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# SADC-EU EPA: Tracking TRQ Utilisation in South Africa

Trade in KZN
Export Week,

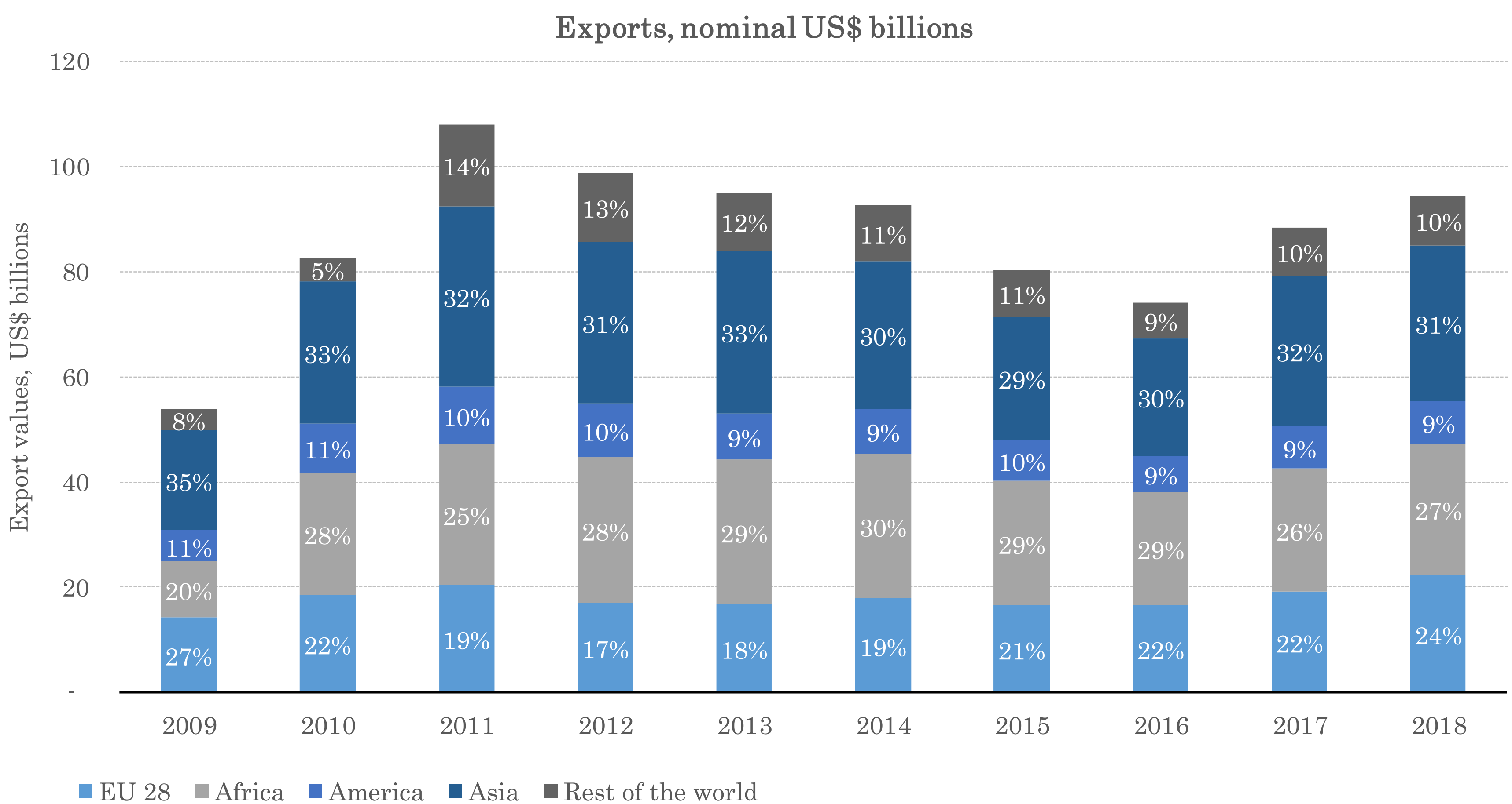
16 October 2019

# Introduction

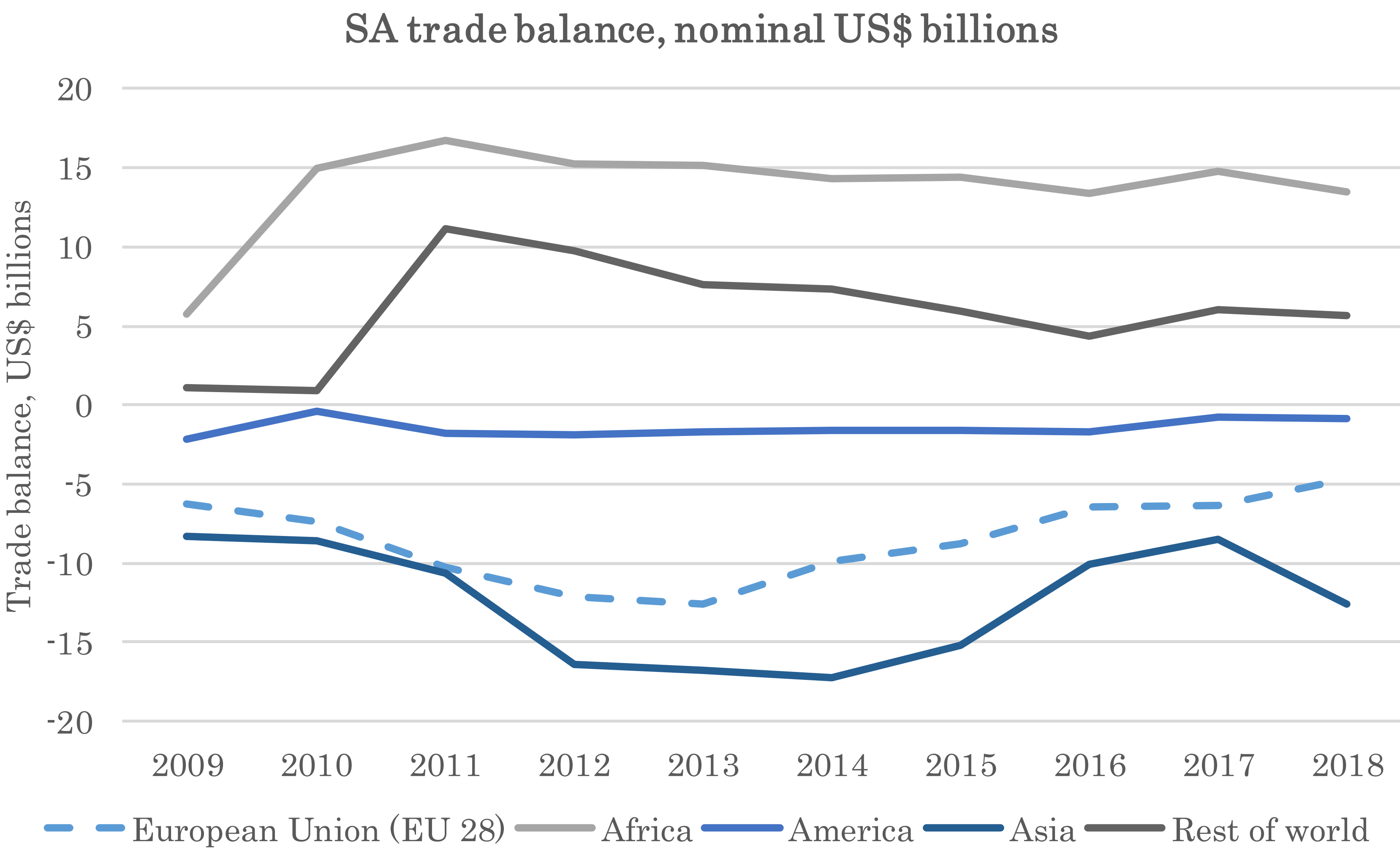
- Identify factors constraining exports of bioethanol to the EU
  - **specifically in relation to the tariff-rate quotas under the SADC-EU Economic Partnership Agreement**

- Suggest measures of increasing trade & raising awareness of the opportunities

# EU is a key export market for SA

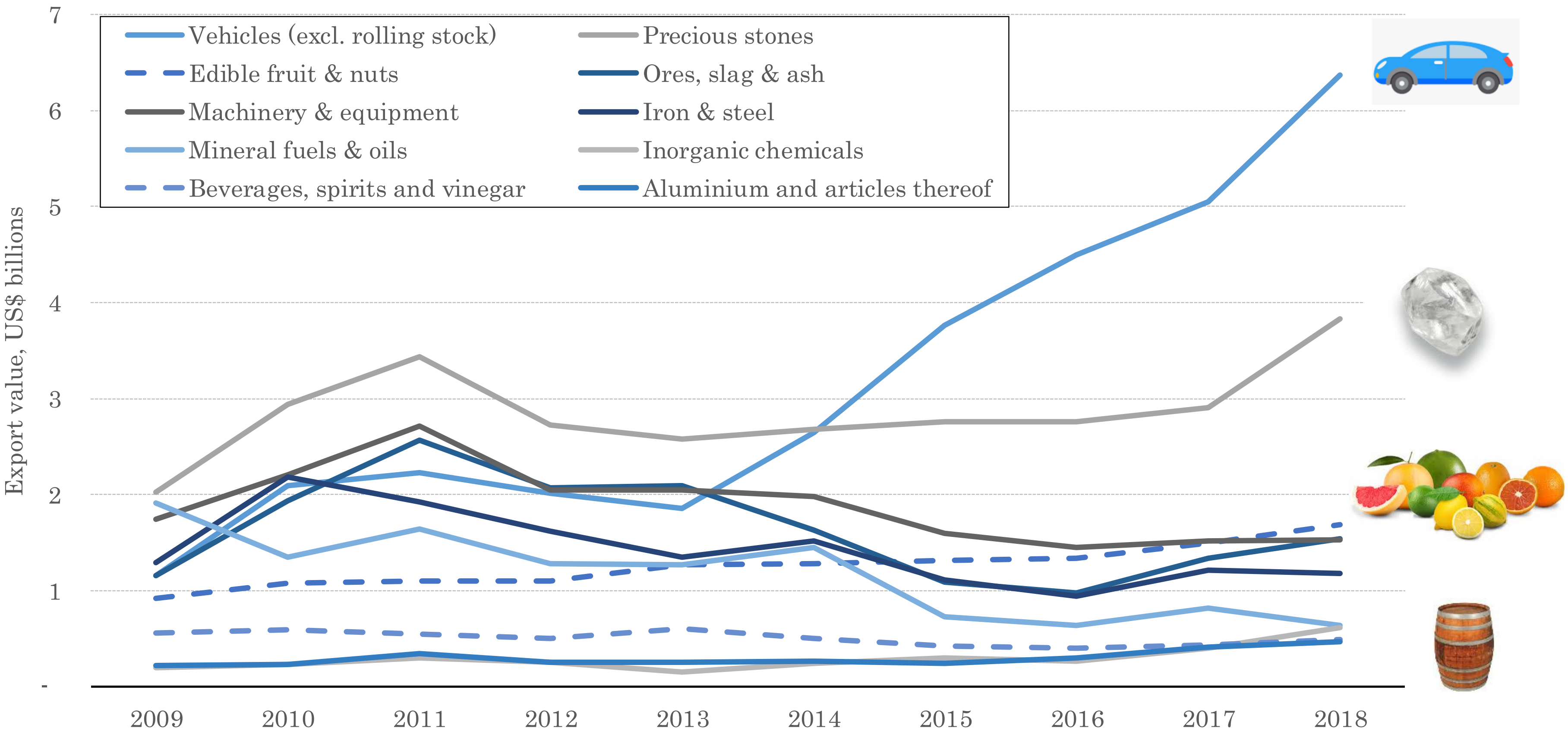



***Source: ITC Trade Map***




Source: ITC Trade Map

# Top 10 exports to the EU




*Source: ITC Trade Map*

*Tariff-Rate Quotas*

# TRQ VALUE CHAIN STUDY

# Tariff-rate Quotas

- Established under the SADC-EU Economic Partnership Agreement to facilitate trade in Oct 2016
- It's a 2-step tariff system that combines import quotas & tariffs
- SA companies apply for the TRQ allocation via the DALRRD
  - **TRQ allocations are allocated on an annual basis i.e. Jan – Dec**

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# TRQs for SA exports to the EU

| SA exports to the EU | SA TRQ (tonnes), 2019 | EU Ad Valorem | TRQ duty | TRQ %, 2018 |
|---|---|---|---|---|
| Cane sugar for refining | 100 000 | 33.9 EUR/100 kg (1701 14 10)<br>33.9 EUR/100 kg (1701 13 10) | 100% MFN | 100% |
| Refined sugar or cane sugar for refining | 50 000 | 33.9 EUR/100 kg (1701 14 10)<br>41.9 EUR/100 kg (1701 99 10)<br>33.9 EUR/100 kg (1701 13 10) | 100% MFN | 99% |
| Frozen orange juice | 1 099 | 15.20% | 50% MFN | 98% |
| Wine Quota B (bulk wine) | 33 953 | 18.25%* | 100% MFN | 94% |
| Wine Quota A (bottle wine) | 79 224 | Depends on HS code e.g.<br>13.1 EUR/hl (<13%)<br>15.4 EUR/hl (13<%<15)<br>1.75 EUR > % vol/hl | 100% MFN | 84% |
| Apple juice | 3 829 | 21.43% | 50% MFN | 83% |

# TRQs for SA exports to the EU (contd.)

| SA exports to the EU | SA TRQ (tonnes), 2019 | EU Ad Valorem | TRQ duty | TRQ %, 2018 |
|---|---|---|---|---|
| Canned fruit, except tropical canned fruit | 57 156 | 17.65% | 36% MFN | 44% |
| Active yeast | 350 | 14.70% | 100% MFN | 21% |
| Ethanol (bio & synthetic ethanol) | 80 000 | 19,2 EUR/hl (220710) | 100% MFN | 16% |
| | | 10,2 EUR/hl (220720) | | |
| Tropical canned fruit | 3 140 | 8.50% | 50% MFN | 8% |
| Butter | 500 | 189.6 EUR/100 kg | 100% MFN | 0% |
| Citrus jams | 100 | 20.00% | 50% MFN | 0% |
| Frozen strawberries | 400 | 14.40% | 100% MFN | 0% |
| Skimmed milk powder | 500 | 118.8 EUR/100 kg | 100% MFN | 0% |
| | | 125.4 EUR/100 kg | | |
| | | 1.19 EUR/kg/lactic matter + 21 EUR/100 kg | | |
| | | 1.19 EUR/kg/lactic matter + 27.5 EUR/100 kg | | |
| White crystalline powder | 500 | 26.8 EUR/100 kg | 100% MFN | 0% |

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# TRQs for EU exports to SA

| EU export product | SA Quota (tonnes), 2019 | SARS rate of duty | TRQ duty | TRQ %, 2018 |
|---|---|---|---|---|
| Pork | 1 250 | 15% or 130c/kg | 50% MFN | 102% |
| Butter and other dairy fats | 350 | 500c/kg with a maximum of 79% | 50% MFN | 100% |
| Pig fat | 140 | 8c/kg | 100% MFN | 100% |
| Wheat and Meslin | 251 495 | 66,47c/kg | 100% MFN | 99% |
| Ice Cream | 105 | 18.33% | 50% MFN | 76% |
| Cheese | 5 345 | 500c/kg with a maximum of 95% | 100% MFN | 45% |
| Barley | 8 970 | 0.00% | 100% MFN | 0% |
| Cereal-based food preparations | 1 610 | 10% or 55c/kg less 90% | 25% MFN | 0% |
| Mortadella Bologna | 70 | 40.00% | 100% MFN | 0% |

*Sugar-to-Bioethanol value chain*

# TRQ VALUE CHAIN STUDY

# Sugar-to-bioethanol value chain

- Internationally, developed thanks to substantial government support
- Recent shift towards biofuels is increasingly driven by:
  - **Rising (volatile) international crude oil prices that reduce demand for gasoline and diesel fuels**
  - **Environmental and climate change mitigation considerations**

# EU Strategy for Biofuels

- Objectives:
  - **Stimulate demand for biofuels in the EU as a way of lowering GHG emissions**
  - **Encourage sustainable production of feedstock towards diversifying fuel supply sources and developing long-term replacement fuels**
  - **Support developing countries capable of producing biofuel**
- Producer & importer requirements:
  - **GHG savings of at least 60% or higher**
  - **Can not be obtained from land with high biodiversity value & high carbon stock**
  - **Raw materials produced in accordance environmental considerations**

# National Biofuels Strategy

- Still yet to be finalised, since 2007
    - **Mandatory blending rates to create a domestic market**
    - **Feedstock producer incentives**
- Strategy provides certainty that bioethanol producers required to invest & scale-up
    - **Identifies sugar as the highest potential for bioethanol production**
- Implementation requires support from government departments – skills development and R&D
- As a result, very little domestic use, with over 60% of domestic production exported (EPSA, 2019)

Lower reliance on oil imports

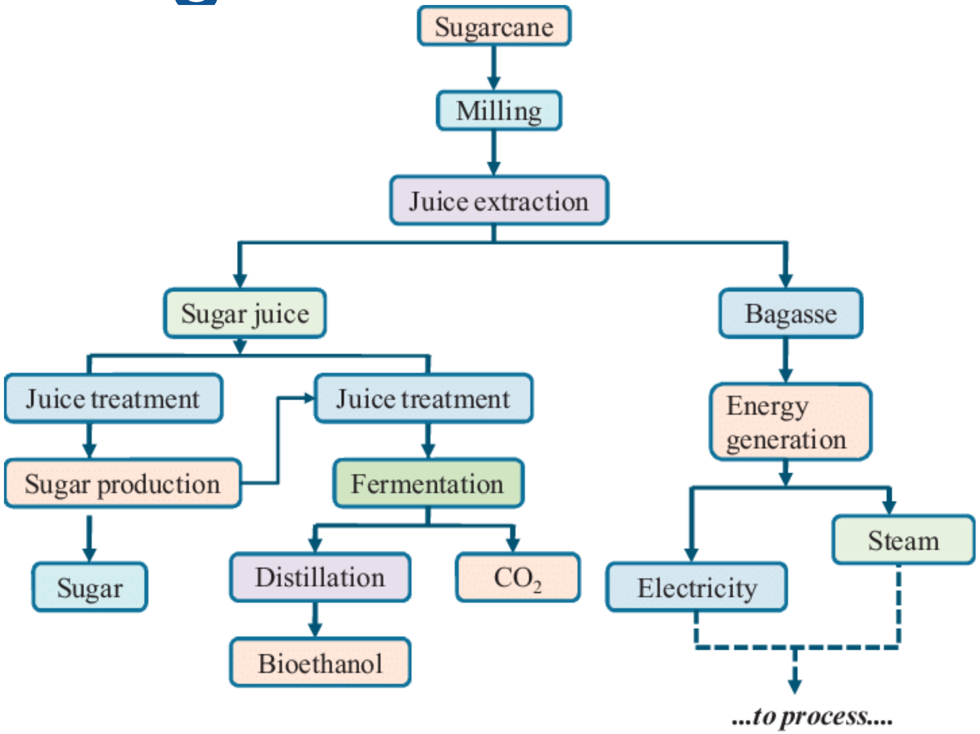
Diversification opportunities into biofuel

## Benefits of using sugar as feedstock for bioethanol industry

Reduce carbon emissions, lessening the economic consequences from droughts, crop failures, water shortages

Job creation & skills development, especially among the rural and marginalised communities

# Sugar-to-Bioethanol value chain



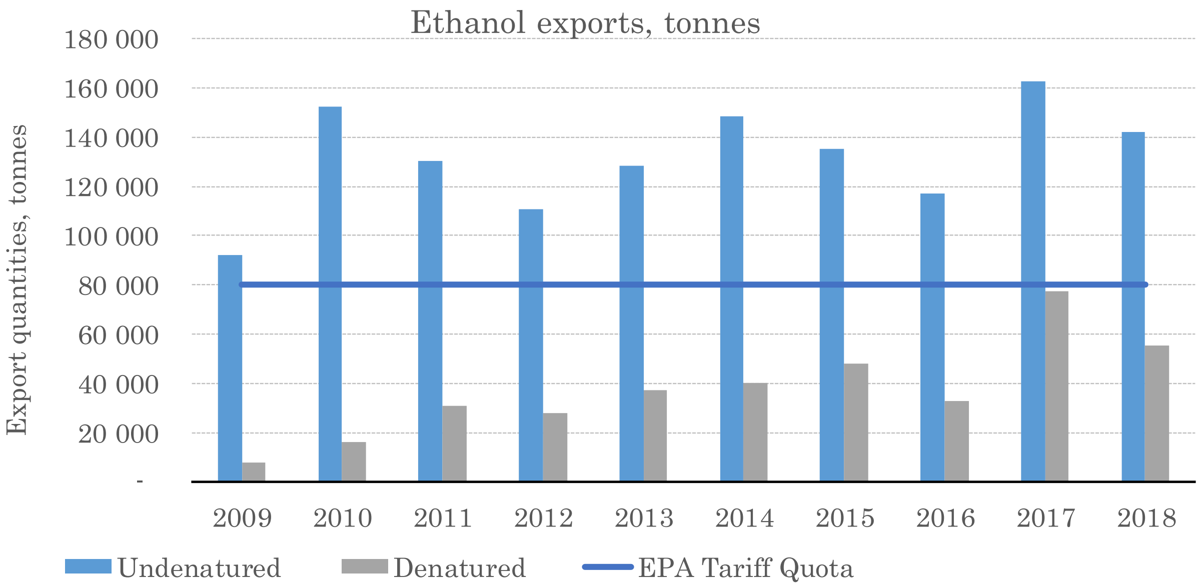

| SA Company | Capacity (klaa) to date | Ethanol type |
|---|---|---|
| Glendale Distilling Co. | 5 000 | Sugar Based |
| Illovo Sugar - Merebank | 50 000 | Sugar Based |
| NCP Alcohols | 65 000 | Sugar Based |
| Sasol South Africa | 285 000 | Synthetic |
| **Total** | **405 000** | |

*Source: Ethanol Producers Association of Southern Africa*

***Undenatured*** **or potable ethanol (HS220710) is used for beverages and industrial organic chemical production.**

***Denatured*** **ethanol (HS220720) is used as fuel, blended with gasoline or neat**

# SA Exports of ethanol to the world, 2009 - 2018




***Source: ITC Trade Map***

- South Africa is a net exporter of ethanol, Ethanol exports, by category:
  - **Undenatured ethyl alcohol: 80%**
  - **Denatured ethyl alcohol: 20%**
- Main export markets are:
  - **Undenatured: Zambia, Angola, Madagascar, Singapore, and most recently Rwanda**
  - **Denatured: UAE, Republic of Korea & Singapore**
- Exports to the EU are <10%

# Sugar-to-ethanol NTBs

- Stringent requirements to export to the EU
  - **Value chain traceability**
- High certification costs associated with voluntary schemes e.g. Bonscurro and Roundtable on Sustainable Biomaterials (RSB)
- But, there is one examples of biofuel feedstock that was certified i.e. Project Solaris in Limpopo
  - **Licence issued in 2015, but currently suspended (temporary invalidation of the certificate).**

# Preliminary conclusions

- The SADC-EU EPA provides export opportunities in support of sustainable economic development
- Currently, there is mixed us of TRQs by both South African and EU exporters
- Bioethanol case study:
  - **Possible non-tariff barriers issues from stringent regulations**
  - **Finalisation of bioethanol policy will be effective in providing industry with adequate support & investment certainty – improve domestic demand (*which could decrease exports*)**

# Thank you for your attention

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** Final results will be shared on https://sadc-epa-outreach.com/*