



N24 AGOA
18th July, 2019

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-2019-0006

Dear Mr Gresser

AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA): ANNUAL REVIEW OF COUNTRY ELIGIBILITY FOR BENEFITS UNDER AGOA IN CALENDAR 2020: 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. NAACAM supports this submission.

2. Background to the AGOA Review of country eligibility for 2020 AGOA benefits – South Africa

In terms of a notice in the United States Federal Register dated 28th June, 2019 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 2020.

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 most 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

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.

3.3 Political pluralism

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.

3.4 The right to due process

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

3.5 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.

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 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.

3.6 Economic Policies to reduce poverty

Unemployment represents probably the biggest challenge 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.

The biggest challenge 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 2019 is 1.0% - below the population growth rate of 1,7%.

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 main 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 about 6.8% at present to South Africa's Gross Domestic Product.

3.7 A system to combat corruption and bribery

South Africa has in place anti-corruption and bribery legislation although there are concerns about its efficacy and implementation. 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.

The sixth national democratic elections in South Africa had taken place on 8th May 2019 with the African National Congress (ANC) victorious and with Mr Cyril Ramaphosa re-elected as President. With a revamped administration it is expected to result in strong and decisive action to deal with past instances of fraud and corruption in South Africa.

The private sector in South Africa remains opposed to all forms of fraud, corruption and bribery.

3.8 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.

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

The mutual benefits and positive contribution of two-way trade in automotive products – vehicles and components – are summarized in the *attached* schedules.

The *attached* schedules reflect the quantum (in Rand value) of automotive trade between the United States to South Africa. From 2010 through 2018, exports from the USA to South Africa have grown at a higher rate than automotive exports from South Africa to the USA. It is important to note that South African exports of vehicles to the US have declined substantially in 2018 as a result of the fact that BMW 3-series has ceased production in South African and had been replaced by the X3 model which is also manufactured in the US. The Mercedes-Benz C-class, which was previously also exported to the US from South Africa, had been replaced by the new C-class which is also manufactured in the US. Consequently, exports of South African light vehicles to the United States have declined significantly in 2018 and we anticipate that the automotive trade balance will move and remain in favour of the United States from 2018 onwards.

5. Comment on recent developments and Concluding remarks

AGOA represents a non-reciprocal trade arrangement between the United States and South Africa which enables exporters of South African produced motor vehicles to export new cars into the US duty free (the duty saving is 2.5%). Duty free SA exports of light commercials into the US are also covered and the potential duty saving here is 25%. Exports of components are subject to varying duty rates between 2.5% and 5.0% and these are also covered by the duty-free access provisions. Furthermore, automotive components exported under the Generalised System of Preferences (GSP) attract no duty at present.

The Trump administration initiated a Section 232 (national security) investigation in respect of imports of passenger cars and automotive parts. The investigation commenced on 23rd May, 2018. The US President, based on the findings, can decide whether to impose trade remedies such as additional tariffs and quotas. The outcome of the investigation is still awaited pending further negotiations.

It remains our view that growing trade, investment and business relationships benefits both parties. In fact, growing trade and business relations would support the continuation of and improvement in political relationships between the two countries. The converse also applies.

Sincerely

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