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## **DRAFT REPORT**

on the EU-South Africa Strategic Partnership  
(0000/2006(INI))

Committee on Development

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on the EU-South Africa Strategic Partnership (0000/2006(INI))

*The European Parliament,*

- having regard to the Communication from the Commission to the Council and the European Parliament of 28 June 2006 entitled 'Towards an EU-South Africa Strategic Partnership' (COM(2006)0347),
- having regard to the Communication from the Commission to the Council and to the Representatives of the Governments of the Member States meeting within the Council to give orientation to the Commission for the revision of the Agreement on Trade, Development and Cooperation between the European Community and its Member States, of the one part, and the Republic of South Africa, of the other part, of 28 June 2006 (COM(2006)0348),
- having regard to the Agreement on Trade, Development and Cooperation between the European Community and its Member States, of the one part, and the Republic of South Africa, of the other part (TDCA) was signed in October 1999, which was applied provisionally and partially from January 2000 and entered fully into force on 1 May 2004,
- having regard to the Partnership Agreement between the African, Caribbean and Pacific (ACP) Group of States and the European Community signed in Cotonou on 23 June 2000 (the 'Cotonou Agreement')<sup>1</sup>,
- having regard to the report by the UN Millennium Project: 'Investing in Development: A Practical Plan to Achieve the Millennium Development Goals',
- having regard to the Joint Statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy, 'The European Consensus'<sup>2</sup>,
- having regard to its resolutions on a Development Strategy for Africa, adopted on 17 November 2005<sup>3</sup> and, the EU-Caribbean Partnership for Growth, Stability and Development, adopted on 6 July 2006<sup>4</sup>,
- having regard to Rule 45 of its Rules of Procedure,
- having regard to the report of the Committee on Development (A6-0000/2006),

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<sup>1</sup> Partnership Agreement between the members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States of the other part, signed in Cotonou on 23 June 2000 (OJ L 317, 15.12.2000, p. 3).

<sup>2</sup> OJ C 46, 24.2.2006, p. 1.

<sup>3</sup> Texts Adopted, P6\_TA(2005)0445.

<sup>4</sup> Texts Adopted, P6\_TA(2006)0304.

- A. whereas South Africa is the most significant political power in Sub-Saharan Africa, acting in particular in the framework of the African Union and the New Partnership for Africa's Development (NEPAD) at the African level and in the framework of the Southern Africa Development Community (SADC) at the regional level, and an important player at the global level, including in international trade negotiations,
- B. whereas South Africa is by far the strongest economy in Sub-Saharan Africa as well as in the ACP States,
- C. whereas income disparities have been inherited from the apartheid era with a majority of the white population living in conditions comparable with western European standards, while a majority of the black population live in conditions comparable with those in the least developed countries, with close to half of the population living below the poverty line,
- D. whereas the South African government's black economic empowerment (BEE) strategy was approved in 2004 and aims to redress apartheid era inequalities by increasing economic participation by the disadvantaged population,
- E. whereas the unemployment rate is extremely high in South Africa with an official rate of above 30% and unofficial estimates close to 40%,
- F. whereas the South African government has set out its macroeconomic policy targets in the Accelerated and Shared Growth Initiative for South Africa (ASGISA), aiming to lift economic growth to 6% and to halve unemployment and poverty by 2014,
- G. whereas South Africa has the highest number of HIV infected people in the world with 320 000 people having died from AIDS in 2005, the AIDS pandemic being a humanitarian tragedy and also affecting the South African economy,
- H. whereas South Africa is an engine for the economy of the whole region of Sub-Saharan Africa, the economic development of South Africa can have an effect on poverty alleviation and the achievement of the Millennium Development Goals (MDGs) at the regional level,
- I. whereas the EU is South Africa's most important trading partner, while trade with South Africa is of medium importance for the EU ,
- J. whereas South Africa is a qualified member of the Cotonou Agreement not eligible for non-reciprocal trade preferences and not benefiting from funding through the European Development Fund, but participating in political cooperation and the ACP-EU institutions,
- K. whereas the EU is by far the most important donor for South Africa, providing about 70% of total donor funds which amount to about 1.3% of the national budget,
- L. whereas economic and trade relations as well as cooperation in political, social, cultural, environmental, health and other fields, are covered by the TDCA, which aims to create a Free Trade Area with an asymmetric timetable and protection of sensitive sectors,

- M. whereas the Commission has proposed a new EU-South Africa Strategic Partnership with three main objectives, i.e. to create a single, coherent and clear framework covering all areas of cooperation, to move from political dialogue to strategic political cooperation and to enhance existing cooperation with a revised TDCA,
- N. whereas the TDCA has enabled the EU to close the gap in the trade balance with South Africa and has put a greater burden on South Africa than on the EU in terms of tariff adjustments, with the effect that the EU benefits more from the current TDCA than does South Africa,
- O. whereas EU agricultural and EU high technology products are entering the South African markets with negative effects on the agricultural sector and on the development of South African strategic value-added production, such as pharmaceuticals, machinery and vehicles,
- P. whereas South Africa has already made extensive commitments under GATS in the service sector and faces severe constraints in achieving acceptable levels of access and universal service,
- Q. whereas the Commission intends to revise the TDCA, particularly by including further provisions on the liberalisation of trade and binding commitments on services, investment, government procurement, intellectual property, competition, standardisation, customs and rules of origin,
- R. whereas in particular the inclusion of investment and government procurement would create difficulties for South Africa and even more for the other countries that are part of the Southern African Customs Union (SACU), while these issues have contributed to the failure of the SACU-US free-trade negotiations,
- S. whereas the Commission also proposes to bring the TDCA in line with the revised Cotonou Agreement concerning the proliferation of weapons of mass destruction, the fight against terrorism, the fight against impunity, and the prevention of mercenary activities,
- T. whereas the Commission intends to propose to the EU-South Africa Joint Cooperation Council on 14 November 2006 a draft EU-South Africa Action Plan on the implementation of the Strategic Partnership,
1. Welcomes the Commission's approach to take steps towards an EU-South-Africa Strategic Partnership and to propose a coherent long-term framework for cooperation;
  2. Emphasises that the Strategic Partnership should provide a single framework under which the existing cooperation instruments can improve performance in the interests of the South African population and economy;
  3. Stresses that the Action Plan should have poverty alleviation as its overriding objective in line with the Cotonou Agreement and with a view to achieving the MDGs, and takes into account the effect of the Strategic Partnership on the countries of the region and on the

EPA negotiations;

4. Welcomes the new approach to move from political dialogue to strategic political cooperation and shared objectives on regional, African and global issues, taking into account the fact that South Africa can play an important role as spokesperson for Sub-Saharan African countries in international fora such as the WTO and the United Nations;
5. Asks the Commission to bear in mind the fact that South Africa has built up important policy and trade links with Asian and Latin American countries and with developed countries in the context of international configurations;
6. Stresses that the Action Plan should take economic differences between the EU and South Africa into account, particularly in the area of trade;
7. Urges the Commission not to insist on including elements in the revised TDCA which would hamper South African economic development or the struggle for poverty alleviation, not to push for further participation by the private sector in the provision of basic services and to draw lessons from the failure of the SACU-US free-trade negotiations, in which the USA tried to impose unacceptable conditions on SACU;
8. Suggests that the EU budget provide appropriations to facilitate the difficult trade integration process in the Southern African region;
9. Suggests that the Action Plan and the EU budget include support for a sound South African energy security strategy taking into account climate change and its social and environmental impact on the poor in South Africa and the region, focusing on the development of renewable sources of energy;
10. Stresses that the Action Plan should have a participatory and multi-stakeholder approach and focus on support for South African priorities including the government's measures for economic recovery and the fight against economic inequality in line with the ASGISA and the BEE strategy;
11. Suggests that those South African demands for technical assistance which are focused on reaching the development objectives of the country and also contribute to the social and economic development of the region should be prioritised;
12. Insists that development assistance should be allocated locally, external experts only employed and goods only imported when no comparable expertise or goods are available in the region;
13. Urges the Commission to stay in constant dialogue with the South African government and to include Parliament, local governments and civil society in the discussion of Strategic Partnership, Action Plan and its subsequent implementation;
14. Instructs its President to forward this resolution to the Council, the Commission, the governments and parliaments of the EU Member States and the national government and the National Assembly of the Republic of South Africa.

## **EXPLANATORY STATEMENT**

After decades of being governed by the white minority under the apartheid system, SA held its first-ever multi-party general elections in April 1994. Having achieved this peaceful transition from white-minority rule to democracy, the country became a fully-fledged member of the international community.

### **International relations**

South Africa is the most significant political power in Sub-Saharan Africa and the strongest economy in Sub-Saharan Africa. South Africa's economy accounts for 50% of the GDP of Sub-Saharan Africa and 75% of the GDP of the 14 SADC countries.

On a continental level, South Africa, and President Mbeki personally, is seen as a driving force fostering African development. SA played a significant role in the formation of the African Union. President Mbeki is closely associated with NEPAD, the New Partnership for African Development. He also plays a visible role in efforts to bring peace to African countries and regions in conflict.

On a regional level, South Africa is a member, dominating the 14-states Southern African Development Community (SADC) and the Southern African Customs Union (SACU - together with the BLNS states Botswana, Lesotho, Namibia, Swaziland).

On a global level, South Africa is widely recognised as the speaker for the Sub-Saharan countries and one of the speakers of the developing countries. South Africa is playing this role in particular in the framework of the trade negotiations of the WTO. South Africa played a leading role when establishing the New Asian-African Strategic Partnership in April 2005. South Africa's growing international importance is underlined by the membership in the two "Groups of Twenty", the G-20 of - now - 21 developing countries established in the run-up to Cancun in 2003, and the G-20 of Finance Ministers and Central Bank Governors established in 1999 to bring together important industrialised and developing economies to discuss key issues in the global economy.

### **Domestic politics**

Since the first free elections in 1994, South Africa's policy has been dominated by the African National Congress (ANC), and personally by Presidents Nelson Mandela and Thabo Mbeki. In the 2004 national elections, the ANC increased its share of voters to 69.7%. As of today, the ANC holds 293 out of 400 seats of the National Assembly. The Democratic Alliance is second with 47 seats. The leading position of the ANC has been confirmed by the 2006 local elections (66.3% of the nationwide vote).

In spite of the broad support for the ANC in the elections, the government and specifically President Mbeki is criticised in a number of issues including the handling of unemployment, crime and HIV/AIDS.

South Africa has the highest number of HIV infected people in the world (5.5 million). 320 000 people died from AIDS in 2005 and 18.8% of the population are infected. The AIDS

pandemic is not only a humanitarian tragedy; it also affects the South African economy having reduced South Africans' life expectancy to 45.7 years. Although President Mbeki caused confusion with remarks about HIV and AIDS, the South African government has taken a pro-active stance in attempting to use patent law for generic anti-retroviral drugs in the framework of the TRIPs agreement and structural and systemic changes in the national health system were introduced.

### **Economic policy**

The unemployment rate is extremely high in South Africa at more than 40%. The high unemployment rate and HIV/AIDS disaster contribute to social instability expressed *inter alia* by the extremely high crime rate. South Africa has one of the highest rates of murder and rape in the world, which affects negatively on the image of the country and has an effect on Foreign Direct Investment.

The negative impact of the apartheid-era on South Africa's economy is still not completely overcome, in particular the loss of overseas markets, the inefficient state sector and - worst - the huge income disparities between the minority white and majority black population, which makes the income per capita figure (above USD 5000 at market exchange rates) rather irrelevant. Income inequality is among the highest in the world, the poorest 20% of the population receive 3.3% of income while the richest 10% receive 47.3%, i.e. the majority of the white population live in conditions comparable to western European standards, while a majority of the black population live in conditions comparable with least developed countries. Close to half of the population live below the poverty line.

Most macroeconomic indicators developed successfully over the last decade. GDP grew by 4.9% in 2005, budget deficit is at 0.6% (fiscal year 2005/2006), inflation remains inside or below the official target range of 3-6%.

The South African government addresses the main economic and social problems in the black economic empowerment (BEE) strategy, which aims to redress apartheid-era inequities by increasing the economic participation by the disadvantaged population, and in the Accelerated and Shared Growth Initiative for South Africa (ASGISA) with the objective to lift economic growth to 6% and to halve employment and poverty by 2014. The Joint Initiative for Priority Skills Acquisition addresses the lack of skilled workers in key economic sectors.

### **External economic relations**

South Africa's economy is considered the motor for the economy of Sub-Saharan Africa. Developments in South Africa can have an effect on poverty alleviation and achievement of the Millennium Development Goals (MDGs) on regional level.

The EU is the most important trading partner for South Africa. In the first seven months of 2005, 42.9% of all South African imports came from the EU, and 37.6% of all exports went to the EU. Imports from South Africa had only a share of 1.4% on the EU market, in 2005, and 1.7% of all EU exports went to South Africa.

South Africa's external economic relations are embedded in a complex framework: WTO membership, bilateral Trade, Development and Cooperation Agreement (TDCA) with the EU,



member of the ACP group of states as signatory of the Cotonou Agreement, but not eligible for non-reciprocal trade preferences and not benefiting from funding through the European Development Fund (EDF). The country is participating in political cooperation and the ACP-EU institutions and South Africans can participate in tendering procedures under the EDF in all ACP countries. South Africa is involved in the negotiation of the Economic Partnership Agreement (EPAs) with the "SADC-minus" group having a customs union with the four "BLNS" countries. However, South Africa will not join the EPA; its trade relations with the EU will remain under the TDCA.

The overlapping of current processes of regional integration within the Southern Africa region (SADC, SACU, Common Market for Eastern and Southern Africa) with EPA negotiations is complicating the regional trade integration process of the region.

### **Trade, Development and Cooperation Agreement**

The TDCA was fully implemented on 1 May 2004. It will lead after transition periods of 10 years (for EU imports from South Africa) and 12 years (for South Africa imports from the EU) to a Free Trade Area and cover around 90% of bilateral trade. The agreement also provides for a regular political dialogue.

TDCA includes continued EU financial assistance under the European Programme for Reconstruction and Development amounting to about € 130 million annually. The EU (incl. Member States) are by far the most important donor for South Africa providing about 70% of total donor funds which amount to about 1.3% of the national government budget.

Other areas of economic and trade related cooperation are *inter alia* arrangements for cumulation of origin, cooperation between customs services, competition policy, public aid, protection of intellectual property rights, public procurement, standardisation, liberalisation in the field of services, statistic, transport, trade promotion. Cooperation is also foreseen in the areas of industry, investment promotion, telecommunications, information society, energy, mining, tourism, agriculture, fisheries, consumer policy and (financial) services.

Two separate bilateral agreements exist on Science and Technology and on Wine and Spirits.

### **Effects of the TDCA**

The TDCA has enabled the EU to close the gap in the trade balance with South Africa. The built-in asymmetry of the TDCA has had ambiguous results. The TDCA is actually imbalanced in EU's favour with EU tariff changes affecting only 25% of current trade goods with a weighted average tariff of only 2.7%. South African tariff changes affect 40% of currently traded goods in a context of a weighted average tariff of 10%. The greater burden of the TDCA in terms of tariff adjustments currently falls on South Africa, with a significant impact on government revenue collection capacity and consequently on its investment capacity in the social sector and health care.

EU positions on agriculture as well as other sensitive sectors for South Africa and regional development has been very aggressive, and they will be even more so now that multilateral negotiations under the WTO Doha round have been suspended, potentially compromising regional efforts already undertaken for the achievement of the MDGs.

High technology sectors in SA face increased pressure from EU imports which have a comparative advantage, potentially creating difficulties for growing innovation sectors in South Africa (pharmaceuticals, machinery, transport vehicles) and harming the regional development of strategic sectors that could contribute regionally to the improvement of living standards and to reach the MDGs.

The implementation period of the TDCA tariff reductions (which are back-loaded) is linked to a similar time period of the implementation period of the SADC FTA. Liberalisation between SADC members and at the same time South Africa with the EU, will reduce the ability to analyse the impact of the SADC FTA and the TDCA. The TDCA should support SADC integration without compromising the ability of SADC members to interrogate and manage their Southern African process.

Comparatively, the Africa Growth and Opportunities Act has less stringent limitations on Rules of Origin than the TDCA. The restrictive rules of origin in the TDCA reduce the ability of Southern African countries to use the higher technology capacity in South Africa to increase beneficiation of their products for export to the EU. Generous rules of origin can promote positive forward and backward linkages between the South African and the Southern African countries' economies.

### **EU-SA Strategic Partnership and Joint Action Plan**

On 28 June 2006, the Commission proposed the EU-South Africa Strategic Partnership which shall be implemented with a Joint Action Plan to be proposed to the EU-South Africa Cooperation Council in November 2006.

A central idea is to develop the political dialogue in a way that the EU and South Africa identify common political positions on subjects of mutual interest which would then lead to joint action on a regional or global level, i.e. joint actions in Africa (peace keeping, mediation, NEPAD, African Union etc.) or on a global level (i.e. in the UN or WTO, concerning migration, environmental issues, climate change etc.). On the level of the Southern African region, joint actions are suggested concerning the AIDS pandemic, the Zimbabwe crisis and regional integration.

The Country Strategy Paper 2007-2013 is now under negotiation. It should be in line with the new South Africa Strategy and be implemented as part of the Joint Action Plan.

The revision of the TDCA is a core element of the Strategy. The Commission proposes inter alia the following elements for a revised TDCA:

- reference to the MDGs
- legally binding commitments to bring the TDCA in line with the Cotonou Agreement (proliferation of weapons of mass destruction, fight against terrorism, fight against impunity, support for the International Criminal Court, prevention of mercenary activities)
- enhanced political dialogue in line with the revision of Cotonou
- further provisions on the liberalisation of trade

- binding commitments in areas such as services, investment, government procurement, intellectual property, competition, standardisation and conformity assessment, customs, rules of origin
- strengthen the provisions in areas such as justice, freedom and security, money laundering, drugs and migration, social issues (employment, gender equality labour law), Youth exchange programmes, cultural cooperation.

### **Short assessment of Strategic Partnership and Joint Action Plan**

The Strategic Partnership fails to recognise the important development and social impact of overlapping between TDCA revision and EPA negotiations is likely to have on South Africa, but especially on the BLNS countries and on the other Least Development Countries of the region.

The inclusion of commitments on the so-called “Singapore Issues” in the TDCA is particularly problematic for South Africa. Despite EU pressure, government procurement and investment agreements have been long resisted at the WTO and are, in part, the reason for the impasse in the SACU-US free trade negotiations. While South Africa may be in a better position to negotiate these issues, compared to other SACU countries, this needs to be done on the basis of evidence-based policymaking.

TDCA revision should not push for further participation of the private sector in the provision of basic services. On services, South Africa has made extensive commitments under GATS and already faces severe constraints in achieving acceptable levels of access and universal service. On investment, South Africa has signed many bilateral investment treaties that already grant protection to a number of EU member states. The promotion of Public/Private partnerships in essential services has yielded mixed results and often has had negative impacts on the poor in sectors such as water and sanitation.

The Strategic Partnership should prioritise demands for technical assistance in areas strategic to reach the development objectives of the country that could as well contribute to the social and economic development of the Southern African region as a whole. South Africa's technical capacity should be harnessed with more capacity building, technical assistance, equivalence and mutual recognition agreements on food safety, sanitary and phytosanitary measures. Mechanisms should be considered to assist other neighbouring countries' exports within the region in this regard.

The Strategic Partnership fails to propose a sound energy security strategy that takes into account climate change and its social and environmental impact on the poorest in South Africa and other LDCs in the region. A sustainable energy security strategy, based on the protection of the environment and the achievement of the MDGs, should foster the development of renewable sources of energy, such as solar energy, wind power and biomass and low impact sources of energy such as small-scale hydropower plants. These should benefit the poorest sectors of society which mainly live in rural off-grid areas in the region. To support this objective the EU budget should provide appropriations to assist transition from the current dependency on the extractive sector to a more sustainable national and regional energy strategy.