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N24 AGOA
3rd August, 2017

Mr E Gresser
Chair of the Trade Policy Staff Committee
Office of the United States Trade Representative
AGOA Implementation Sub-Committee of the Trade Policy Staff Committee (TPSC)
Email: www.regulations.gov

Reference: Docket number USTR-2017-0005

Dear Mr Gresser

AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA) ANNUAL REVIEW OF COUNTRY ELIGIBILITY FOR BENEFITS UNDER AGOA IN CALENDAR 2018: JOINT NAAMSA AND NAACAM ELECTRONIC SUBMISSION ON BEHALF OF THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY

1. Introduction

The National Association of Automobile Manufacturers of South Africa (NAAMSA) represents the interests of South African vehicle manufacturers producing a broad range of new motor vehicles in South Africa for both the domestic and export markets, including the United States.

The National Association of Automotive Component and Allied Manufacturers (NAACAM) represents the interests of original equipment and replacement parts producers in South Africa for both domestic usage and increasingly for export markets, including the United States.

2. Background to the AGOA Review of country eligibility for 2018 AGOA benefits – South Africa

In terms of a notice in the United States Federal Register dated 11th July, 2017 interested parties were invited to submit comment relevant to the annual Review of the eligibility of sub-Saharan countries, including South Africa, to receive AGOA benefits in respect of calendar year 2018.

We have reviewed the Terms of Reference relevant to the Review and provide herewith comment on the specific Terms of Reference.

3. Submission by NAAMSA and NAACAM on the Specific Terms of Reference: AGOA eligibility

As a general statement, we would point out that in many respects South Africa complies and, in some cases, exceeds internationally accepted norms and standards in respect of most of the requirements and criteria which forms part of the Review.

Comment on the specific focus of the Review, namely, whether the AGOA beneficiary country, in this case South Africa, has established or is making continual progress towards establishing / implementing a number of socio-political-economic performance criteria is summarised hereunder –

3.1 A market-based economy

The South African economy is a market-based dispensation based on the principles of free enterprise. The economy is characterized by the involvement of an extensive private sector operating in conjunction with a number of parastatals and state-owned enterprises. United States business interests are well represented in South Africa with most of the leading American multi-national corporations actively participating in the South African economy. Over 600 American corporations participate in the South African economy with combined multi billion Rand investments.

3.2 The rule of law, political pluralism and the right to due process

The Rule of Law is prescribed in the Constitution of South Africa and applies to all citizens and businesses in the country.

South Africa is generally recognised for its focus on human rights, its independent judicial and legal system and independent media which serve to underpin the country's constitutional democracy.

South Africa is a multi-party democracy (i.e. political pluralism) with effective and robust parliamentary and legislative processes based on the principle of extensive consultation with stakeholders, including business.

All citizens in South Africa and business operations have the right to due process.

3.3 The elimination of barriers to US Trade and Investment

Other than certain regulatory technical, safety and health provisions, NAAMSA and NAACAM are unaware of any significant barriers to US Trade and Investment.

Automotive trade between the United States and South Africa has shown consistent growth with imports into South Africa from the USA growing at a substantially faster rate, in many years, than South African automotive exports to the United States.

Please refer the economic commentary in section 4.

Where there are legitimate concerns on the part of US interests regarding barriers to trade and investment – these can and should be addressed between the respective governments/administrations. It is our understanding that the South African government remains open and willing to consider issues in this regard.

NAAMSA and NAACAM are aware of the concern by the US administration and various US businesses about the unfair advantage enjoyed by European companies as a result of the South Africa/European Union Free Trade Agreement. Moreover, the United States has indicated a desire to move to more permanent trade and investment relations with South Africa.

NAAMSA and NAACAM herewith reiterate preparedness to participate in discussions with the United States administration, via the South African government, on the possibility of a future bilateral trade agreement between the two countries. The South African government is aware of this.

3.4 Economic Policies to reduce poverty

Unemployment represents one of the biggest challenges confronting South Africa. The official unemployment rate is currently at around 27%. Moreover, many elements of official economic policy in South Africa are aimed at reducing unemployment, poverty and inequality.

A major obstacle in successfully reducing unemployment, poverty and inequality is the fact that the South African economy is currently experiencing very low economic growth. The official projected growth rate for 2017 is 0.5%, however, many economic indicators suggest that the economy will move into recession.

A substantially higher growth rate of around 5.0% - which is the aim of South Africa's National Development Plan – is imperative to boost growth and development, employment and to reduce inequality and poverty in the country.

This is one of the reasons why continued full eligibility by South Africa in terms of AGOA is so essential – since it does support continued growth and development of the automotive industry in South Africa which contributes 7.4% at present to South Africa's Gross Domestic Product.

3.5 A system to combat corruption and bribery

South Africa has in place anti-corruption and bribery legislation of global standard. At present there is much controversy in South Africa about what has been termed 'state capture' which involves inappropriate alleged benefits accruing from State Owned Enterprises and Government to a select group of people. There are well-reported instances of attempts to subvert and/or ignore this legislation.

The independent Chapter Nine agencies such as the office of the Public Protector, opposition parties in parliament and the South African media have individually and collectively, at different times, tended to be vocal and critical about fraud and corruption and, where it occurs, those involved are held accountable through public scrutiny and criticism, as well as in several cases through the judicial system, once it has run its course.

As a matter of policy, the private sector in South Africa remains opposed to all forms of fraud, corruption and bribery.

3.6 The protection of internationally recognized worker rights

South Africa is recognized internationally as a country which has adopted and implemented a leading

position in respect of worker rights, as well as human rights. South Africa complies and in many instances exceeds International Labour Organization standards governing worker rights.

Worker rights are protected by statutes such as the Labour Relations Act and the Basic Conditions of Employment Act – amongst others – as well as an active Trade Union movement in the country. In the SA automotive industry, Trade Unions are well established and entrenched. The largest Trade Union, the National Union of Metalworkers of South Africa, negotiates wages and benefits with automotive sector employers aimed at uplifting the living standards of workers. In addition, the Commission for Conciliation, Mediation and Arbitration can be approached on labour relations issues and represents a legal means of protecting the rights of workers as well as the interests of employers.

3.7 The country may not engage in activities that undermine US national security or foreign policy interests or engage in gross violations of internationally recognized human rights

We continue to be unaware of any possible activities in South Africa that could compromise US National Security or foreign policy interests. We are also not aware of any gross violations of internationally recognized human rights.

4. Economic Commentary: The Importance of AGOA to both the South African and United States automotive sectors

The mutual benefits of two-way trade in automotive products – vehicles and components – for both the United States and South Africa are significant from a South African perspective as confirmed by the SA-US automotive trade data – **schedules attached** – 2005-2016.

Moreover, vehicle imports by South Africa from the United States have also continued to grow significantly in recent years. These are vehicles manufactured in US automotive plants supporting US manufacturing and employment.

The growth in trade and component exports results, in our view, in the following benefits for American companies –

- Positive contribution to manufacturing facilities utilisation and to company overheads at US auto corporations;
- Vehicle exports from the US to South Africa supports demand for US manufactured original equipment components used to build such vehicles;
- Growing two-way trade contributes positively to sustaining employment in the United States supplier and vehicle manufacturing industries, particularly in South Africa and sub-Saharan African countries. The industry is increasingly involved in regional integration and the building of automotive capacity in other African countries.

The **attached** schedules reflect the importance of automotive exports from the United States to South Africa, which, in many years, have grown at a higher rate than automotive exports from South Africa to the US. The weak economic environment in South Africa did have a marginally negative impact on US exports to South Africa in 2016.

5. Concluding remarks

AGOA represents an important and generous trade instrument to support the future growth and development of South Africa and sub-Saharan Africa – whilst at the same time offering positive spin-offs for American businesses.

It remains our view that growing trade, investment and business relationships benefits both parties. We accept, in principle, that at some point in the future a bilateral trade agreement between South Africa and the United States will need to be negotiated.

NAAMSA and NAACAM welcome the opportunity to provide comment on the AGOA Review of South Africa's AGOA eligibility for benefits and this submission is on behalf of South African automotive companies which includes major American multi-national automotive corporations as well as a growing number of United States automotive component manufacturers.

Sincerely



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