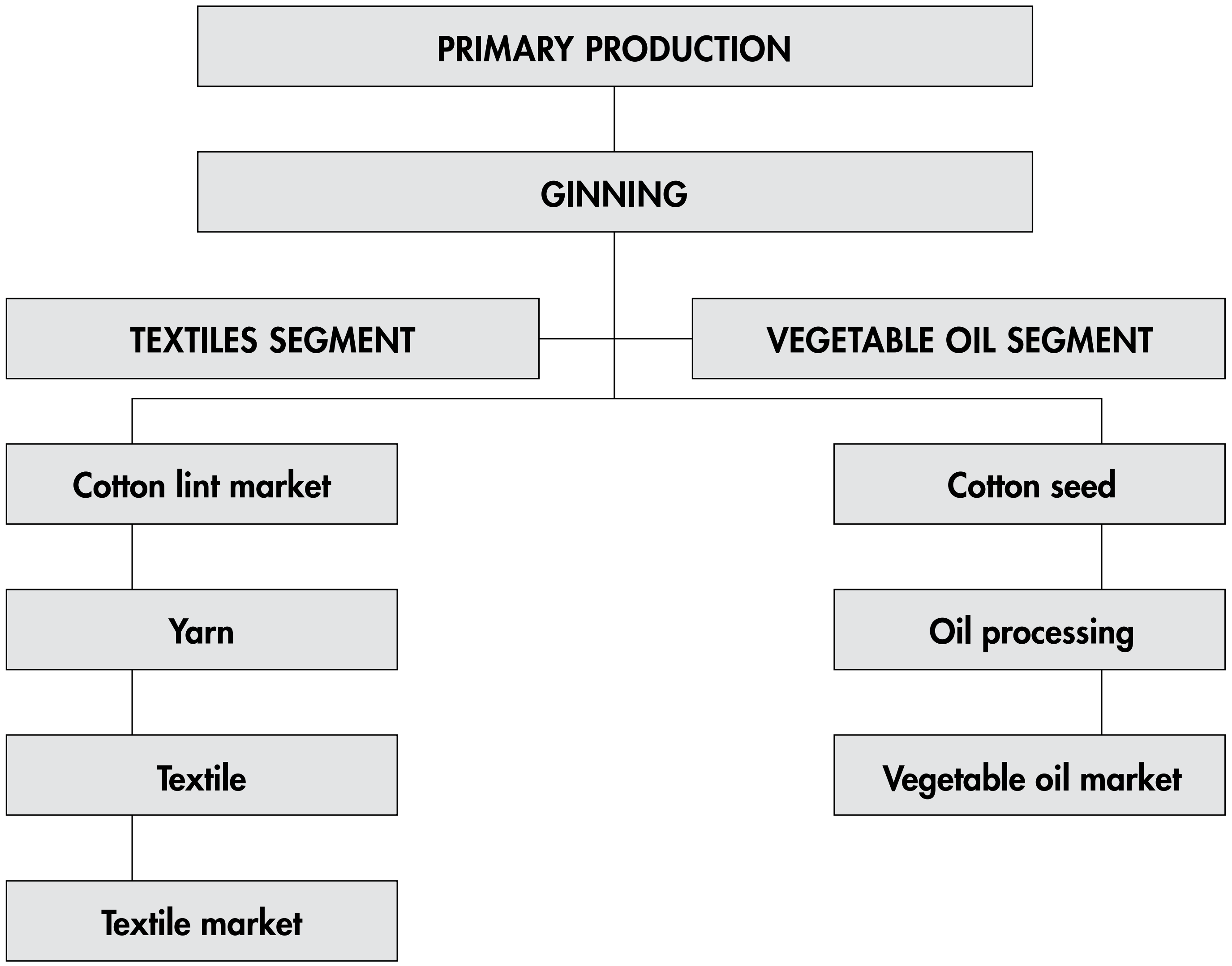
The downstream textile industry had virtually come to a halt owing to competition from subsidised cheap Asian imports and second hand clothing from Europe. Textiles had been deliberately selected as an industrialisation strategy by the SADC countries, and the labour force was predominantly female. Therefore it can be seen that women have been the hardest hit social group as a result of liberalisation of trade in apparels.

The cotton value chain

THE INCREASED USE OF by-products should also be at the centre of maximising incomes for small holder farmers. For cotton growers the following schematic value chain diagram for cotton should inform us on where to maximise the benefits.

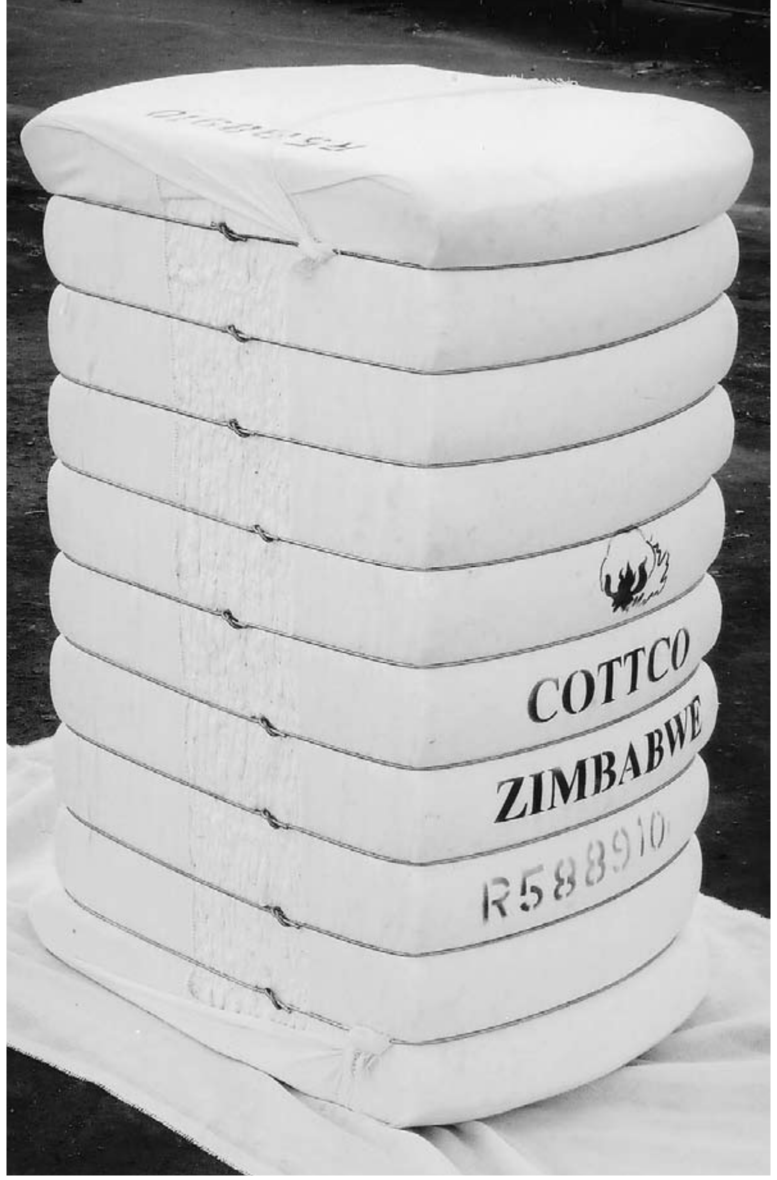
Cotton is traditionally an agricultural commodity that is used almost entirely by the textile industry. Although cotton seed may account for up to 10 percent of income for farmers, the bulk of the value from cotton is generated from the lint. The cotton value chain may therefore be considered as having two primary industries and two final products that we should focus on to improve livelihoods of farmers.

Diagram 1: A generic cotton value chain[5]



Source: R. Machemedze, 2009

[5] Adapted from United Nations Economic Commission for Africa (2009) Economic report on Africa 2009: Developing African Agriculture through regional value chains, AU and UNECA, Addis Ababa



Cotton sacks, Zimbabwe. Photo: Ntando Ndlovu

Conclusion – will EPAs improve the situation?

IN CONCLUSION, IT CAN BE observed that privatisation under the auspices of Structural Adjustment Programmes (SAP) brought not only uncertainty to the growers, but also insecurity. They can never be sure of their earnings until the marketing stage, unlike what prevailed before SAP when the government announced pre-planting prices that enabled them to make a production decision. The protective measure that they used to enjoy is now gone and they have to fight with the private sector agribusiness. It is a sad story in that through cotton production prior to SAP they were able to become part of the rural elite, but have been reduced to dependency on food aid from outside as cotton earnings can no longer sustain their livelihoods. Therefore in this context, it can be deduced that the governments have lost policy space (to the private sector) that enabled them to protect growers from the vicissitudes of the global commodity trade by setting up viable producer prices. So will EPAs improve the situation?

The interim EPA on trade in goods so far initialled by Zambia and signed by Zimbabwe does not bring relief to the sectors that are going to be liberalised. There are a number of clauses that have been contested so far that will result in SADC countries losing their productive capacity due to unequal competition of EU firms. In like manner, an agreement on EPAs in their current form that would include the cotton sector will have an impact mostly on the textiles industry. European Union firms in the textiles industry have gone to the extent of establishing the so-called sweat shops in Asia where there is cheap labour mostly in Vietnam, China, Bangladesh and Indonesia. These companies produce tonnes of clothing and apparel that not any other African country would produce. It implies therefore that the reciprocal liberalisation of the sector will exacerbate the problems that have been realised from the IMF-led SAP liberalisation. The cotton producers will fetch much lower returns from their cotton and will be forced out of production. The already ailing textiles industries will not be able to compete with the well oiled and financed firms from the EU.

In addition, other trade-related issues like investments and competition policy rules in EPAs would certainly not favour local producers but clear the way for European "investments" in the region. Investment rules proposed (by EU) in previous WTO negotiations clearly are market access opening rules for EU companies. The same if introduced under EPAs will not be different.

IT IS IMPORTANT TO recommend that the governments of the SADC countries:

- **Put cotton as a sensitive product which should not be subjected to any liberalisation schedules under the EPAs negotiations.**

- **Assess the possibility of joint manufacturing and provision of inputs to harmonise and rationalise the pricing and returns for farmers from their produce. This entails setting up a regional strategy in cotton and textiles industry.**

- **Cotton producer associations need to be strengthened to defend the interests of their members.**

- **If SADC governments do not protect the textiles industry, it is highly likely that regional prospects for development and industrialisation will be gloom since the sector employs thousands of people and is at the centre for stimulating domestic growth. Incentives to producers should therefore be a top priority for the governments.**

Hippo Valley sugar plantation, Zimbabwe

Photo: Sofie Selin

Conclusions and recommendations 6

This study has brought out some critical issues that require some reflections. It is evident that the various sectors that have been looked at in this paper are under threat from trade liberalisation whether it is done under regional trade agreements like the EPAs or under the multilateral trading system governed by the World Trade Organisation.

EPA:S AND THE WTO agreements have emphasised trade liberalisation as the pillar of allowing growth and development. As pointed out in the introduction, the agreements cover trade in goods including agriculture and textiles, services and intellectual property, among others. It is important to note that although the WTO is the governing institution of trade, there are a number of international organisations that have contributed to the debate on the role of trade in development. Of particular importance is the role the UN organisations play especially in linking the effect of trade rules to human poverty and development. The involvement of such institutions explains to a very large extent that the WTO (hence EPAs) has encroached into too many areas too much so that it can not be left only to the WTO to determine what should be done as the trade deals affect other areas of human development.

IN THIS REGARD, THE United Nations Development Programme (UNDP) has identified what it calls four basic principles of trade. They argue that if these principles are accepted and put into practice, then it is possible for developing countries like SADC countries to preserve their autonomy in pursuing their human development goals whilst respecting industrialised countries' interests.[1] These principles are:

- **Trade is a means to an end-and not an end in itself – that trade is useful only to the extent that it serves broader social and development goals. Developing countries should not be concerned with increasing their access to foreign markets at the cost of jeopardising or overlooking more fundamental challenges at home.**

- **Trade rules must allow for diverse national institutions and standards – there is no single recipe for economic growth. A one size fits all approach does not work. Poor countries need space to follow development policies that rich countries no longer require.**

- **Countries have the right to protect their institutions and development priorities – countries can uphold national standards and policies in these areas by withholding market access or suspending WTO obligations if trade undermines domestic practices that have broad popular support.**

- **But countries do not have the right to impose their institutional preferences on others – trade sanctions to promote a country's preferences are rarely effective and have no moral legitimacy.**[2]

THE CHALLENGES THAT SADC countries are facing from the multilateral trading system basically stem from the failure to recognise these four basic principles. The basis upon which the WTO and EPAs are founded make it difficult for poor countries to realise their developmental priorities. The emphasis on trade liberalisation as the guiding principle in all trade matters poses serious institutional, human, technical, financial and structural challenges. Yet trade offers opportunities and has the potential for all countries including SADC countries to develop their economies and realise some reasonable standard of human development.

In this regard, this paper is recommending the following as an alternative development strategy that SADC countries could follow if their industries like the textiles, sugar and wine are to flourish and contribute to the development of their economies. The recommendations are divided into two parts. The first set of recommendations is specific to the findings of this study and could be pursued as advocacy and lobbying issues. The second set of recommendations is general and is of a long term nature and could be pursued in various regional processes.

[1] UNDP, 2003

[2] UNDP, 2003:68

Specific recommendations:

- It has been noted by various authors and experts that the export market cannot guarantee a sustainable, stable and predictable source of income for exports and producers because of the volatility of prices especially of commodities as seen in the case of sugar and cotton. In this regard, this report recommends that the SADC countries, as part of their regional integration agenda, must build a domestic regional market where supply chain management should take precedence. It is important to study how supply chain management has been successful in other regions e.g. the Canadian dairy sector.

- Companies domiciled in one country but with regional operations face difficulties in accessing markets especially where the countries are negotiating trade agreements under different conditions. As is the case with South African companies having operations in Zimbabwe, the issue of rules of origin may complicate the negotiations for a favourable and harmonised trade deal with the EU as the two countries are negotiating under different circumstances yet they are neighbours and have a lot more in common than each would have with the EU. Rules of origin including the controversial cumulation mechanisms can then be used to disrupt regional integration initiatives. It is therefore recommended that countries belonging to one regional grouping like SADC should close ranks and come together in the negotiations for an EPA to guarantee combined negotiating strength based on the complementarities arising from common regional strategies in agriculture, industry, mining and the services sectors.

- with regards to market access for SADC countries to the EU, they (SADC countries) must negotiate a sustainable, stable and predictable arrangement especially one which is not vulnerable to price fluctuations. The current arrangement, for example, where there is a guaranteed price on sugar only up 2015 is not only unsound but misleading as no one knows what happens beyond 2015. SADC countries must advocate for a permanent guaranteed price which is subject to regular reviews by all parties, as the Cotonou agreement states.

- The fact that there are fluctuations in the prices of commodities at the international level as seen in the sugar and cotton industries strengthens the need for SADC countries to have a permanent and easy to use agricultural special safeguard mechanism. The mechanism should be treated as an integral element in all WTO and EPAs negotiations which can be invoked when the prices of products drop below a certain point. It is important to also point out that the special safeguard mechanism should not only be price-based but should also be volume-based, meaning the government could invoke its usage if there are massive imports for example of certain volumes of sugar that could have some negative impact on local producers. South Africa has such tools in place and it is crucial that these tools be established in other countries as well before agreeing on a liberalisation schedule with the EU in the agricultural sector.

- Some producer associations e.g. Cotton growers Associations in Zambia Zimbabwe and Malawi are not fully capacitated to represent the interests of their producers well. This is why they are not involved in some negotiations especially under the EPAs. This report recommends an analysis of the operations of farm producer associations in the sugar, grape, cotton industries with the view of capacitating them in different areas especially in analysing global trends and legal capacity to deal with contracts with companies as well as advocacy issues with their governments.

- There is a need to assess the possibility of joint manufacturing and provision of inputs especially in the cotton sector to harmonise and rationalise the pricing and returns for farmers for their produce. This entails setting up a regional strategy in cotton and textiles industry.

- Some Least Developed countries (LDCs) are currently exporting to the EU duty free and quota free under the unilateral Everything But Arms Initiative of the European Union. Although this is a unilateral non-binding arrangement, it is better than the current EPAs being negotiated and LDCs should advocate for this initiative to be made a permanent feature of their trade arrangements with the EU. The African Growth and Opportunity Act (AGOA) has been given a waiver by the WTO to continue. EBA can also be made permanent and LDCs will benefit.

General recommendations

WTO and EPAs

- There is a need to build and strengthen a permanent SADC's trade and development negotiating machinery that can fully analyse the implications of regional and multilateral trade agreements and work out common and holistic negotiating strategies. This must include all stakeholders including the private sector, civil society organisations government officials, the media and workers representatives.

- SADC governments should preserve the policy space necessary by using domestic policies to define developmental priorities especially in Agriculture and industrial goods.

- SADC governments should sign-on to only those agreements which their economies and industries are ready for and which they can benefit from. This should be considered a central component of effective and real Special and Differential Treatment. Such a structure would mean that those sectors that are not ripe for competition will be able to opt out of such an agreement until such time the economies are ready.

- Under the EPAs negotiations, there should be a halt to the negotiations until the African countries have defined their own terms taking into account the development dimension as an integral part of the negotiations.

- For those that have already signed the interim EPAs, Parliamentarians should play an effective role in further analysing these agreements and stop ratifying them.

Regional integration

- Southern African countries should engage themselves in building a regional strategy in all sectors e.g. regional industrial strategy, agricultural strategy, rural development strategy etc.

There is need to strengthen local industries first

- Governments should give incentives to local producers and manufacturers especially in the agro-processing industries for value added goods.

- There should also be a beneficiation mechanism for the mineral resources the countries are endowed with.

- There should be deliberate use of government procurement to strengthen domestic and rural producers.

- SADC should protect infant industries from unfair competition brought about by liberalisation.

Science and technology policy

- SADC should not use the latest technology for mass production instead it should opt for labour-intensive, slow moving machines that can produce enough goods to satisfy the domestic (regional) market. Even if Africa is able to mass produce using the latest high tech equipment it will still face the problem of market. The domestic market is limited, and in the export market the competition is cutthroat as SADC has to contend with the labour-intensive products (where China for example has a competitive edge) or in capital-intensive products. Besides, production based on the latest technology necessarily calls for the importation of technical and managerial skills from outside. This brings with it the attendant problems of debt finance and debt servicing. Labour-intensive production does not only create jobs but improves the technical ability of the labour force in perfecting skills and production of competitive products.

Cotton factory in Cuamba, Mozambique. Photo: Kajsa Johansson

- The production conditions in the region must guide the policy on research and development, the priority must always be to produce for the domestic/regional market, only secondarily for the export market. This is because the domestic market spurs development and reinvestment in the region. The export market is not easily guaranteed as the export of value added products are affected by standards that are costly to meet, most of which are unnecessary.

- The policy must utilise indigenous resources and knowledge systems. This is essential as SADC has to adopt and adapt appropriate technology according to local conditions.

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Acronyms and abbreviations

ACP African Caribbean and Pacific (countries)
AGS Africa Groups of Sweden
AU African Union
BNLS Botswana, Namibia, Lesotho and Swaziland
CAP Common Agricultural Policy
CAZ Cotton Association of Zambia
CEMAC Central Africa
COMESA Common Market for Eastern and Southern Africa
CPA Cotonou Partnership Agreement
DFQF Duty Free Quota Free
EAC East African Community
EBA Everything But Arms
EC European Commission
EPAs Economic Partnership Agreements
ESA Eastern and Southern Africa
GDP Gross Domestic Product
GGP Gross Geographic Product
GSP General System of Preferences
IMF International Monetary Fund
LDCs Least Developed countries
MFN Most Favoured Nation clause in the WTO
SACU Southern African Customs Union
SADC Southern African Development Community
SAP Structural Adjustment Programme
SASA South African Sugar Association
SAWIS South Africa Wine Industry Information and Systems
SEATINI Southern and Eastern African Trade, Information and Negotiations Institute
TDCA Trade and Development Cooperation Agreement between EU and South Africa
UNDP United Nations Development Programme
UNECA United Nations Economic Commission for Africa
WTO World Trade Organisation



Rangarirai Machemedze and Ludwig Chizarura. Photo: Johanna Arkåsen

THE ECONOMIC PARTNERSHIP AGREEMENTS (EPAs), being negotiated by African, Caribbean and Pacific countries on one hand and the European Union on the other, risk to wipe out the livelihoods of people in the former European colonies. Evidence from past trade liberalisation policies, especially in Africa, tells a sad story about how infant industries have been wiped out due to competition from foreign products. EPAs are essentially an extension of the same liberalisation policies and are covering virtually all sectors of the economies. This paper is highlighting how the sugar, grape and cotton industries will be affected by the EPAs. It calls for a holistic approach by African governments to pursue alternative developmental models that do respect the social and economic rights of the people.

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