

EXECUTIVE SUMMARY

Background

Southern African Customs Union (SACU) is involved with trade negotiations with the EFTA, Mercosur, and the USA. Therefore, NEDLAC commissioned a study on the likely impact of the potential agreement on the South African chemical industry. The purpose of this project is to provide information that will guide SACU's chemical trade negotiators in their trade discussions with representatives from the target countries.

The classification of the chemical industry is a challenging issue due to the complexity and variety of processes and products manufactured. Analysis of trade-related data usually refers to the Harmonised System (HS). By definition the chemical industry includes polymers/plastics and rubber products. The products of the chemical industry are covered under Chapters 28 to 40 of the HS. Strategically, in terms of developing options for industry development, it is necessary to analyse the chemical industry according to its major sub-sectors, of which there are eleven in total. Traditionally the Standard Industrial Classification (SIC) has been used for these purposes. For this study, however, the analysis was done by HS codes. Strategically important products from SACU's point of view that did not fall within the prescribed HS chapters (e.g. salt – HS. 25.01 and liquid fuels – HS 27.10) were included in the study.

Trade between SACU and the target countries

Data discrepancy was found in terms of trade between SACU and EFTA and between SACU and the USA as well as EFTA's trade with the Rest of the World (RoW). EFTA's exports of vitamins to SACU and RoW, one of their competitive strengths, were under declared in EFTA's trade data. The US trade data also shows that imports of titanium dioxide, one of South Africa's major export products to the US, is under declared.

Trade between SACU and the target countries was analysed at HS 4-digit level first in order to identify the biggest HS chapters by value (ZAR) traded. Out of these, the biggest single products by value traded were identified at the HS 8-digit level. In the chemical sector it is necessary to deal with products at the 8-digit level, due to the differences in products' market characteristics and applications. Trade between SACU and EFTA is relatively concentrated, while trade between SACU and Mercosur and SACU and the USA is relatively diversified. The biggest chapters by value traded between SACU and the target countries at HS 4-digit level are shown below:

a) EFTA

SACU's Exports:

The following categories collectively account for approximately 89% by value of total SACU exports to EFTA:

- HS 27.10 – Liquid Fuels [80% of total SACU exports to EFTA]
- HS 33.01 – Essential oils [3% of total SACU exports to EFTA]
- HS 29.34 – Nucleic acids [2% of total SACU exports to EFTA]
- HS 25.01 – Salt [1% of total SACU exports to EFTA]
- HS 29.01 – Alpha olefins [1% of total SACU exports to EFTA]

- HS 38.23 – Industrial monocarboxylic fatty acids [1% of total SACU exports to EFTA]

At single product level [HS 8-digit level], SACU's most exported products to EFTA by value are the following:

- Diesel fuel [HS 27.10.11.30] – 32% of total EFTA imports from SACU in 2003 only.
- Leaded fuel [HS 27.10.11.05] – 28% of total EFTA imports from SACU. SACU's exports to EFTA grew by 30% for the period 2002 – 2003.
- Heavy fuel oils [HS 27.10.11.35] – 19% of total EFTA imports from SACU. SACU's exports to EFTA grew by 50% for the period 2002 – 2003.
- Other essential oils [HS 33.01.29.00] – 2% of total EFTA imports from SACU. SACU's exports to EFTA grew by 300% for the period 2000 – 2003. However, this was from a low base.
- Phenothiazinering derivatives [HS 29.34.30.00] – 2% of total EFTA imports from SACU. SACU's exports to EFTA grew by 400% for the period 2000 – 2002. However, this was from a low base.
- Industrial fatty alcohols [HS 38.23.70.00] – 1% of total EFTA imports from SACU in 2003.
- Salt [HS 25.01.00.00] – 1% of total EFTA imports from SACU in 2000.

SACU's Imports:

The following collectively account for approximately 74% by value of total SACU imports from EFTA:

- HS 30.04 – Medicaments in final dosage form [37% of total SACU imports from EFTA]
- HS 33.02 – Mixed flavours and fragrances [15% of total SACU imports from EFTA]
- HS 32.04 – Organic pigments [6% of total SACU imports from EFTA]
- HS 39.07 – Polyacetals [6% of total SACU imports from EFTA]
- HS 29.24 – Carboxymide-function compounds [5% of total SACU imports from EFTA]
- HS 29.36 – Vitamins [5% of total SACU imports from EFTA]

At single product level [HS 8-digit level], SACU's most imported products from EFTA by value are the following:

- Other final form dosage medicines [HS 30.04.90.00] – 37% of total EFTA exports to SACU. SACU's imports from EFTA grew by 41% for the period 2000 – 2003.
- Food and beverage mixed flavours [HS 33.02.10.00] – 8% of total EFTA exports to SACU. SACU's imports from EFTA grew by 20% for the period 2000 – 2003.
- Other paracetamol group pharmaceutical actives [HS 29.24.29.90] – 5% of total EFTA exports to SACU. SACU's imports from EFTA grew by 64% for the period 2000 - 2003.

- Hormone containing end-dosage form medicines [HS 30.04.39.00] – 3% of total EFTA exports to SACU. SACU's imports from EFTA grew by 28% for the period 2000 – 2003.
- Vitamin A and derivatives [HS 29.36.21.00] – 3% of total EFTA exports to SACU. SACU's imports from EFTA grew by 63% for the period 2000 – 2003.
- Grafting putty, painter's fillings, etc. [HS 32.14.10.00] – 2% of total EFTA exports to SACU. SACU's imports from EFTA grew by 25% for the period 2000 – 2003.
- Reactive textile dyes [HS 32.04.16.00] – 2% of total EFTA exports to SACU. SACU's imports from EFTA grew by 26% for the period 2000 – 2003.

b) Mercosur

SACU's Exports:

The following account for approximately 84% by value of total SACU exports to Mercosur:

- HS 38.08 – Pesticides [35% of total SACU exports to Mercosur]
- HS 28.09 – Phosphoric acid [5% of total SACU exports to Mercosur]
- HS 29.01 – Alpha olefins [5% of total SACU exports to Mercosur]
- HS 29.14 – Ketones [5% of total SACU exports to Mercosur]
- HS 29.33 – Triazine derivatives [4% of total SACU exports to Mercosur]
- HS 29.05 – Acyclic alcohols [3% of total SACU exports to Mercosur]
- HS 31.02 – Nitrogenous fertilizers [3% of total SACU exports to Mercosur]
- HS 29.21 – Amine-function compounds [3% of total SACU exports to Mercosur]
- HS 38.22 – Diagnostic or laboratory reagents [3% of total SACU exports to Mercosur]
- HS 27.12 – Paraffin waxes [2% of total SACU exports to Mercosur]
- HS 28.11 – Hydrofluoric acid [2% of total SACU exports to Mercosur]
- HS 28.20 – Manganese oxides [2% of total SACU exports to Mercosur]
- HS 28.33 – Sulphates [2% of total SACU exports to Mercosur]
- HS 28.35 – Phosphinates [2% of total SACU exports to Mercosur]
- HS 29.07 – Phenols [2% of total SACU exports to Mercosur]
- HS 31.03 – Phosphatic fertilizers [2% of total SACU exports to Mercosur]
- HS 39.23 – Plastic articles for the conveyance or packaging of goods [2% of total SACU exports to Mercosur]
- HS 40.02 – Synthetic rubber [2% of total SACU exports to Mercosur]

At single product level [HS 8-digit level], SACU's most exported products to Mercosur by value are the following:

- Other herbicides, plant growth regulators and anti-sprouting products [HS 38.08.30.90] – 25% of Mercosur's imports from SACU. SACU's exports to Mercosur declined by 14% for the period 2000 – 2003.
- Phosphoric acid [HS 28.09.20.00] – 4% of Mercosur's imports from SACU. SACU's exports to Mercosur declined by 85% for the period 1999 – 2002.
- Acetone [HS 29.14.11.00] – 4% of Mercosur's imports from SACU. SACU's exports to Mercosur grew by 305% for the period 1999 – 2003.

- Triazine derivatives [HS 29.33.69.90] – 4% of Mercosur’s imports from SACU. SACU’s exports to Mercosur declined by 95% for the period 2000 – 2003.
- Insecticides [HS 38.08.10.00] – 4% of Mercosur’s imports from SACU. SACU’s exports to Mercosur grew by 142% for the period 1999 – 2003.
- Other unsaturated acyclic hydrocarbons [HS 29.01.29.00] – 3% of Mercosur’s imports from SACU. SACU’s exports to Mercosur grew by 508% for the period 1999 – 2003.
- Ammonium nitrate [HS 31.02.30.00] – 3% of Mercosur’s imports from SACU. SACU’s exports to Mercosur grew by 28% for the period 1999 – 2003.
- Other plant growth regulators and anti-sprouting products [HS 38.08.30.80] – 3% of Mercosur’s imports from SACU. SACU’s exports to Mercosur declined by 93% for the period 2000 – 2003.
- Paraffin wax [HS 27.12.20.00] – 2% of Mercosur’s imports from SACU. SACU’s exports to Mercosur declined by 7% for the period 2000 – 2003.
- Hydrofluoric acid [HS 28.11.11.00] – 2% of Mercosur’s imports from SACU. SACU’s exports to Mercosur grew by 95% for the period 1999 – 2003.
- Other manganese dioxides [HS 28.20.90.00] – 2% of Mercosur’s imports from SACU. SACU’s exports to Mercosur declined by 56% for the period 2000 – 2002.
- Monoisopropylamine [HS 29.21.19.15] – 2% of Mercosur’s imports from SACU. SACU’s exports to Mercosur declined by 70% for the period 2000 – 2003.
- Superphosphates [HS 31.03.10.00] – 2% of Mercosur’s imports from SACU. SACU’s exports to Mercosur declined by 40% for the period 1999 – 2003.
- Other fungicides [HS 38.08.20.90] – 2% of Mercosur’s imports from SACU. SACU’s exports to Mercosur declined by 23% for the period 2000 – 2003.
- Diagnostic or laboratory reagent chemicals [HS 38.22.00.00] – 2% of Mercosur’s imports from SACU. SACU’s exports to Mercosur grew by 312% for the period 1999 – 2003.
- Herbicides with atrazine as active ingredient [HS 38.08.30.05] – 1% of Mercosur’s imports from SACU. SACU’s exports to Mercosur declined by 11% for the period 2000 – 2003.

SACU’s Imports:

The following account for approximately 44% by value of SACU’s total imports from Mercosur:

- HS 35.04 – Peptones [7% of total SACU imports from Mercosur]
- HS 29.02 – Styrene [5% of total SACU imports from Mercosur]
- HS 29.29 – Isocyanates [5% of total SACU imports from Mercosur]
- HS 30.04 – Medicaments in final dosage form [4% of total SACU imports from Mercosur]
- HS 39.01 – Polyethylenes [5% of total SACU imports from Mercosur]
- HS 39.03 – Polystyrenes [5% of total SACU imports from Mercosur]

- HS 29.26 – Acrylonitrile [4% of total SACU imports from Mercosur]
- HS 27.10 – Liquid fuels [3% of total SACU imports from Mercosur]
- HS 29.22 – Glutamic acid and its salts [3% of total SACU imports from Mercosur]
- HS 40.11 – Motor car tyres [3% of total SACU imports from Mercosur]

At single product level [HS 8-digit level], SACU's most imported products from Mercosur by value are the following:

- Peptones and their derivatives [HS 35.04.00.00] – 7% of Mercosur's exports to SACU. SACU's imports from Mercosur grew by 338% for the period 1999 – 2003.
- Styrene [HS 29.02.50.00] – 5% of Mercosur's exports to SACU. SACU's imports from Mercosur declined by 92% for the period 1999 - 2003.
- Isocyanates [HS 29.29.10.00] – 5% of Mercosur's exports to SACU. SACU's imports from Mercosur declined by 37% for the period 1999 – 2003.
- Acrylonitrile [HS 29.26.10.00] – 4% of Mercosur's exports to SACU. SACU's imports from Mercosur declined by 83% for the period 1999 – 2003.
- Other final form dosage medicines [HS 30.04.90.00] – 4% of Mercosur's exports to SACU. SACU's imports from Mercosur declined by 62% for the period 2000 – 2003.
- Polystyrene, GPPS [HS 39.03.19.00] – 4% of total Mercosur's exports to SACU. SACU's imports from Mercosur grew by more than 1400% for the period 2001 – 2003.
- Glutamic acid and its salt [HS 29.22.42.00] – 3% of Mercosur's exports to SACU. SACU's imports from Mercosur declined by 23% for the period 1999 – 2003.
- Low density polyethylene (LDPE) [HS 39.01.10.00] – 3% of total Mercosur's exports to SACU. SACU's imports from Mercosur grew by 400% for the period 2000 – 2003.
- Other polyethylene [HS 39.01.20.90] – 3% of Mercosur's exports to SACU. SACU's imports from Mercosur grew by more than 12 000% for the period 2000 to 2003.
- Heavy vehicle tyres [HS 40.11.20.15] – 1% of Mercosur's exports to SACU. SACU's imports from Mercosur grew by more than 900% for the period 2000 to 2003.
- Other polystyrene [HS 39.03.90.00] – 1% of Mercosur's exports to SACU. SACU's imports from Mercosur grew by 30% for the period 2002 – 2003.
- Motor car tyres [HS 40.11.10.00] – 1% of Mercosur's exports to SACU. SACU's imports from Mercosur grew by 30% for the period 1999 – 2003.

c) USA

SACU's Exports:

The following account for approximately 69% by value of total SACU exports to the USA:

- HS 28.23 – Titanium oxides [36% of total SACU exports to the USA]
- HS 27.10 – Liquid fuels [9% of total SACU exports to the USA]
- HS 28.04 – Silicon [8% of total SACU exports to the USA]
- HS 28.44 – Radioactive chemicals and isotopes [6% of total SACU exports to the USA]
- HS 27.12 – Paraffin waxes [3% of total SACU exports to the USA]
- HS 28.20 – Manganese oxides [3% of total SACU exports to the USA]

- HS 28.25 – Metal oxides [2% of total SACU exports to the USA]
- HS 28.50 – Hydrides, azides [2% of total SACU exports to the USA]

At single product level [HS 8-digit level], SACU's most exported products to the USA by value are the following:

- Titanium oxides [HS 28.23.00.00] – 36% of US imports from SACU. SACU's exports to the USA grew by 61% for the period 2000 – 2003.
- Silicon [HS 28.04.69.00] – 8% of US imports from SACU. SACU's exports to the USA grew by 56% for the period 1999 – 2003.
- Natural uranium and its compounds [HS 28.44.10.00] – 5% of US imports from SACU. SACU's exports to the USA declined by 5% for the period 2000 – 2003.
- Leaded fuel [HS 27.10.00.05] – 4% of US imports from SACU. SACU's exports to the USA declined by 88% for the period 1999 – 2002.
- Unleaded fuel [HS 27.10.00.03] – 4% of US imports from SACU in 2000.
- Paraffin wax [HS 27.12.20.00] – 3% of US imports from SACU. SACU's exports to the USA declined by 2% for the period 2000 – 2003.
- Manganese dioxide [HS 28.20.10.00] – 3% of US imports from SACU. SACU's exports to the USA declined by 9% for the period 1999 – 2003.
- Hydrides, azides, silicides, and borides [HS 28.50.00.00] – 2% of US imports from SACU. SACU's exports to the USA grew by 39% for the period 2000 – 2003.
- Vanadium oxides and hydroxides [HS 28.25.30.00] – 1% of US imports from SACU. SACU's exports to the USA grew by 73% for the period 1999 – 2003.
- Antimony oxides [HS 28.25.80.00] – 1% of US imports from SACU. SACU's exports to the USA grew by 522% for the period 1999 – 2003.
- Radioactive elements and isotopes and compounds [HS 28.44.40.00] – 1% of US imports from SACU. SACU's exports to the USA grew by 710% for the period 1999 – 2003.

SACU's Imports:

The following account for approximately 47% by value of total SACU imports from the USA:

- HS 30.04 – Medicaments in final dosage form [7% of total SACU imports from the USA]
- HS 27.10 – Liquid fuels [5% of total SACU imports from the USA]
- HS 29.05 – Ethylene glycol [5% of total SACU imports from the USA]
- HS 38.11 – Anti-knock preparations [5% of total SACU imports from the USA]
- HS 29.29 – Isocyanates [4% of total SACU imports from the USA]
- HS 38.22 – Diagnostic or laboratory reagents [4% of total SACU imports from the USA]
- HS 29.16 – Acrylic acid esters [3% of total SACU imports from the USA]
- HS 29.22 – Oxygen-function amino-compounds [3% of total SACU imports from the USA]
- HS 38.08 – Pesticides [3% of total SACU imports from the USA]
- HS 39.08 – Polyamides [3% of total SACU imports from the USA]
- HS 39.20 – Polyvinyl butyral [3% of total SACU imports from the USA]
- HS 29.15 – Saturated acyclic monocarboxylic acids [2% of total SACU imports from the USA]

At single product level [HS 8-digit level], SACU's most imported products from the USA by value are the following:

- Additives for lubricant oils [HS 38.11.21.00] – 6% of US exports to SACU. SACU's imports from the USA grew by 243% for the period 1999 – 2003.
- Diagnostic or laboratory reagents [HS 38.22.00.00] – 6% of US exports to SACU. SACU's imports from the USA grew by 384% for the period 1999 – 2003.
- Other final form dosage medicines [HS 30.04.90.00] – 5% of US exports to SACU. SACU's imports from the USA grew by 138% for the period 1999 – 2003.
- Isocyanates [HS 29.29.10.00] – 4% of US exports to SACU. SACU's imports from the USA grew by 392% for the period 1999 – 2003.
- Polyamides [HS 39.08.10.00] – 3% of US exports to SACU. SACU's imports from the USA declined by 25% for the period 1999 – 2003.
- Residual fuel oils [HS 27.10.11.35] – 2% of US exports to SACU. SACU's imports from the USA declined by 1% for the period 2002 – 2003.
- Ethylene glycol [HS 29.05.31.00] – 2% of US exports to SACU. SACU's imports from the USA grew by 5% for the period 1999 – 2003.
- Acrylic acid esters [HS 29.16.12.00] – 2% of US exports to SACU. SACU's imports from the USA grew by 17% for the period 1999 – 2003.
- Insecticides [HS 38.08.10.00] – 2% of US exports to SACU. SACU's imports from the USA grew by 24% for the period 1999 – 2003.
- Other plastics of polyvinyl butyral [HS 39.20.91.00] – 2% of US exports to SACU. SACU's imports from the USA grew by 348% for the period 1999 – 2003.

Non-Tariff Barriers – NTBs

In trade negotiations, it should not be assumed that tariff preferences will automatically create substantial export opportunities as the existence of non-tariff barriers (NTBs) may provide additional protection to domestic industries and act as a deterrent to exports. NTBs may erode the benefits of tariff preferences received through trade agreements. The costs and risks attached to NTBs may in fact exceed the effect of tariffs.

In the case of Mercosur, NTBs such as additional taxes, non-automatic licensing, policy unpredictability, onerous customs procedures as well as customs/port delays, are deterrents to exports to Mercosur Countries. Tariff preferences will not in itself open up the markets in these countries to SACU exports.

In the case of the US, standards and other technical requirements, environmental protection, rigorous customs procedures and the use of trade remedies may restrict SACU exports.

It seems that exports to EFTA do not face substantial NTBs.

Mercosur Countries in particular have very substantial NTBs such that the benefits of lower tariffs for major SACU export products may not be incentive enough for SACU manufacturers to export to Mercosur. Exports to the US may also be detrimentally affected by NTBs. SACU generally does not have significant non-tariff barriers. Manufacturers in countries with substantial NTBs enjoy a relatively more secured position by being protected in their domestic markets by such barriers in addition to tariffs. The exchange of tariff concessions, while encouraging imports into SACU, may not have the expected results in respect of creating additional opportunities for SACU exports. Hence, negotiators should give serious attention to the issue of non-tariff barriers in the target countries.

The NTB's that are particular threats to SACU's chemical exports are as follows:

a) Mercosur: Brazil in particular has very severe NTBs. Some of these, such as IPI (Industrial Products Tax) and ICMS (Merchandise Circulation Tax) can result in the final cost of imported chemicals approaching double the original F.O.B. cost. Although most of the additional taxes are also applicable to domestic manufacturers, they may in practice discriminate against imports. Other significant NTBs in Mercosur include:

- Policy unpredictability
- Import licensing [(especially non-automatic licensing), a comprehensive list is available in Appendix 21 of the Mercosur report]
- Anti-dumping investigations
- Customs procedures and delays
- Reference prices/minimum import prices
- Rules of origin
- Logistics cost
- Labelling requirements
- Standards
- Intellectual property rights

b) EFTA: Generally NTBs in EFTA are less severe. They are mainly concentrated upon:

- Standards and other technical regulations
- Import restrictions on a number of chemical items

c) USA: NTBs in the USA are more severe than in EFTA, but not as high as in Mercosur.

The major areas for concern are:

- Additional taxes (relatively small)
- Strict Customs procedure:
 - The Container Security Initiative (CSI)
 - The 24-hour Advance Vessel Manifest Rule
 - The Customs-Trade Partnership Against Terrorism and other security initiatives
- Anti-dumping investigations
- Standards, Sanitary and Other Technical Requirements
- Complex Regulatory System
- Non-use of international standards
- Regulatory Differences at State Level
- Excessive Reliance on Mandatory Certification
- Lengthy Product Approval (e.g. FDA approval)
- Labelling requirements

- Government Procurement:
 - Buy American Act
 - Sub-federal legislation
 - Set-aside for small businesses

Issues to consider for the defensive position

Since trade analysis for this study was done up to the 8-digit level, it is necessary to focus on specific products rather than categories in terms of SACU's position for the defensive and offensive strategies.

In refining a defensive position for the chemical sector, the following issues should be taken into consideration:

- At individual product level (HS 8-digit level), for the period under consideration:
 - **EFTA**: Products that collectively form approximately 60% by value of total exports to SACU show an increase.
 - **Mercosur**: Products that collectively form approximately 25% by value of total exports to SACU show an increase.
 - **USA**: Products that collectively form approximately 29% by value of total exports to SACU show an increase.
- **EFTA**: Chemical exports to SACU increased by almost 70% by value for the period under consideration.
- **EFTA**: They have a comparative advantage in crop protection chemicals, fine chemicals, pharmaceuticals, flavours and fragrances, vitamins, and specialities. In terms of HS chapters, approximately 40% by value of EFTA's global chemicals exports are made up of products of HS chapters 27, 29, 30, and 39.
- **EFTA**: For the period under consideration, EFTA had a positive trade balance in chemicals trade with the RoW. On the other hand, **Mercosur** and the **USA** have a negative trade balance in chemicals trade with the RoW. Even though Mercosur and the USA have positive chemicals trade balances with SACU, their negative balance in chemicals trade with the RoW may motivate them to adopt a more offensive approach to the free trade negotiations with SACU. SACU chemicals market constitutes about 1% by value and 2% by value of the US and Mercosur's global world chemicals export markets, respectively.
- **EFTA**: The chemical, plastics and rubber sectors are the sectors most subject to anti-dumping measures. According to the WTO statistics, of all anti-dumping measures implemented during the period 1995 to end 2004, 20% have been in respect of chemicals (Section VI) and 12% in respect of plastics and rubber products (Section VII).
- **EFTA**: On the macro economic side, EFTA has been experiencing subdued real growth and even negative real growth in some instances because of their rising currencies, lacklustre demand within the internal market and also in the external market.
- **Mercosur**: Exports to SACU grew by 28% by value for the period 2000 – 2002. Trade between SACU and Mercosur is inconsistent.
- **Mercosur**: Products of HS chapters 27, 28, 29, 39, and 40 account for approximately 84% by value of total global chemicals exports.
- **Mercosur**: Additional taxes are applied to products such as acetone and self-adhesive plates. Although these taxes apply to both domestic and imported goods, they are biased against imports to some extent because of the way they are applied.

- **Mercosur:** High export growth achieved by the bloc was not as a result of new capacity installation, but it was as a result of subdued domestic demand. The chemical industries of Mercosur then responded with a concerted effort to actively seek out export markets. The surplus available was exported as a result.
- **Mercosur:** The region has a vibrant informal sector which is largely unaccounted for and is good at re-exporting. This therefore warrants a much more rigorous protection of SACU products even beyond those that SACU is globally competitive in.
- **USA:** Chemicals exports to SACU increased 61% by value for the period 1999 – 2002.
- **USA:** Approximately 65% by value of US global chemicals exports are products of HS chapters 27, 28, 30, 32, 33, and 39.
- **USA:** The overall slump in exports during 2003 was as a result of high energy costs, which caused the idling of some manufacturing capacity.
- **USA:** High oil prices are usually accompanied by a weak dollar and a weak dollar in turn fuels foreign demand. Thus a weak dollar may result in increased SACU imports.
- **SACU:** Has a negative trade balance in chemicals trade with the target countries. The chemicals trade deficit with some of these target countries has been on the increase from 1999 until 2002. SACU's trade deficit in chemicals increased by 75% with EFTA, 102% with Mercosur, and 56% with the USA for the period under consideration.

The target countries chemical industries have the potential to decimate SACU manufacturing in certain product categories. SACU chemical products that could be threatened by target countries manufacturing as a result of potential concessions given in the trade negotiations are listed below:

- **EFTA** [A comprehensive list is available in Appendix 11 of the EFTA report]
 - Mixed flavours and fragrances
 - Pesticides
 - Titanium pigments
 - Calcium carbonate fillers
 - Precious metal chemicals
 - Amino acids
 - Pharmaceuticals
 - Paints
 - Personal care
 - Plastic films
 - Plastic tubes, pipes, hoses, closures, etc.
- **Mercosur** [A comprehensive list is available in Appendix 15 of the Mercosur report]
 - Alpha olefins
 - Propyl alcohol
 - Ketones and derivatives
 - Saturated acyclic monocarboxylic acids
 - Pyrimidine derivatives
 - Other final form dosage medicines
 - Sterile surgical catgut, similar sterile suture materials
 - Pesticides
 - Catalysts
 - Prepared binders for foundry moulds or cores
 - Polyethylenes
 - Polypropylenes

- Polyvinyl chlorides
- Plastic tubes, pipes, hoses, fittings, etc
- Motor car tyres
- Heavy vehicle tyres
- **USA** [A comprehensive list is available in Appendix 12 of the USA report]
 - Phenol
 - Paraffin wax
 - Alpha olefins
 - Ketones and derivatives
 - Propyl alcohol
 - Furfuraldehyde
 - Furfuryl alcohol and tetrahydrofurfuryl alcohol
 - Pyrimidine derivatives
 - Vitamins and derivatives
 - Other final dosage form medicines
 - Sterile surgical catgut, similar sterile suture materials
 - Pesticides
 - Composite diagnostic or laboratory reagents
 - Polyethylenes
 - Polypropylenes
 - Polyvinyl chlorides
 - Polyether polyols
 - Plastic pipes, tubes, hoses, fittings, etc.
 - Floor coverings of plastics

SACU manufacturers do not face potential threats only from these target countries. Various cooperation agreements and treaties as well as free trade agreements the target countries entered into or are in the process of entering into with other regions and countries, carry with them potential threats for SACU. Some of the examples of agreements involving the target countries are the enlarged European Union (EU), the North American Free Trade Association (NAFTA), and the Free Trade Association of the Americas (FTAA). SACU compete with various other trade partners of the target countries for the markets of the target countries.

For the full list of SACU products that have to be protected, see Appendix 12 for the USA report, Appendix 15 for Mercosur report, and Appendix 11 for the EFTA report. In a case of trade-offs during the trade negotiations, it is recommended that the products shown in the three reports as major SACU export products to the target countries and those that SACU is globally competitive in, should not be part of the trade-off. In the case of Mercosur, the list of products to be defended is more extensive in that it includes products that are not necessarily major SACU export products. This is necessary in order to protect SACU manufacturers from the vibrant informal sector in Mercosur, which is notorious for re-exporting products acquired from neighbouring states.

Issues to consider for the offensive position

In refining an offensive position, the following issues should be taken into consideration:

- At individual product level (HS 8-digit level), for the period under consideration:
 - **EFTA:** Products that form approximately 51% by value of total imports from SACU show an increase. Imports from SACU increased by almost 40% by value for the period under consideration, albeit from a low base.

- **EFTA:** SACU's major export product to EFTA, diesel fuel [HS 27.10.11.30], is inconsistent.
 - **Mercosur:** Products that form approximately 18% by value of total imports from SACU show an increase.
 - **Mercosur:** Products that form approximately 47% by value of total imports from SACU show a decline.
 - **Mercosur:** Trade between SACU and Mercosur in some of the major traded products is inconsistent.
 - **USA:** Products that form approximately 49% by value of total imports from SACU show an increase.
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- **EFTA:** Products of HS chapters 27, 29, 30, and 39 make up approximately 77% by value of global chemicals imports.
 - **EFTA:** SACU member countries are beneficiaries of the Norwegian and Swiss GSP. SACU negotiators should therefore negotiate hard for concessions on the eradication of the non-tariff barriers.
 - **EFTA:** SACU's exports to EFTA are too concentrated and a strategy that could bring more diversity is desirable. The lack of diversity could partly be attributed to licensing agreements of local subsidiaries of multinationals, which shut the SACU companies out of the lucrative EFTA market. This situation is only going to get even worse with the discontinuation of the production of leaded fuel in SACU in 2006.
 - **EFTA:** The rules of origin in respect of chemicals are relatively flexible. For chemicals of Chapters 28 to 38, the chapter rule in each case is a 'change in tariff heading' (CTH) rule with additional provision for using imported materials of the same heading of up to 20% of the ex-works price of the product. Also, the exported product will qualify for a preference under the rules of origin, even if all the raw materials used in its manufacture are imported materials, provided that such raw materials are classified in another 4-digit heading.
 - **EFTA:** South Africa has been accepted into the Mutual Acceptance of chemical safety Data Programme of the OECD.
 - **EFTA:** Import restrictions are applied to cosmetics that contain alcohol and pharmaceutical products.
 - **Mercosur:** Imports from SACU managed to grow by only 18% by value for the period 1999-2002, only to decrease 33% by value the following year.
 - **Mercosur:** Products of HS chapters 27, 29, 30, 31 and 39 account for approximately 87% by value of Mercosur's global chemicals imports.
 - **Mercosur:** Increased export growth was achieved as a result of poor local demand in Mercosur.
 - **Mercosur:** Most chemicals, fertilizers and pharmaceuticals are exempt from Industrial Products tax.
 - **Mercosur:** Brazil and Argentina are major users of trade remedies. Brazil's number of anti-dumping initiations in the chemicals and plastics/rubber sectors as a percentage of all its initiations, is substantially higher than average compared to other countries.
 - **Mercosur:** Imports into Brazil in particular under 1 526 out of 2928 chemicals tariff lines are subject to special non-automatic licensing provisions. Non-automatic licensing applies to 62 out of 98 products on the SACU Offensive list in Appendix 14 of the Mercosur report.
 - **Mercosur:** The rules of origin applied in respect of chemicals have the effect of a non-tariff barrier in terms of the percentage imported material which is too strict.

- **Mercosur:** This region has a comparative advantage in agriculture and thus has a great need for inputs such as fertilisers as well as pesticides, and the local manufacturers cannot satisfy this need.
- **Mercosur:** The non-tariff barriers in Mercosur are insurmountable because of inconsistent policies between the member countries and also within the same country. SACU negotiators should therefore negotiate for the eradication of the non-tariff barriers as much as concessions for the reduction of tariff duties.
- **USA:** Imports from SACU increased 78% by value for the period 2000 – 2002, but decreased 34% by value the following year.
- **USA:** Products of HS chapters 27, 29, and 30 account for approximately 65% by value of the US global chemicals imports.
- **USA:** Although SACU member countries are beneficiaries of the US GSP, SACU negotiators should negotiate for the removal of tariff duties because the GSP status has to be applied for by the exporters with every shipment of product. The GSP status is thus not guaranteed.
- **USA:** Rules of origin are not strictly applied.
- **USA:** According to other WTO members trade US authorities with protectionist purposes abuse defence instruments. This has been reflected in the increasing number of cases brought to the WTO Dispute Settlement system in relation to US trade defence legislation and proceedings. Of a total of 2 646 initiations, 532 were in respect of chemicals (Chapters 28 to 38) and 338 were in respect of plastics and rubber products (Chapters 39 and 40). The US initiated 45 (8.5%) and 29 (8.6%), respectively, of the investigations in these two sub-sectors.
- **USA:** A particular problem in the US is the relatively low level of use, or even awareness, of standards set by international standardising bodies. Some US standards are in fact in direct contradiction to those set by these bodies. Also, the proliferation of regulation at state level presents particular problems for companies that do not have offices in the USA. The state requirements are not always uniform or consistent with one another.
- **USA:** The non-tariff barriers are often used to entrench the economic hegemony of the US and SACU negotiators should negotiate for the removal of non-tariff barriers entirely.
- **USA:** High energy costs usually results in idling of capacity. In some cases, this is usually accompanied by increased imports to make up for the idled capacity.

SACU member countries are beneficiaries of the Swiss and Norwegian GSP, which guarantee them duty free status of chemical exports to these countries for 100% of the HS lines. SACU is also a beneficiary of the US GSP. More than 50% by value of SACU's major exports to Mercosur have tariff protection in Mercosur.

SACU has opportunities to increase exports of products that SACU is globally competitive in but are not major export products to the respective target countries at the moment. Some of the existing opportunities are shown below:

- **EFTA** [A comprehensive list is available in Appendix 10 of the EFTA report]
 - Paraffin wax
 - Hydrofluoric acid derivatives
 - Precious metal chemicals
 - Amines

- Paints
- Skincare products
- Shampoos
- Cement additives
- Polyethylene
- Plastic film
- Plastic pipes, tubes, and hoses
- **Mercosur** [A comprehensive list is available in Appendix 14 of the Mercosur report]
 - Ammonia
 - Chlor-alkalis
 - Radioactive elements and isotopes
 - Xylenes
 - Furfuraldehyde
 - Furfuryl alcohol and tetrahydrofurfuryl alcohol
 - Vitamins and their derivatives
 - Acetic acid esters
 - Wadding gauze bandages, and similar articles
 - Sterile surgical catgut
 - Fertilizers containing two or three elements
 - Catalysts
 - Polypropylenes
 - Polyethylenes
 - Conveyor or transmission belts
 - Motor car tyres
 - Heavy vehicle tyres
- **USA** [A comprehensive list is available in Appendix 11 of the USA report]
 - Ammonia
 - Alpha olefins
 - Ketones and derivatives
 - Propyl alcohol
 - Phenols
 - Vitamins and their derivatives
 - Pyrimidine derivatives
 - Other final dosage form medicines
 - Sterile catgut, similar sterile suture materials
 - Polyethylenes
 - Polyvinyl chlorides
 - Plastic tubes, pipes, hoses, fittings, etc.
 - Floor coverings of plastic

In the case of EFTA and the USA, SACU is already a beneficiary of their GSP. Therefore, there is nothing more for SACU to gain in terms of tariff related measures in EFTA. What is recommended is that negotiators should rather insist on the removal of the non-tariff barriers. In case of the USA, the strategy should be two-fold, the removal of tariff duties and non-tariff barriers. The reason is, even though SACU members are beneficiaries of the US GSP, this status is not guaranteed since the onus is on the exporter to apply for it with every shipment of product. In case of Mercosur, the offensive strategy should also target both tariff reductions and the removal of non-tariff barriers as well. In case of trade-offs, SACU negotiators should insist on reduced tariffs for specifically the major SACU export products to the target countries and those that SACU is generally competitive with.

Harmonised System Tariff Headings

In terms of the development of the SACU's chemical industry, there is a specific intention of strengthening the downstream sector, which includes sub-sectors such as plastic conversion, consumer formulated products, fine and speciality chemicals. It is therefore of particular importance to focus upon these sectors from a trade negotiations perspective. However, a major deficiency of the Harmonised System of tariffs is that the existing classification is often unsuitable for specific important products. For example, in the plastics conversion sector, HS Chapter 39, there is a specific focus on the development of the polypropylene products category. However, in HS 39, only a few specific tariff headings exist for polypropylene products such as pipes (HS 39.17.22) and sheeting (HS 39.20.20). In all other types of plastic products polypropylene is not specifically addressed. This makes it difficult to propose specific strategies to strengthen the product categories. It is therefore recommended that specific new tariff headings be created to support the polypropylene plastic conversion industry more especially in light of excess polypropylene that would be made available by the cleaning up of liquid fuels. In particular new tariff headings should be created for product categories such as rigid and flexible packaging (knitted pockets), automotive components made from polypropylene, as well as domestic ware.