30 September 1999 FINAL

A5-0020/99

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RECOMMENDATION

on the proposal for a Council and Commission decision on the conclusion of the Trade, Development and Cooperation Agreement between the European Community, on the one part, and the Republic of South Africa, on the other part (8731/1999) COM(1999) 245 - C5-0154/1999 - 1999/0112(AVC)

Committee on Development and Cooperation

Rapporteur: Glenys Kinnock

CONTENTS

Page

PROCEDURAL PAGE

By letter of 28 September 1999 the Council requested Parliament's assent pursuant to Article 310 in conjunction with Article 300(2) second sentence and 300(3) second sub-paragraph of the EC Treaty, on the proposal for a Council and Commission decision on the conclusion of the Trade, Development and Cooperation Agreement between the European Community, on the one part, and the Republic of South Africa.

At the sitting of 4 October 1999 the President of Parliament will announce that he has referred this proposal to the Committee on Development and Cooperation as the committee responsible and to the Committee on Budgets, the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, and the Committee on Industry, External Trade, Research and Energy for their opinions.

At its meeting of 27 July 1999 the Committee on Development and Cooperation had appointed Mrs Kinnock rapporteur.

It considered the proposal for a Council and Commission decision and the draft report at its meeting of 20 September 1999.

At that meeting it adopted the draft decision by 23 votes to one.

The following were present for the vote: Miranda, chairman; van den Berg, vice-chairman; Kinnock (rapporteur); Boudjenah, Bowis (for Khanbhai), Carrilho, Corrie, Couteaux (for Caullery), Deva, Gahler (for Knolle), Howitt, Imbeni, Kreissl-Dörfler, Lannoye, Mauro (for Gemelli), Modrow, Morillon (for Novelli), Sauquillo Perez Del Arco, Sandbæk, Schierhuber (for Casini), Schörling (for Rod), van den Bos, Zacharakis and Zimmerling.

The opinions of the Committee on Budgets and the Committee on Industry, External Trade, Research and Energy are attached. The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy has decided not to deliver an opinion.

The report was tabled on 30 September 1999.

DRAFT DECISION

Decision on the proposal for a Council and Commission decision on the conclusion of the Trade, Development and Cooperation Agreement between the European Community, on the one part, and the Republic of South Africa on the other part, (8731/1999 - COM(1999) 245 – C5-0154/1999 – 1999/0112(AVC))

(Assent procedure)

The European Parliament,

- having regard to the proposal for a Council and Commission decision on the conclusion of the Trade, Development and Cooperation Agreement between the European Community, on the one part, and the Republic of South Africa on the other part, (8731/1999 - COM(1999) 245 - 1999/0112(AVC)),

- having regard to the draft Agreement on Trade, Development and Cooperation between the European Community and the Republic of South Africa,

- having regard to the Council's request for Parliament's assent pursuant to Article 300 (3), second subparagraph and Article 310 of the EC Treaty 8731/1999 - C5-0154/1999,

- having regard to Rule 97(7) of its Rules of Procedure,

- having regard to the recommendation of the Committee on Development and Cooperation and the opinions of the Committee on Budgets and the Committee on Industry, External Trade, Research and Energy (A5-0020/1999),

1. Gives its assent to the proposal for a Council and Commission decision on the conclusion of the Trade, Development and Cooperation Agreement between the European Community, on the one part, and the Republic of South Africa on the other part;

2. Instructs its President to forward this decision to the Council, the Commission, and the governments and parliaments of the Member States and South Africa.

EXPLANATORY STATEMENT

INTRODUCTION

After five years of discussion, hesitation, prevarication, consultation and negotiation it is now time to implement an Agreement which represents a strategic commitment by South Africa and the European Union on trade and development cooperation.

The peaceful transition to a free and democratic country in South Africa has been one of the most encouraging events in recent history. Europe has made a significant contribution to this process – in particular through its Special Programme for South Africa in the apartheid years and subsequently through the European Programme for Reconstruction and Development, and most recently through South Africa's partial access to the Lomé Convention – which means that the Government of South Africa sees the European Union as a natural partner.

The institutionalised and legalised racism of apartheid South Africa has been swept away, and now the Republic, after its second democratic election and the installation of its new President, Thabo Mbeki, faces new challenges which require a positive and substantial partnership with the European Union.

It is a partnership which European Governments declared themselves ready to make from the outset. At the Berlin Conference in 1994, following President Mandela's election, the EU promised substantial economic support to the Southern African region as a whole.

The signing of the Interim Cooperation Agreement in October 1994 backed up these declarations of solidarity, as has the significant development funding provided through the EU Budget with the strong backing of the European Parliament. The European Parliament remains well aware of the solidarity and support which European citizens wish to give to post apartheid South Africa and hopes that the Agreement which has been reached will reflect both opportunities for European companies and for South Africans themselves to tackle the structural weaknesses of the South African economy and enhance the prospects to deliver growth and prosperity. Inevitably, some disaffection has been expressed with the Agreement in some quarters, but ultimately we must acknowledge that the negotiating teams were persuaded of the mutual advantages which could be derived from the package. The European Parliament shares that view.

BACKGROUND TO THE NEGOTIATIONS

The EU is South Africa's largest trading partner, absorbing more than 40% of the country's exports and 33% of its imports. South Africa, on the other hand, accounts for only 1.9% of EU imports and 1.3% of exports. Consequently the time needed for adjustment by South African producers and manufacturers is clearly far greater than that required by the EU and this has been taken in to account. In the longer term, however, the above figures serve to demonstrate the potential gains which we hope will accrue to both sides from this Agreement.

According to the Commission, South African GDP is 'half of that of Belgium or less than 40% of Argentina'. As Rob Davies, the South African MP chairing his Parliament's portfolio Trade and Industry Committee recently pointed out : ‘We produce, according to World Bank statistics, only 0.46% of world GDP and are thus unlikely to pose a threat to any section of the European economy. On the other hand, Europe accounts for a substantial percentage of our trade.’

In terms of market access, it is, of course, the case that 80% of imports from South Africa previously entered the EU duty free (mostly precious stones and metals) whereas only 44% of EU products entered South Africa without tariff. These tariff differences must, however, be seen in the light of the poverty and disadvantage of the majority of the black population of South Africa.

Following South Africa’s transition to democracy it was immediately recognised that trade and market access should be used as an instrument to facilitate the country’s reintegration into the global economy. The new South African government saw its relationship with the European Union and the future development of that partnership as an important part of their long term strategy for restructuring the South African economy.

Initially, the EU proposed that, in the short term, South Africa be included in the generalised system of preferences (GSP) and that comprehensive negotiations towards a long-term Agreement be initiated.

Following this offer, South Africa requested, and obtained, access to GSP preferences – which it still enjoys – and called for a long-term Agreement under terms as close as possible to the Lomé Convention. The European Parliament and the Joint Assembly of the ACP/EU favoured this option which they believed would have provided a generous and rapid response which favoured the regional integration of South Africa with its neighbours. The European Commission, however, rejected this option on the basis that South Africa is not a typical ACP country and offered in its place a Free Trade Agreement and a qualified accession to Lomé.

The negotiations for the FTA were formally opened in June 1995 and after 43 months and 24 rounds of talks the negotiating parties reached Agreement in March 1999.

The European Parliament has been actively engaged in offering encouragement and critical analysis during the negotiations. We were kept regularly informed by the Commission and our good relationship with the National Assembly of South Africa meant that we were also aware of their reactions to the deliberations. Our political alliances, as Parliamentarians, gave us special insight in to the process and enabled us both in the European Parliament and South African Parliament to actively facilitate the process. The European Parliament Development Committee will naturally retain its interest in and its budgetary responsibility for line B7 3200: European Programme for Reconstruction and Development in South Africa. This budget line is the most important financial provision, though not the only one, underpinning the development aspect of the accord.

SCOPE OF THE AGREEMENT

Concluded in Berlin, in the final weeks of the historic Presidency of Nelson Mandela, the Trade, Development and Cooperation Agreement can be added to the list of achievements of his time in office and his focus on the need for a stable economic future for his country’s people.

The Agreement is a product of detailed negotiations between the European Union and South Africa and reflects the considered judgement of each party. It has been negotiated in such a manner that it complies with the principles of the World Trade Organisation and hence the rules of the global trading system. It is unlikely that any future trade negotiations between the EU and other countries would include the same conditions and further flexibility in WTO rules will be necessary.

The broad components of the Agreement are the following:

- Tariff liberalisation and Provisions for a Free Trade Area
- Trade Related Issues
- Political Dialogue
- Economic Cooperation
- Development Cooperation

In addition the Agreement contains:

- Qualified Accession to the Lomé Convention
- Science and Technology Agreement

The main Agreement also has provision for negotiations for a Cooperation Agreement on Fisheries and a side letter covering the major elements of a Wines and Spirits Agreement. Both sides had agreed that there should be no conditional linkage between fisheries, wines and spirits and the main Agreement. Both sides have agreed to attempt to conclude the Wines and Spirits negotiations by September this year and have undertaken to employ their best endeavours to finalise a Fisheries Agreement by the end of the year 2000.

The Agreement identifies a number of objectives including support for the South African transition to sound economic and social stability and the promotion of regional and economic cooperation and integration. Support is given to the expansion of trade and for reciprocal trade liberalisation which is likely to facilitate South Africa's integration in to the global economy. The Agreement, significantly, is based upon the need for respect, on both sides, for democratic principles, human rights and good governance.

TRADE ELEMENT

Provisions for a Free Trade Area

The asymmetrical trade agreement is at the heart of the accord and is a finely balanced portrayal of the systematic elimination or diminution of tariff barriers and other duties on a wide range of agricultural and industrial products. The intention is to establish a free trade area over a transitional period lasting up to twelve years for South Africa, and ten years for the EU.

Trade between the EU and South Africa is EUR 18.2 billion. South Africa in 1997 demanded that the Agreement should have asymmetrical coverage in terms of content and timing and that Europe would open its markets more widely and more quickly than South Africa. In order to be compatible with World Trade Organisation requirements under Article XXIV, both parties agreed that 90% of trade overall must be liberalised. South Africa was adamant that there would be support for regional integration and measures to deal with the consequent adjustment in the entire Southern African region. There is concern that these measures have not yet been formalised and that the proposals so far put forward by the Commission are likely to be inadequate given the likely scale of the adjustment.

The essentials are as follows:

- Europe will open its markets to 95 per cent of South African exports over ten years.
- South Africa will open its markets to 86 per cent of European exports over twelve years.
- Seventy-five per cent of South African agricultural goods will gain easier access to the European market. Some goods continue to be excluded altogether and some will be subject to quotas.
- The EU will eliminate tariffs on most of South Africa's industrial goods either immediately or within three years.
- Sectors that South Africa considers sensitive will be placed on a reserve list.
- Improved access for South African fisheries products will only be granted when a separate Agreement on fisheries access comes in to force.
- South Africa has agreed to phase out the terms port and sherry for export purposes after five years and after 12 years for domestic use new terms will be agreed on in a joint review, taking into account developments in the multilateral area.

Sectoral Impact

- **Agriculture**

Originally the EU identified 46% of South Africa's agricultural goods which should be excluded from the deal. This "exclusion list" included fruit juices, oranges, apples and asparagus. Because of the effect of the Common Agricultural Policy the agricultural sector is usually excluded from such agreements. However on this occasion it became a negotiable element, albeit the most intractable one. South Africa's agricultural sector is of immense importance to the South African economy. It is labour intensive and therefore it is hoped that its inclusion in the Agreement might contribute to the reducing of unemployment.

61% of products are to be liberalised and 13% are to be partially liberalised through a system of tariff quotas. For example 60 000 tonnes of canned fruit, out of the 72 000 odd tonnes exported to Europe, can be exported to Europe at half previous tariff levels and certain soft fruits, such as plums, will be completely liberalised. Key products do however remain on the reserve list and they include pears and apples. It is significant that the list is now called the "reserve list" rather than the "exclusion list" and is to be kept under regular review.

There is an agricultural safeguard clause which means that South Africa can challenge the EU if there appears to be a threat to their domestic industry. There are also regional safeguard clauses for the SADC region. There are therefore significant gains for South Africa but it is worth noting that South Africa had wanted the reform of the CAP to be part of the Agreement and this was not resolved. Therefore the difficult issue of CAP distortions under conditions for free trade remains. It is likely that South Africa, among others, will raise the CAP issue in the WTO Millennium round.

· **Industry**

The EU has agreed to eliminate tariffs on most South African industrial goods which constitute 86% of their total exports to the EU. This will take place, either immediately, or within three years of implementation of the Agreement. This includes sensitive products such as textiles and clothing and automotive parts.

· **Fisheries**

Certain Member States of the European Union pressed for provision within the Agreement for access to South African waters. There was strong resistance from South Africa because of concerns about conservation of stocks and the need to invest in and restructure the industry. Though the linkage to the overall agreement was dropped, the European Union insisted that tariff concessions on South African fisheries exports should not enter in to effect until a separate Agreement is concluded. South Africa, in response, agreed to abolish tariffs on fisheries products in parallel with an elimination of duties by the EU.

· **Wines and Spirits**

In Davos, on January 29th 1999, the South African Chief negotiator, Trade Minister Alec Erwin and Commissioner Pinheiro reached a compromise on an issue which threatened to block the whole Agreement. Spain and Portugal wanted only products from Jerez and Oporto to be called Sherry and Port. The compromise reached was that South Africa would phase out the terms in Europe and third markets in five years and in the Southern African Development Community over eight years. South Africa would use the names Port and Sherry in their domestic market for a period of twelve years. The South African wine sector would secure a duty free quota and financial assistance for restructuring the industry.

Rules of Origin

The Rules of Origin, that were agreed between South Africa and the European Union were quite prescriptive. It is hoped that there can be some flexibility for South African firms who might not have the same administrative capacity as a European company to deal with the necessary procedures. Though the necessity for such Rules cannot be disputed they should be streamlined and every precaution should be taken to ensure that they are not over-bureaucratic and cumbersome.

TRADE RELATED ISSUES

The Agreement also covers a number of trade related matters including, trade in services, competition policy, public aid conditionality, intellectual property, government procurement and statistical matters.

POLITICAL DIALOGUE AND INSTITUTIONAL PROVISIONS

Respect for democratic principles, fundamental human rights and the rule of law are essential elements of the Agreement. In order to support these, and many other areas of mutual interest, the Agreement establishes regular political dialogue between South Africa and the European Union at Ministerial and other levels.

This dialogue includes the SADC region, particularly on ways in which we can work together to promote peace and security in Southern Africa. South Africa also takes part in the ACP/EU Joint Assembly and Council of Ministers and has had "observer" status since 1994 and full membership since 1998. Article 96 of the Agreement states that 'the Parties agree to encourage and facilitate regular contacts between their respective Parliaments on the various areas of cooperation covered by the Agreement'. This confirms the existence of the joint parliamentary delegation which has been active since 1994. The Agreement also provides for the establishment of a Cooperation Council that will be responsible for ensuring that the objectives of the Agreement are carried out effectively.

Good governance is also an important element, indeed the "essential element", of the Agreement and any violation of this or another of the agreed key principles could lead to the other party withdrawing some concessions. It is, however, set down that there must be strict objectivity in the test for such a breach without the risk of unilateral action.

ECONOMIC COOPERATION

The aim of the economic cooperation chapter is to facilitate the restructuring and modernisation of South African industry and improve its competitiveness. The Agreement also aims to encourage and support investment by simplifying and harmonising investment procedures and improving investment protection mechanisms. Trade development and support for technology transfer, joint ventures and the promotion of micro-enterprises as well as small and medium sized undertakings are all included in the Agreement. It also includes a paragraph on the challenges of globalisation, new technologies and the gap in information services. Other sectors are covered by this section of the accord, including transport, energy, mining, tourism, agriculture, fisheries and services.

Cooperation is established in a number of other areas including science and technology (the subject of a separate Agreement), environment issues, culture, social issues, information, press and audiovisual cooperation, human resources, the fight against drugs and money laundering, data protection, and health.

DEVELOPMENT COOPERATION

On the insistence of the South African negotiators the title of the Agreement was broadened from merely reference to trade to an emphasis on development cooperation. This sets this particular Agreement apart from almost every other Agreement of this kind. There are definitions of how assistance should be focused on disadvantaged communities and should reflect gender and environmental priorities. Title V of the Agreement clearly identifies the elements which should be included.

- Employment
- Support for private enterprise
- Support for economic adjustment measures in the region
- Improvement of living conditions, including housing, electricity and water

EU programmes should support and promote democratisation and the strengthening of civil society, including dialogue between the political authorities and development NGOs. This reflects a recognition of the fact that there is a highly participatory political culture in South Africa.

The European Parliament has consistently increased funds on the budget line for South Africa. This has meant increasing the amounts proposed by the Commission on the Preliminary Draft Budget and our commitment at this political level has never been in question.

REGIONAL CONCERNS

The final aspect of the trade talks which provoked much discussion and debate concerned the potential consequences for the Southern African region as a whole (with whom the EU also has an important trade and aid relationship through Lomé).

One clear and direct consequence of the Agreement will be the reduction of customs revenue accruing from the Common External Tariff, applied under the Southern African Customs Union (SACU) by South Africa, Botswana, Lesotho, Swaziland and Namibia. Payments from this common pool to the BLNS countries account for between 16% and 51% of total government revenues. Although the exact magnitude of the revenue losses is difficult to quantify, the importance of the EU as an exporter, and of South Africa within SACU, does mean that revenue could be sharply reduced. This could, in turn, mean that government spending on health, education and social services would be affected.

The development of the Free Trade Area is also likely to have an impact on the South African markets currently served by BLNS producers.

It is not yet clear how the promised compensation for adjustment costs of South Africa's neighbours will work. As UNCTAD points out in a recent report on the Agreement ; 'Most important of all for the SADC and SACU countries will be the measures of support which will be given to the business community, both European and South African, to make the Agreement an occasion to foster development and cohesion amongst the countries of the region.'

The European Parliament was very actively engaged in pressing the Commission for guarantees that there would not be adverse effects on the economies of South Africa's neighbours. The scale of the potential impact on them was only gradually understood by the Commission.

It is clear that further formal consultations on the financial impacts of the Agreement and the nature of the safeguard provisions need to take place between South Africa, the European Union and the BLNS governments and that a formal statement, which provides reassurance to the Region, should be issued as soon as possible. The European Parliament also urges the Commission to monitor the situation closely and to respond immediately should there be evidence that these countries are encountering economic pressures as a result of the Agreement.

It is also the case that South Africa is in the process of establishing a Free Trade Area with its SADC partners, which should largely be in place by 2008. In the light of the capacity constraint inhibiting the effective enforcement of customs regulations, the implementation of the EU –

South Africa Trade, Development and Cooperation agreement could have important implications for South Africa's SADC neighbours. The agricultural sector in the whole of Southern Africa will undoubtedly feel the effect of European goods subsidised under the CAP, entering their markets. Zimbabwe, in particular, has sought assurances from the EU on the scope and coverage of the regional safeguard provisions of the Agreement.

CONCLUSION

The conclusion of this Agreement, after protracted negotiations, is welcome. Although it was not originally South Africa's chosen option, a mutually beneficial Trade, Development and Cooperation Agreement has now been negotiated. The positive benefits for South Africa and the EU are made clear in this report. However the complexity of free trade arrangements, even with South Africa, which has a far higher level of development than most of the ACP countries, highlights how difficult it would be to establish such a relationship with ACP regions.

The process was a long and difficult one and skilled and tough negotiating has been required on both sides. Naturally the process, especially in its initial stages, represented a daunting prospect for the new South Africa. The complex procedure was often stalled in the working groups in Member States of the EU as sectoral interests took precedence over the overall objectives of the Agreement. The agricultural exclusion list originally drawn up by the Commission was unrealistic and it took some time before the Member States and Commission would allow for seasonal adjustments so that South African products could enter under reduced tariffs at those times of year when they do not pose a threat to European producers.

This Agreement is of the highest importance for South Africa's future economic development and for that of the surrounding region. As a developing country with just under half of its exports going to the European Union, the impact of such an arrangement is bound to be borne more heavily by South Africa than it will by the EU.

Liberalising industry and agriculture involved many very sensitive sectors. It was always going to be difficult. As one European journalist observed during the UK presidency in 1998 "The European side has been consistently devious, destructive and above all shamefully protectionist. From the outset, it has sought to hold South Africa hostage to its own subsidised farmers." In their recent analysis of the Agreement UNCTAD, using three key variables, (the current level of trade, the size of the respective tariff reductions, and the import demand elasticity) concluded that "the impact of the FTA Agreement on bilateral trade flows is likely to be uneven, with a relatively large effect on South Africa's imports from the EU and a comparatively smaller effect on its exports towards this market." The size of this projected imbalance cannot yet be fully evaluated.

Overall the general consensus is that it is a good Agreement, going beyond trade issues, though it is regrettable that the Council has insisted upon it being a Mixed, not a Community Agreement and therefore needs the individual ratification of every Member State. Nevertheless, even under these circumstances, the European Parliament should be the first to give its assent and lead by example. It should also inform national parliaments of the importance of this particular Agreement and urge them to ratify swiftly. The signing of the Agreement will be in South Africa under the Finnish Presidency.

The Agreement has been concluded, and the decision was taken at the level of Head of State and Government. The political dialogue with South Africa has already begun. The development policy is also operational. Most of the trade measures will be implemented provisionally, pending ratification. South Africa has a critical and central role on the African continent and in the Southern African region in particular.

A positive message about our involvement in South Africa needs to be conveyed to European citizens who still show an enormous amount of good will towards South Africa. Ben Jackson, Director of Action for Southern Africa noted recently, “Through their interest and engagement in these long and complex negotiations, people across Europe have shown an understanding of the huge challenge that South Africa faces and the important role that this deal can play in helping it overcome the legacies of apartheid.” All the institutions of the European Union have been given a political mandate to respond to these concerns and should work to harness that good will and to transform it into tangible and successful cooperation of which we can be proud. The European Parliament, its Development Committee and Joint Assembly have played a critical role in all this and will continue to do so - as the Agreement goes into its first stages implementation and beyond.

There needs to be recognition now that opportunities exist but that although this Agreement is due to be signed in October of this year there is still a great deal of work, including for instance, research and analysis which has to be done during the implementation process. Technical assistance should be provided by the European Union as part of a recognition of the ongoing responsibilities which we have. Similar responsibilities for overseeing the impact of the Agreement will lie with the South African authorities.

The challenges South Africa faces were summed up by Nelson Mandela when he said, “We are not yet free, we have merely achieved the freedom to be free, the right not to be oppressed. We have not taken the final step on our journey, but the first step on a longer and more difficult road.” The European Union must continue to play its part in South Africa’s journey. This Agreement, it is hoped by both sides, will speed the process.

OPINION
(Rule162)

for the Committee on Development

on the Proposal for a Council and Commission Decision concerning the conclusion of the Trade, Development and Co-operation Agreement between the European Community, on the one part, and the Republic of South Africa (COM(1999)0245 - C5-0000/1999 - 0112 (AVC)) (Report by Mrs Kinnock)

Committee on Budgets

Letter from the committee chairman to Mr Miranda, chairman of the Committee on Development

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Brussels, 8 September 1999

Dear Mr Miranda,

The Committee on Budgets considered the above subject at its meeting of 8 September 1999. At this meeting it adopted the following conclusions ([1]):

Sources of financing under the terms of the new Agreement will be :

1. budget lines to which South Africa might be eligible under the terms of the relevant legal bases (e.g. B7-6000 NGO actions, B7-7000 Democracy and Human Rights, B7-872 EC Investment Partners)

2. long-term loans from the European Investment Bank to investment projects in South Africa, with the backing of a budget guarantee through the Guarantee fund for External Actions. Currently a ceiling of Euro 375 million in loans for South Africa is authorised for the 3 year period up to the end of December 1999. The new EIB lending mandate proposal is up for consideration soon (COM(1999)142 final of 26 April 1999 - CNS (99) 080)) and COBU will be drafting a report on it before Parliament decides whether or not to approve the proposal.

3. the new Agreement will be implemented principally through Budget Line B7-3200 (Cooperation with South Africa). The legal base for this budget line is Regulation n° 2259/96, which expires at the end of 1999. Its replacement (COM(99)0124 of

[1] The following took part in the vote: Wynn, chairman, Böge, Bösch (for Colom I Naval, Buitenweg, Deprez (for Bourlanges), Dover, Fabra Vallés (for Elles), Ferber, Garriga Polledo, Gill, Guy-Quint, Haug, Krehl, Rühle, Stenmarck, Vidal-Quadras Roca, Virrankoski and Walter.

12 March 1999, modified proposal COM(99)0335 of 14 July 1999) is still under consideration by the institutions, awaiting the adoption by Council of a common position.

Budgetary appropriations adopted on the basis of this regulation will be the main financial component of the Union's development cooperation with South Africa. The Parliament has agreed with the estimates in the financial statement attached to the Commission proposal that Euro 125 Million in commitment appropriations be made available annually for the period 2000-2006 (Council has yet officially to agree to these estimates). Since the proposed regulation now falls under codecision, the forthcoming second reading will offer Parliament the opportunity to have a decisive influence on the content and modalities of the development cooperation programme.

Since the procedure for the adoption of the regulation is still continuing, COBU can only reiterate for the attention of the Committee on Development, the remarks it already made in its Opinion at first reading adopted on 22 April 1999 :

"The itemised breakdown of cost given in the Financial Statement envisages payments rising annually from Euro 12.5 million in 2000 to Euro 125 million in 2006. Payments reach the level of commitment appropriations only from the fourth year, 2003, onwards. The Commission already foresees a large overhang of unpaid payment appropriations ("RAL" or "reste à liquider") at the end of period, of Euro 244 million in 2007:

Budget Year:	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*RAL*	*Total*
Commitments	*125*	*125*	*125*	*125*	*125*	*125*	*125*		*875*
Payments	*12,5*	*43,5*	*87,5*	*112,5*	*125*	*125*	*125*	*244*	*875*

(Million Euro)

The RAL represents almost 28% of total funding, and means in effect that average annual payments will only be Euro 90 million in 2000-2006. These forecasts very much reflect the present situation of the budget line. The Commission reports on implementation of the 1998 budget show an amount of Euro 405 in payment appropriations for B7-3200 still unused at the end of the year. One can legitimately ask if financial programming of this kind really meets the criteria of sound and efficient management, if such significant under-implementation is pre-programmed from the beginning." ***[In conclusion, COBU decided]*** *"The experience with de-centralised implementation will need to be closely monitored by COBU, COCOBU and the Development Committee and in particular to ensure that these extra resources are indeed producing results. The expenditure estimates in the Financial Statement are binding neither on the Commission nor on the budgetary authority. The Commission can and should make every effort to improve on the indicative implementation figures. The budgetary authority can and will vary the level of annual appropriations according to the Commission's performance."*

COBU of course joins the Development Committee in welcoming the new Agreement in general political terms.

It warns, however, that the Commission will have to do more to make sure that implementation on a technical level lives up to the expectations and ambitions expressed in the Agreement.

Yours sincerely,

Terence WYNN

OPINION
(Rule 162)

for the Committee on Development and Cooperation

on the proposal for a Council and Commission decision concerning the conclusion of the Trade, Development and Cooperation Agreement between the European Community, on the one part, and the Republic of South Africa, on the other part (COM(1999)0245 – C5-0000/1999 – 1999/0112 (AVC) (report by Mrs Kinnock)

Committee on Industry, External Trade, Research and Energy

Letter from the committee chairman and the draftsman to Mr Joaquim Miranda, chairman of the Committee on Development and Cooperation

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Dear Mr Miranda,

The Committee on Industry, External Trade, Research and Energy considered the above subject at its meeting of 1 September 1999.

During this meeting it adopted the following conclusions :

After the end of apartheid, the European Union decided to set up an aid and development programme aimed at supporting the efforts of the new South African institutions to establish structured economic and commercial relations between the European Union and South Africa. The negotiations were centred on

an additional protocol to the Lomé Convention concluded in March 1997
a bilateral trade and cooperation agreement between the European Union and South Africa concluded on 23 March 1999 after 25 rounds of negotiations (1995 to 1998).

It is necessary to attack the social and economic problems which threaten democracy and to lay the economic foundations for a sustainable growth and development path.

The main challenge is the extremely high level of unemployment especially among black people, linked to a problem of education and low-skill labour force

The export profile is dominated by primary products, mainly minerals (the share of gold alone is 40 %), which makes South Africa extremely vulnerable to change in the world economy.

The SACU is a customs union including South Africa, Botswana, Lesotho, Swaziland and Namibia. The bulk of the five countries' imports is supplied by South Africa. SACU collects the levies on member States imports from the rest of the world and apportions the amounts, together with excise duties collected, among the Member States according to an agreed formula. Earnings from the customs and excise pool contribute substantially to the government revenues of Botswana, Lesotho, Swaziland and Namibia This agreement appears outdated and a new treaty has to be adopted.

The SADC has 14 member States. Its aim is to provide for regional peace and security, sector cooperation and an integrated regional economy. South Africa has been assigned the Financial and Investment Sector of the SADC as its special area of responsibility. SADC aims at the highest possible degree of economic cooperation, mutual assistance and joint planning consistent with socio-economic, environmental and political realities.

Since the end of apartheid, Europe has become an important destination for South African investment and supporter of its effective integration into the global economy.

Europe is the biggest source of investment for South Africa, and accounts for almost half of South Africa's total foreign trade. Seven out of South Africa's top ten trading partners are European countries (especially the United Kingdom, Germany, and France).

The present free trade agreement is intended to facilitate trade access of about 8 000 South African products to the European markets and to allow the gradual removal of trade barriers over a 12 year period. Late in 1997, it was decided to include South African agricultural products previously excluded by the European Union. South Africa emphasised trade and development instead of free trade.

South Africa has endeavoured to ensure that the relationship which will be developed will have a positive effect on the economy and development of the SACU and the SADC.

A free trade area is established including the European Community and the Republic of South Africa.

Customs duties applicable on import into the European Union of industrial products originating in the Republic of South Africa will be abolished, as will customs duties applicable on import into South Africa of industrial products originating in the Community (with a series of exceptions on both sides).

Customs duties on agricultural products are abolished with a series of exceptions for both sides.

The aim of cooperation in the area of industry is to facilitate the restructuring and modernisation of South African industry, while encouraging its competitiveness and growth, and to create conditions favourable to mutually beneficial cooperation between South African and European Union industry.

Cooperation will include investment promotion and protection, trade development, micro-enterprises and small and medium-sized enterprises, telecommunications, information technology, energy, mining and mineral sectors, transport, tourism and services.

Cooperation in the agricultural sector will be aimed at the promotion of integrated, harmonious and sustainable rural development in South Africa, especially through the transfer of know-how, the establishment of joint ventures and capacity-building programmes.

Cooperation in the area of fisheries will aim at promoting sustainable management and use of fisheries resources in the long-term interest of both partners.

The Committee on Industry, External Trade, Research and Energy is aware of the vital need to improve economic and commercial relations with South Africa in order to consolidate its democracy and to ensure political stability in the Southern African region as a whole.

It supports the efforts of the South African Government to promote peace and development in all the countries of Southern Africa.

It recognises that the GSP treatment extended to South Africa from 1994 on has not sufficiently stimulated South African exports.

It stresses the need to support the process of economic restructuring in South Africa, and in particular to encourage the development of labour-intensive manufacturing industries in South Africa.

It considers that socio-economic reforms in South Africa will open up trading and investment opportunities for European businesses, both in South Africa and in Southern Africa as a whole.

It stresses the complementarity between the participation in South Africa in the Lomé Convention and the Trade and Cooperation Agreement with the European Union and approves the conclusion of the Trade and Cooperation Agreement between the European Union and the Republic of South Africa by 14 votes to none, with 3 abstentions.[2]

Yours sincerely,

Bashir Khanbhai,Carlos Westendorp y Cabeza
Draftsman Chairman

[2] The following were present for the vote: Westendorp y Cabeza, chairman; Khanbhai, draftsman; Alyssandrakis, Ayuso Gonzalez (for Scapagnini), Baltas, Brodato, Chichester, De Clercq, Ferrer i Casals, Folias, Gill (for McAvan), Lamassoure, Lucas, Ludford, McNally, Mann E., Niebler, Pohjamo (for Thors), Schwaiger, Seppänen, Trakatellis (for Karoutchi), Valdivielso de Cué, Van Velzen and Wijkman.