Purpose, Vision and Values

Our Purpose

The SACU Secretariat exists to facilitate the achievement of the SACU objectives as outlined in the 2002 SACU agreement. With neutrality and dedicated focus, we provide support for all SACU activities, thereby influencing the SACU agenda. Our organisation offers expertise, consistency and continuity in the drive to promote regional integration for the benefit of all Member States. By engaging with diverse, challenging regional and global issues, we grow ourselves and others with whom we work. We make an innovative contribution through collaboration, professionalism and determination.

Our Vision

To be a regional leader exemplifying the ideal practice of providing quality service to a Customs Union.

Our Values:

Visionary Leadership

We recognize the need to set a vision in our respective areas of work that stretches our organizational focus beyond the immediate situation and out to a shared future.

Trustworthiness

We value honesty and we expect people to always treat one another professionally and with respect, leading to mutual trust.

Performance-driven

We value the willingness of people to be responsible and accountable for:
the quality of their work
the importance of achieving positive results
their ability to meet or surpass expectations and manage resources entrusted to them in a cost effective and efficient manner.

Integrity

We believe in exercising Integrity in all business dealings with our trade partners; our business associates and our allies in serving our stakeholders.
We treat them with respect, fairness and integrity at all times and expect the same in return.
We will always take the high road by practicing the highest ethical standards, and by honouring our commitments.
We will take personal responsibility for our actions, and treat everyone fairly and with trust and respect.

People Centered

We are committed to an environment characterized by continuous learning, an entrepreneurial, can-do spirit and team orientation. In addition, we are committed to an environment that is willing to allow for a healthy balance between our professional and personal lives. This commitment will enable us to attract and retain the best-qualified people and create a workplace of which we can be proud and where we can always enjoy our work, while seeking to carry out our mission.

Working together

We recognize that our strength and our competitive advantage is, and always will be people. We value the skills, strengths, and perspectives of our diverse team. We will continually learn, and share ideas and knowledge. We will encourage cooperative efforts at every level and across all activities in our Organisation.

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Abbreviations

ACP	African, Caribbean and Pacific Group of countries
ALC	Agricultural Liaison Committee
BLNS	Botswana, Lesotho, Namibia and Swaziland
CET	Common External Tariff
CIF	Cost Insurance and Freight
CMA	Common Monetary Area
CNM	Common Negotiating Mechanism
COMESA	Common Market for East and Southern Africa
EAC	East African Community
EC	European Community
EFTA	European Free Trade Association
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
IT	Information Technology
LDC	Least Developed Country
MERCOSUR	Southern Common Market comprising Argentina, Paraguay, Uruguay and Brazil
MMTZ	Mozambique, Malawi, Tanzania and Zambia Market Access Arrangement with SACU Countries.
PTA	Preferential Trade Agreement
REC	Regional Economic Community
SACU	Southern African Customs Union
SAD	Single Administrative Document
SADC	Southern African Development Community
SPS	Sanitary and Phyto - Sanitary
TBT	Technical barriers to trade
TCIDP	Textile and Clothing Industry Development Programme
TDCA	Trade Development and Cooperation Agreement
TIDCA	Trade, Industrial Development and Cooperation Agreement
UNCTAD	United Nations Conference on Trade and Development
WCO	World Customs Union
WTO	World Trade Organization



Foreword by The SACU Executive Secretary

It is with great pleasure that I present the Southern African Customs Union (SACU) Secretariat's inaugural Annual Report. The Report covers the reporting period for the calendar year 2007. It provides an overview of SACU as an organisation; its operating structures, implementation of the SACU work programme, its achievements and challenges. The year 2007 marked the third year since the entry into force of the 2002 SACU Agreement.

The main objectives of SACU as a trade organization is to promote conditions for fair competition in the Customs area, enhance economic development of the Members and promote the integration of Member States into the global economy through trade and investment initiatives. SACU as a revamped Organisation through the new 2002 rules based dispensation, provides for common institutions which are transparent, effective, and democratic. The 2002 SACU Agreement takes into account current developments in international trade relations and the desire by Member States to have a modern Customs Union that can cater for the needs and challenges of the 21st century.

An important institution that was set up following the entry into force of the 2002 SACU Agreement is the Secretariat. The Agreement paved the way for the establishment of the Secretariat. The challenges of starting the Secretariat were unique as this involved the establishment of an organization complete with a legal personality, privileges, and immunities and operational mechanisms. During the year under review, the Secretariat consolidated and begun implementation of the organisations processes, policies and procedures to enable it to operate as a fully fledged business. The main focus of the Secretariat during 2007 was to continue to assist Member States with the implementation of the new SACU Agreement. On the trade side, this included concluding SACU/EFTA FTA and commencing with SACU/India PTA negotiations. In order to further strengthen SACU's negotiating capacity with third parties, the Secretariat worked on a proposal for a Common Negotiating Mechanism as provided for in the Agreement. On the policy side work started in the areas of agriculture, industrial and competition policy development while sectoral policy initiatives in the textile and clothing sector continued.

The Agreement also provides for other new institutions which are still to be established. Work on establishing the Tribunal and the Tariff Board continued during the year under review. The main focus was on building capacity in the Member States through workshops as well as training of Officials from the Member States on tariff policy at the International Trade Administration Commission (ITAC) of South Africa. These new institutions have to be established while ensuring a smooth and uninterrupted transition from the previous dispensation.
The SACU Council has decided to accelerate the consolidation of SACU to ensure that SACU responds proactively to the regional integration dynamics and that it functions as a proper Customs Union. SACU is acutely aware that it is faced by regional and global developments that have implications for its integration agenda as outlined in the 2002 SACU Agreement. To respond to these challenges, the SACU Council of Ministers appointed a Task Team on Regional Integration at Commission level in December 2006 to initiate the necessary technical studies which can inform SACU Council about the policy options. It is expected that the technical studies will form the base of such a comprehensive SACU wide Strategy. The Secretariat has been assisting the SACU Task Team in this work.

On trade facilitation, work continued on the implementation of the five Customs initiatives which include; one stop borders, capacity building of Customs officials, electronic data interchange, single administrative documents and joint border controls.

Without doubt, the most demanding task is realising the full implementation of the 2002 SACU Agreement and fulfilling its intended objectives for the benefit of its Members. This requires a common vision of the future. As the 2002 SACU Agreement is being implemented, a dynamic process is unfolding. The Secretariat, as the only permanent SACU institution tasked with the responsibility for the day to day administration of SACU is at the centre of such developments. This task requires flexibility and adequate technical capacity at both the Secretariat and in the Member States. The Secretariat is committed to strengthening its capabilities in order to render timely and high quality service towards the realisation of the SACU objectives as contained in the Agreement. As we endeavour to do this however, we need the support of the Member States to acquire the required human, financial and physical resources. Above all, we need the trust of the Member States that the required resources will be utilized in the best interests of the Member States and SACU as a whole.

Under the 2002 Agreement the Secretariat is also the custodian of all SACU records and has the duty to disseminate information about the work of the Secretariat and other SACU institutions.
It is our expectation that this Report contains information which is useful to the public and private sector stakeholders.

Tswelopele C. Moremi
Executive Secretary

CHAPTER 1 – OVERVIEW of SACU

About SACU

SACU is the oldest customs union in the world; having been established in 1910 it consists of five member States: Botswana, Lesotho, Namibia, South Africa and Swaziland.

SACU is a single customs territory and has a common external tariff. The 2002 Agreement covers trade in goods, agriculture and transport. Goods grown, produced or manufactured in the Common Customs Area are traded freely among the Member States, free of customs duties and quantitative restrictions, except as provided elsewhere in the 2002 SACU Agreement.

SACU operates a Common Revenue Pool into which all customs, excise and additional duties are paid. Each Member State receives a share from this pool, calculated in terms of the Revenue Sharing Formula provided for in Annex 1 of the SACU Agreement.

The Union of South Africa and the then High Commission Territories of Bechuanaland, Basutoland and Swaziland were the original participants in the Customs Union, through the SACU Agreement of 1910. When the three territories became independent, a new Agreement providing for the continuation of the customs union arrangement was concluded between these three states and South Africa and it entered into force on 11 December 1969. When Namibia became independent in 1990 it became a member of SACU in the same year; previously it was a de-facto member through South Africa.

With the advent of a new political dispensation in South Africa in the early 1990's and in response to the establishment of the World Trade Organization (WTO), the Member States decided in 1994 to renegotiate the SACU 1969 Agreement and to establish an organization "to cater for the needs of the 21st century". The 1969 Agreement was renegotiated after South Africa obtained a democratically elected government in 1994, taking account of the social, economic, political and international changes in the sub-region and elsewhere. This process culminated in the signing of the new SACU Agreement on 21st October 2002. The Member States agreed on a democratic and transparent arrangement with common policies and common institutions to promote industrial and economic development and regional integration.

Following the signing of the Agreement, the Council of Ministers embarked on a recruitment process for the Executive Secretary of the SACU Secretariat. The Executive Secretary assumed office in January 2004. The immediate priority was ensuring the ratification of the 2002 SACU Agreement by the Member States and the establishment of the SACU Secretariat's office which acted as a depositary for the Instruments of Ratification. The new SACU Agreement entered into force on 15 July 2004.

2002 SACU Agreement

An important difference between the Agreement and the previous 1969 agreement is that it provides for joint responsibility over decisions affecting tariff setting, the Common Revenue Pool and the overall direction of SACU. The 2002 Agreement provides for the establishment of new Institutions to reflect the joint decision-making process. These include an independent SACU Secretariat, which is already in place and is based in Windhoek, Namibia. A Tariff Board, a Tribunal and National Bodies are in the process of being established. The National Bodies are to be established by each Member State to coordinate SACU matters and to deal with requests from the private sector on tariff changes. The creation of these Institutions is part of continued efforts towards a more cohesive regional market.

The 2002 Agreement provides for deeper economic integration through the development of common industrial, agriculture and competition policies as well as policies on unfair trade practices.

Some of the key improvements of the 2002 Agreement over the 1969 version include the democratization of decision-making, now consensus-based, and the concomitant establishment of a dispute resolution mechanism, a commitment to exploring ways to devise common or co-ordinated policies; the removal of any one member's ability to negotiate bilateral trade agreements with third parties. All members must now negotiate as a single entity.

Objectives of the Agreement

The 2002 Agreement, in Article 2, establishes eight separate objectives of SACU covering revenue-sharing arrangements, trade negotiations, investment, industrialisation and common policy development. These are

1. To facilitate the cross-border movement of goods between the territories of the Member States;

2. To create effective, transparent and democratic institutions which will ensure equitable trade benefits to Member States;

3. To promote conditions of fair competition in the Common Customs Area;

4. To substantially increase investment opportunities in the Common Customs Area;

5. To enhance the economic development, diversification, industrialization and competitiveness of Member States;

6. To promote the integration of Member States into the global economy through enhanced trade and investment;

7. To facilitate the equitable sharing of revenue arising from customs, excise and additional duties levied by Member States; and

8. To facilitate the development of common policies and strategies

Scope of the Agreement

In nine parts, the 2002 Agreement spells out the implementation arrangements that are to be put in place to achieve these eight objectives.

The nine parts of the Agreement are:

Part One: Definitions and Objectives

Part Two: Establishment and Legal Status

Part Three: SACU Institutions

Part Four: SACU Meetings

Part Five: Trade Liberalization

Part Six: Common Revenue Pool Management

Part Seven: Revenue Sharing

Part Eight: Common Policies

Part Nine: Final Provisions covering the development of annexes, amendments, ratification, entry into force, accession, depository, withdrawal, transitional provisions and the termination of the 1969 Agreement.

Member States' Obligations and Commitments

The main obligations and commitments of the Member States in the implementation of the 2002 Agreement, as outlined by the Agreement are:

- To jointly determine customs and excise duties and apply a common external tariff regime to non-SACU members, as well as a common system of rebates, refunds and drawbacks.

- To transfer all customs and excise duties into a Common Revenue Pool with disbursements to Member States based on a revenue formula contained in the Agreement, including a customs component excise component and a development component.

- To create tariff-free trade between members with an exception provided to infant industry levies allowed to Botswana, Lesotho, Namibia and Swaziland (BLNS) and approved by Council.

- To apply non-discrimination principles in rail and road transport and transit between SACU members.

- To pursue simplification, harmonization of customs documentation and procedures and co-operation on customs initiatives to ensure effective and harmonious application of the Agreement.

- To negotiate as one group for external negotiations and for the Common Negotiating Mechanism to undertake negotiations with third parties.

- To develop common policies and strategies for industrial development.

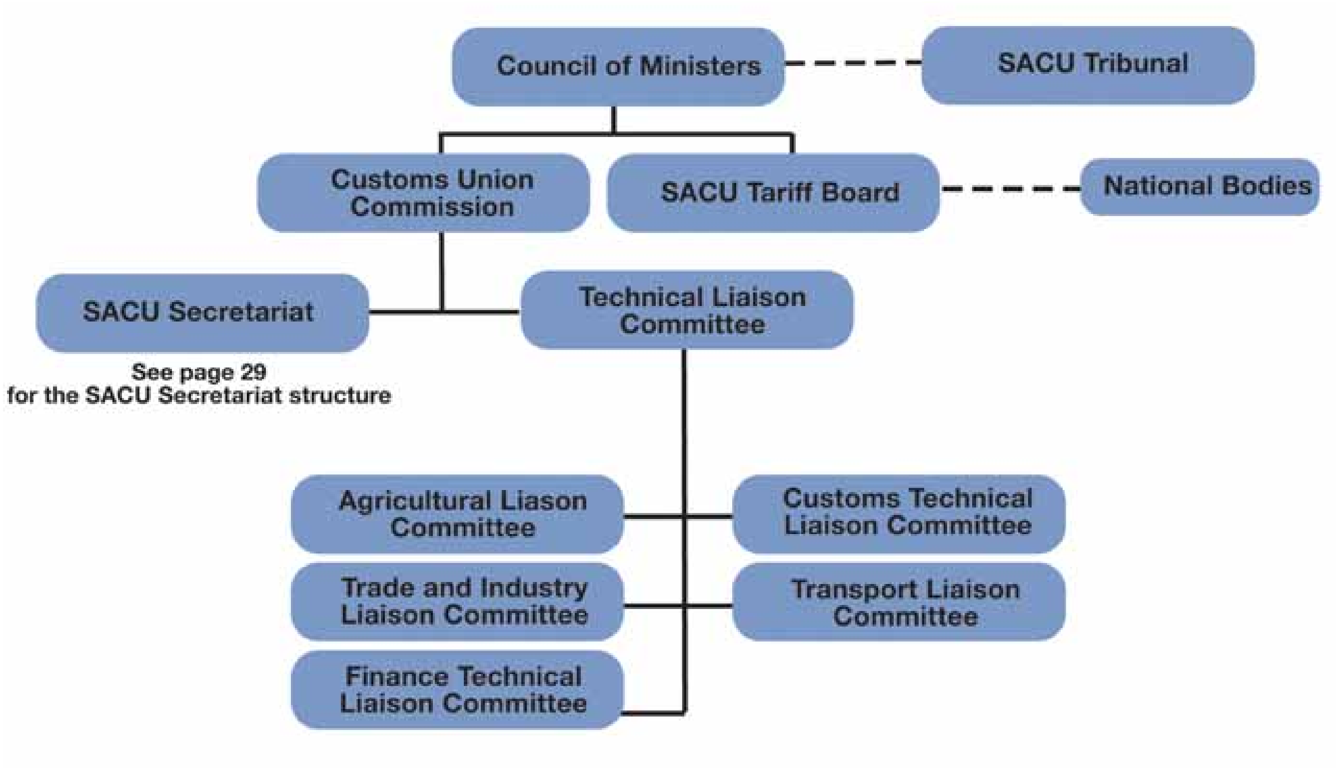
- To develop policies and instruments to address unfair trade practices.

- To co-operate, for the purposes of coordination, in the areas of technical barriers to trade, agricultural policy and competition policy.

- To apply Sanitary and Phyto-Sanitary (SPS) standards according to national or international standards.

- To adjudicate disputes on the interpretation and application of the Agreement through the Tribunal.

The Structure of SACU



SACU INSTITUTIONS

SACU Institutions are contained in Article 7 of the 2002 SACU Agreement and include the SACU Council of Ministers, the SACU Customs Union Commission, the Secretariat, a Tariff Board, a Tribunal, and Technical Liaison Committees.

SACU Council of Ministers

The SACU Council of Ministers is the supreme policy and decision-making body on all SACU matters. It consists of at least one Minister from the Ministry of Finance and Ministry of Trade of each Member State and is responsible for the overall policy direction and functioning of SACU Institutions, including the formulation of policy mandates, procedures and guidelines for these Institutions.

The Council oversees the implementation of the policies of SACU and approves customs tariffs, rebates, refunds or drawbacks and trade related remedies, upon recommendation from the Tariff Board. The Council has the authority to create additional Institutions and to determine and alter their terms of reference.

The 2002 SACU Agreement makes provisions for the Chairmanship of Council to be held in turn by each Member State (Botswana, Lesotho, Namibia, South Africa, and Swaziland) for a period of one year, beginning 14th July of a given year. The date of 14 July is the day inwhich the current SACU Agreement was signed in 2002. The chairmanship is rotated among the Member States on an annual basis in an alphabetical order.

The current Chairman of the SACU Council of Ministers is the Honourable Minister of Finance and Development Planning for Botswana, Honourable Baledzi Gaolathe.

The Chairmanship of SACU since the signing of the 2002 SACU Agreement which came into force in July 2004 is outlined below:

- July 2004 - Namibia, through the Honourable Minister of Finance Ms. S. Kuugongelwa- Amadhila
- July 2005 - South Africa, though the Honourable Minister of Finance Mr. T. Manuel
- July 2006 - Swaziland, through the Honourable Minister of Finance Mr. Majozi Sithole
- July 2007 – Botswana, through the Honourable Minister of Finance Mr. Baledzi Gaolathe.

Customs Union Commission

The Commission consists of senior officials at the level of Permanent Secretaries, Directors-General, Principal Secretaries or other officials of equivalent rank, from each Member State from the Ministry of Finance and the Ministry of Trade and reports to the Council. The Commission is responsible for the implementation of the 2002 SACU Agreement and the decisions of the Council.

The Commission is responsible for overseeing the management of the Common Revenue Pool in accordance with the policy guidelines decided by the Council. It supervises the work of the Secretariat.

Secretariat

The Secretariat is one of the SACU permanent Institutions. It has its headquarters in Windhoek, Namibia and is headed by an Executive Secretary who is a citizen of a SACU Member State. It is responsible for the day-today administration of SACU. The Secretariat coordinates and monitors the implementation of all decisions of the Council and the Commission. It arranges meetings, disseminates information and keeps minutes of meetings of the SACU Institutions. In addition, the Secretariat assists in the harmonization of national policies and strategies of Member States in so far as they relate to SACU. The Secretariat is also responsible for keeping a record of all transactions into and out of the Common Revenue Pool and coordinates and assists in the negotiation of trade agreements with third parties. The Secretariat is the depositary of all SACU records.

Tariff Board

The Tariff Board, once established, it will be an independent Institution consisting of experts drawn from Member States. The Tariff Board is responsible for making recommendations to the Council on the level and changes of customs, anti-dumping, countervailing and safeguard duties on goods imported from outside the Common Customs Area, rebates refunds, or duty drawbacks based on the directives given to it by the Council as provided for in Article 8 of the 2002 SACU Agreement.

The terms of reference, policy mandates, procedures and regulations of the Tariff Board are determined by the Council in accordance with Article 8 of the 2002 SACU Agreement.

Tribunal

The Tribunal, once established, will adjudicate on any issue concerning the application or interpretation of the SACU Agreement 2002 or any dispute arising there under at the request of the Council. Its determinations will be final and binding. The Tribunal will also, at the request of the Council, consider any issue and furnish the Council with its recommendations. The Tribunal will be assisted by the Secretariat in its work and it will be composed of three members except as otherwise determined by Council. Decisions will be made by a majority vote.

In the event of any dispute or difference arising between Member States in relation to or arising out of the 2002 SACU Agreement, including its interpretation, the parties shall in the first instance meet and consult in an attempt to settle such dispute or difference before referring the matter to the Tribunal.

Technical Liaison Committees

There are five Technical Liaison Committees, which assist and advise the Commission in its work. They include an Agricultural Liaison Committee, a Customs Liaison Committee, a Trade and Industry Liaison Committee, a Transport Liaison Committee and a Finance Liaison Committee. The Terms of Reference of these Committees are determined by the Council. They are specialized Committees, covering specific sectors.

Economic Profile of SACU as a Collective

As a collective, SACU has an economic environment that is conducive to investment and increased trade. The SACU region is characterized by increasing growth rates, low inflation, increasing levels of intra-SACU trade and overall prudent fiscal management. With its GDP averaging R1,637 billion the economic activity is pillared on the mining, manufacturing and construction sectors. Total population in the region is approximately 55 million resulting in a per capita GDP of about R29,970.

In comparison with other economic communities in the region, SACU has a revelativly large economy. In terms of total GDP, SACU is almost the same size as COMESA and accounts for about 48% of the SADC GDP. On a per capita basis, SACU has a significantly large per capita. In terms of population, SACU has a significantly small population.

Each economic community is generally characterized by the presence of one or two large economies and/or populations, which dominate the respective communities. It is notable that South Africa's GDP comprises over 90 percent of SACU's total GDP and South Africa is the main driver of growth in the region and recognized as a trade hub.

All SACU Member States, except Botswana, are also members of the Common Monetary Area and their respective currencies are at par with the South African Rand. This arrangement allows for the applicability of similar policies in counteracting inflationary pressures and facilitates intra-SACU trade.

Social challenges remain a huge challenge in the SACU region and may undermine the economic prospects, if not successfully addressed. Over dependence of the BLNS on SACU receipts poses a challenge in light of remarkable efforts to deepen regional integration.

Table 1: Comparison between Economic Communities

Economic Community	Total population	Total GDP (US$)	GDP/Capita
COMESA excluding SACU	390,000,000	275,000,000,000	705
EAC	90,000,000	30,000,000,000	333
SADC excluding SACU	192,520,000	211,527,801,602	1,098
SACU	55,180,000	220,472,198,398	3,996

Source: REC websites (Comesa, SADC & EAC)

POSITIONING OF SACU

Regional Integration

SACU is currently faced by global and regional developments that have implications for its regional integration agenda and for its work activities to contribute towards the full implementation of the SACU Agreement. SACU recognises the unfolding regional development process of the Southern African Development Community (SADC) its envisaged FTA by 2008 and the establishment of the SADC Customs Union by 2010.

The SACU Agreement of 2002 is about the promotion of regional and global integration. This is strongly implied and provided for in the Agreement. Deeper integration is an imperative for the integration of the SACU economies into the global economy.

The promotion of deeper integration needs to be underpinned by a strong political will and a sustained commitment by all stakeholders. An important step in the promotion of deeper integration is the development of a strategy on how to translate the agreed objectives into reality. In this process, Member States remain committed to the successful implementation of the strategy underpinning the integration process. The responsibility of Member States is to provide an enabling legal framework and to establish the right structures to promote integration.

Integration becomes a mutually reinforcing and harmonious process when the ensuing practices tally with policies for growth and development across Member States. Legal and institutional arrangements are important requirements to ensure compliance, monitoring and transparency. There is also a need to continuously engage with other regional organisations with a view to sharing experiences.

To respond to these challenges for deepening regional integration to the unfolding regional integration agenda. Council appointed a SACU Task Team at the Commission level in September 2006. The primary mandate of the SACU Task Team is to address issues of accelerating the implementation for the 2002 SACU Agreement in support of deepening regional integration in the Southern African region.

Two studies have been commissioned in 2007, one is intended to analyze the impact of the proposed 2008 SADC FTA, another the impact of the 2010 SADC Customs Union on SACU Member States and a comprehensive analysis on the Consolidation of SACU.

The commissioning of the analytical studies was predicated on the basis of ensuring deeper and wider regional integration through the implementation of the 2002 SACU Agreement.

The studies are to serve as input to the SACU Wide Strategy which should inform Member States on its positioning and role towards the broader regional integration agenda.

Communication Strategy

SACU is a young organisation. Though being the oldest Customs Union in the world, it remains largely unknown. During the period under review a SACU Communication Strategy was developed and adopted by the Council at its meeting in December 2007. The Communication Strategy was developed as a response to an identified need to increase the visibility and awareness of SACU, among its Member States and beyond.

The purpose of the SACU Communication Strategy is to provide a framework for a formalised, structured and targeted approach in creating awareness about SACU, and in engaging SACU stakeholders. The development of the Communication Strategy followed a practical and consultative approach in order to determine the issues and challenges that the Communications Strategy should address. The focus of this approach was to engage SACU stakeholders; create awareness about SACU and the 2002 Agreement with its far-reaching reforms since the organisation was established in 1910.

This approach determined current perceptions about SACU; the identification of key stakeholders for a targeted and succinct implementation programme.

Implementation of the Communication Strategy will be primarily two fold. First, through a leadership profiling programme and second through the establishment of stakeholder platforms and forums. Both processes will set out to leverage the existence of SACU. The proposed initiatives have taken into account the need for a sustained, consistent and cost effective implementation framework, while maintaining a subtle approach in creating visibility of the Customs Union.

CHAPTER 2 – TRADE FACILITATION AND REVENUE MANAGEMENT

Overview of the Trade Facilitation Work Programme

The primary goal of trade facilitation is to reduce the transaction costs and complexity of international trade for business and improve the trading environment in a region, while at the same time optimising efficient and effective levels of government control and revenue collection.

Trade facilitation relates to a comprehensive and integrated approach aimed at developing a consistent, transparent and predictable environment in which international trade transactions take place and covers all the steps necessary to facilitate the movement of goods across borders. Trade facilitation is based on internationally accepted norms and practices resulting from the simplification of formalities and procedures; the standardization and improvement of physical infrastructure and facilities and the harmonization of applicable laws and regulations.

The key trade facilitation instruments in SACU include the application of similar legislation with regard to customs and excise duties, customs cooperation, use of common customs documentation and common procedures and practices. One of the key objectives of SACU, as enshrined in Article 2 of the Agreement, is to facilitate the cross-border movement of goods between the territories of the Member States. In support of this objective, Article 24 provides for freedom of transit across Member States while Article 27 provides for non-discrimination with respect to transport operators from within the Common Customs Area.

Efforts to promote the key tenets of trade facilitation within SACU during the review period include: the development of programmes for the key customs initiatives, facilitating meetings of the Technical Liaison Committees and developing support instruments to facilitate trade.

SACU Single Administrative Document

The introduction of the Single Administrative Document (SAD 500) in the customs territories of Lesotho, Swaziland and some parts of South Africa in October 2006 was a milestone in the effort to facilitate cross-border movement of goods across SACU. This completed the introduction of the SAD in SACU. Subsequently, initiatives were undertaken to harmonise the interpretation and usage of the fields on the SAD 500 and to develop a common SACU SAD Manual.

Establishment of a One Stop Border Arrangement

In September 2007, a concept paper proposing possible models for a One Stop Border arrangement in SACU was developed. Consequently, the Juxtaposed Model was adopted as the preferred model for One Stop Borders in SACU. Work on defining the operational modalities for this model is continuing.

Introduction of Joint Controls

An action plan for finalizing a strategy on coordinated customs operations and joint controls has been developed. Work on finalizing the strategy is continuing.

Use of Electronic Data Interchange by Customs Authorities

Real time exchange of customs data between the Customs administrations of Member States is essential in facilitating the cross-border movement of goods. Work on defining the fields of data for exchange and developing a template to record the data used by all Member States, in line with the World Customs Union (WCO) SAFE Framework of Standards is continuing.

Capacity Building Initiative

Priority areas requiring focus and training have been identified and agreed. Work on developing a learning needs assessment tool and developing uniform customs training programmes in these priority areas is continuing.

Other Initiatives

In support of the efforts to develop modern Customs administrations in SACU, a consultative process with the WCO was initiated during the period under review. The consultations sought to explore the possibility, feasibility and desirability of a regional approach to the implementation of the second phase of the WCO Columbus Programme on customs reform and modernization.

Overview of the Revenue Management Work Programme

Part Six of the 2002 SACU Agreement establishes a Common Revenue Pool consisting of all customs, excise and additional duties collected in the Common Customs Area. Part Seven of the Agreement provides a formula for the determination of the respective shares of Member State. Annex 1 of the SACU Agreement details this Revenue Sharing Formula.

The Annex identifies the data that is required to apply the formula for determining revenue shares. In practice, duties are collected by all Member States and transferred to the Common Revenue Pool on a quarterly basis. Each year, revenue shares are determined by the Council of Ministers and payouts to Member States are made on a quarterly basis.

During the year under review, efforts were focussed on addressing trade data problems and addressing issues around the management of the Common Revenue Pool.

Trade Data

In an attempt to improve the integrity of the key data that is used for the determination of Member States' customs share of the Common Revenue Pool, an audit of intra-SACU trade data was undertaken in 2006. The audit focused on the processes and systems for the collection, compilation and submission of data to the Secretariat for purposes of determining revenue shares. In particular, the audit considered definition issues, accounting (valuation) principles as well as the processes for collection, capturing and collation of trade data.

The SACU Council adopted a plan to address the recommendations of the audit findings in December 2006. Implementation of the recommendations of the Audit Report continued throughout the period under review.

Management of the Common Revenue Pool

As part of the implementation of Article 33 (1) of the 2002 SACU Agreement, which stipulates that "A Member State or SACU Institution may be appointed to manage the Common revenue Pool", a study was commissioned in November 2006, to update the options on the management of the Common Revenue Pool.

A report on the study on the Management of the Common Revenue Pool was produced in January 2007. The report recommended a management option, which entails keeping the Common Revenue Pool in South Africa and greater oversight by the Secretariat. The SACU Council is yet to make a decision on this recommendation.

Other Initiatives

A key performance measure approved by the Council in the 2006/07 operational year is the development of a statistical database focussing on trade and economic data.

In order to facilitate the collection of data from Member States, the Secretariat developed a template for the preparation of Economic Background Papers. This template covers both qualitative and quantitative information on each Member State. During the year, Economic Background Papers were received from all Member States.

In addition, a template for the submission of intra-SACU trade data was developed and agreed by the Member States.

During the year, a rudimentary database was developed by the Secretariat, reflecting the data received from Member States. Efforts are on to improve the database and obtain time series data from Member States.

Key Achievements

In addition to the items listed above, a number of other key achievements on Trade Facilitation and Revenue Management were made during the year under review. In the area of trade facilitation:

- Two Annexes, one on the SACU Single Origin and another on Mutual Administrative Assistance were developed.
- The SACU Single Origin Annex was adopted by the Council in September 2006. This Annex lays down the rules to facilitate the issue of certificates of origin by Customs Authorities of the Member States. The Annex provides procedures for facilitating the: Issuing of certificates of origin and the verification and follow up of suppliers declarations; issuing of approved-exporter authorisations that would be valid in several Member States; and methods of administra tive cooperation between Member States.
- The Annex on Mutual Administrative Assistance seeks to promote cooperation among Member States and ensure that the Customs legislation is effectively applied across the Customs Union. The Annex also seeks to promote cooperation in ensuring security of the international trade supply chain.
- Additional efforts were made to promote and facilitate cross-border movement of goods through specialized Technical Liaison Committees, which deal with operational aspects of the Customs Union, transport and commodity level issues. Four meetings of the Technical Liaison Committee were held during the review period. The main areas of discussion centred around border post operating hours for selected border posts, technical barriers to the movement of goods and sector and product specific issues.

Achievements related to the Revenue Management include:

- The implementation of the new Revenue Sharing Formula began in 2005/06. This was preceded by a series of meetings to verify the data used in the calculation of revenue shares. In order to implement the new formula, a Task Team was established to look at the data elements used in the Revenue Sharing Formula.
- Additional efforts to implement a revenue management structure consistent with Article 33 of the Agreement included the establishment of a dedicated Finance Technical Liaison Committee tasked with monitoring and advising on operational aspects related to the Common Revenue Pool.
- An audit of the processes and systems for the collection and summarisation of intra-SACU trade data was successfully undertaken. This resulted in an agreement on a common definition for an intra-SACU import as well as some agreement on some customs procedures related to intra-SACU movement of goods.

CHAPTER 3 – TRADE NEGOTIATIONS

Overview of the Trade Negotiations Work Programme

The SACU Common External Tariff (CET) is one of the cornerstones of the Customs Union. Ensuring the integrity thereof is important, as this will ensure the continued credibility of SACU as an institution. In the past, this principle was not always upheld. Member States entered into bilateral trade agreements with third countries offering tariff preferences aimed exclusively at improving bilateral trade relations between the two parties, contrary to the principles of a single SACU market envisaged by the formation of the Customs Union.

In order to address this anomaly, Article 31 was introduced into the 2002 SACU Agreement, envisaging the establishment of a Common Negotiating Mechanism (CNM). Article 31 is based on the understanding that in the future no individual SACU Member State can enter into a new or amend an existing preferential trade agreement with a third party without the prior consent of all the other Member States. As a result, the SACU Council took an in-principle decision that in the future all trade negotiations with third parties must be conducted with SACU acting as a block. For the ongoing negotiations, i.e. the free trade agreement with the European Free Trade Association (EFTA) and the Preferential Trade Agreement with MERCOSUR, South Africa was appointed as the lead negotiator. For other negotiations any SACU Member Sate could be appointed to fulfil this role. This arrangement will be kept in place until such time that a CNM has been formally adopted and a structure for trade negotiations been created.

The focus for the year under review fell on concluding existing trade negotiations, starting the process leading to a trade agreement with India, as well as developing the CNM.

Bilateral Trade Initiatives

During 2007, SACU trade negotiators dealt with the following bilateral initiatives:

Free Trade Agreement (FTA) between SACU and the European Free Trade Association (EFTA)

The FTA between SACU and EFTA was signed in July 2006. Member States on both sides started a process of ratification immediately thereafter. However, delays were experienced as not all SACU Member States were able to conclude this process during 2007, due to time-consuming internal legislative procedures. This prevented the implementation of the FTA by 1 January 2008. Another problem related specifically to the fact that not all SACU Member States had ratified the three bilateral agricultural agreements with Iceland, Norway and Switzerland. These agreements form part of the instruments establishing the free trade area between SACU and EFTA.

SACU-USA Trade, Investment and Development Cooperation Agreement (TIDCA)

Following the suspension of the negotiations on a free trade agreement between SACU and the USA, a process was started for a SACU-USA Trade, Investment and Development Cooperation Agreement (TIDCA). This agreement will provide the framework for formal interaction between the two parties, while also providing a basis to enter into separate agreements on technical issues. Issues that have so far been jointly identified were SPS, technical barriers to trade (TBT), customs cooperation, as well as trade promotion involving the private sector. SACU and USA negotiators met twice during the course of the year with the aim to finalize this agreement. Substantial progress was made and it is expected that this agreement can be signed during the first half of 2008.

Economic Partnership Agreement between the Southern African Development Community (SADC) and the European Community (EC) (SADC-EC EPA)

As part of the built-in agenda of the Cotonou Agreement between the European Union and the African, Caribbean and Pacific (ACP) group of countries, a commitment was made to conclude Economic Partnership Agreements (EPA) aimed at developing a trade relationship based on reciprocity in accordance with WTO obligations. This was necessary as the preferences granted under the Cotonou Agreement were subject to a WTO waiver that expired on 31 December 2007. Specific negotiating configurations were formed, based on regional affiliations. All five SACU Member States are members of the SADC configuration, albeit South Africa, initially

only participated as an observer. This came as a result of the country's special relation with the European Union in terms of the Trade, Development and Cooperation Agreement (TDCA). The other three countries included in this configuration were Angola, Tanzania and Mozambique. In March 2006, SADC tabled a framework proposal to the EC outlining its vision of a SADC-EU EPA, which addresses the following issues:

- Inclusion of South Africa into the SADC EPA as a full member.
- Non-reciprocity for non-SACU LDC's (Angola, Mozambique and Tanzania).
- Trade-related rules (new generation issues) where SADC does not foresee any binding commitments to be included in the EPA.

The EC undertook extensive internal consultations and provided its response only in March 2007, accepting the proposal that South Africa would become a full member of the SADC EPA Group, although with some conditions attached. One condition would be that South Africa would not enjoy the same duty-free-quota-free market access other ACP States would enjoy. Following the EC response, negotiations between the two sides started, culminating in the initialling of an Interim EPA by five SADC Member States – Botswana, Lesotho, Mozambique, Namibia (with reservations) and Swaziland – during November and December 2007. Angola and South Africa identified a number of concerns that prevented the two countries from initialling the agreement. The Interim EPA will be provisionally implemented by the EC as of 1 January 2008, while it is expected that the SADC EPA Group countries that initialled the agreement should implement it as of 1 July 2008.

SACU-MERCOSUR Preferential Trade Agreement

In December 2004, SACU and MERCOSUR Member States signed a Preferential Trade Agreement (PTA) aimed at providing tariff preferences for a selected number of goods on both sides. The PTA also provides for the possibility of entering into negotiations on a full-fledged FTA at a future date. However, as not all areas of negotiations were concluded, an understanding was reached that negotiations should continue to address these outstanding issues. Negotiations continued throughout 2006 and in 2007 negotiators from all sides met in October 2007 to finalize the agreement. However, as not all issues could be resolved, it was agreed that a further round of negotiations is required. It is expected that this round of negotiations will take place during the first half of 2008 and the aim is to conclude the negotiations and sign the amended agreement as soon as possible thereafter.

SACU-India Preferential Trade Agreement

In October 2007, SACU and India launched negotiations towards a PTA between the two sides. Namibia was appointed to lead the negotiations on the SACU side. Negotiators agreed to use the respective PTA's with MERCOSUR as a basis for this agreement. Negotiations began with the preparations of a Memorandum of Understanding outlining the framework. It is expected that this Memorandum of Understanding will be signed during 2008, while the negotiations on the PTA should be completed by the end of 2009. At least two negotiating rounds are envisaged for 2008.

SACU-India-MERCOSUR Trilateral Engagement

SACU, India and MERCOSUR met in October 2007 to discuss a possible trilateral engagement between the three regions. The objective of this meeting was to evaluate the possibility of strengthening trade relations amongst the three regions through a formalised arrangement. This could include the conclusion of a Trilateral Trade Agreement. No specific commitment was made to this effect and the three sides agreed to continue their discussions. It was also agreed that a trilateral engagement could only be contemplated once the respective bilateral PTA's were concluded and implemented.

Other Bilateral Engagements

SACU has been exploring the possibility of establishing formal trade relations with China, as well as looking at Africa as a potential source for future growth in trade for SACU Member States. Research to evaluate the

benefits and costs of these possibilities is continuing. In addition, SACU considered a number of requests from other countries or regions for entering into a formalised trading arrangement. This shows the increasing interest in the SACU region as a potential trading partner. However Council decided that every effort should be made to conclude ongoing negotiations first (multilateral and bilateral), including evaluating the potential benefits of entering into an agreement with an African region, before any new commitment can be made.

Multilateral Trade Initiatives

All SACU Member States are members of the WTO on 25 june 2007. As such, they participate in the activities of this organization, including the Doha Development Round of Negotiations. Limited progress was made on these negotiations during 2007. SACU used this time to consolidate its position under the leadership of South Africa, who SACU Trade Ministers reconfirmed as the SACU coordinator for this process.

SACU Member States and Secretariat officials also participated in a number of other multilateral forums, including the SADC Summit, African Union meetings, meetings organised by United Nations agencies, as well as meetings of the African, Caribbean and Pacific Group of Countries.

SACU Common Negotiating Mechanism

Article 31 of the 2002 SACU Agreement mandates the establishment of a Common Negotiating Mechanism (CNM) for SACU. Work on developing the CNM started in 2007 and the SACU Secretariat has been tasked to coordinate this process. A final draft Annex was developed and presented to the Council during its meeting in December 2007. After considering this annex, the Council referred it to the SACU Ministers responsible for Trade to provide further policy direction on the CNM. Specific issues that have to be addressed include placing the CNM within the proper context of regional integration efforts in SACU, while also dealing with the question of developing common policies for SACU as a whole, especially in the area of industrial policy, agricultural policy and competition.

It is expected that SACU Trade Ministers will deal with these matters during the first half of 2008 and that the CNM will be adopted by the end of 2008 and implemented soon thereafter.

Notification of SACU to the WTO

SACU was notified as a Customs Union to the WTO on 25 June 2007 in terms of Article 24 of GATT 94. This will ensure a better understanding of SACU as a region amongst WTO members, giving SACU a legal standing and improve coordination amongst SACU Member States on positions and issues discussed at the WTO and other negotiations.

Key Achievements

The key achievements in the area of trade negotiations can be summarised as follows:

- Notification of SACU to the WTO.
- Developing a final draft Annex on the Common Negotiating Mechanism.
- Launching the negotiations with India on a Preferential Trade Agreement.

CHAPTER 4 - POLICY DEVELOPMENT AND RESEARCH

Overview of the Policy Development and Research work programme

One of the objectives of the 2002 SACU Agreement is to facilitate the development of common policies and strategies. The Agreement states that for 2002 SACU to develop as a viable regional economic entity, progress is needed in intra-SACU policy the development, harmonization, or co-operation. As per the SACU Agreement, Article 2 (h), the crucial objective of "facilitating development of common policies and strategies" required that as an important mandate, SACU had to start work on developing common policies for the region.

The focus for SACU to start work on common policy development is contained in part eight of the 2002 SACU Agreement, which deals with common policies. Specific areas include industrial policies and strategies (Article 38), agricultural policies (Article 39), competition policies, laws and regulations (Article 40), and policies and instruments to address unfair trade practices (Article 41).

It also includes areas under Part Five of the Agreement such as harmonized technical regulations and product standards (Article 28) and sanitary and phyto-sanitary measures (Article 30).

In the year under review it is seen that progress towards fulfilling the objective of policy development at regional level has been limited but extensive preparatory work has been done to get the process on track for the subsequent year.

Industrial Policy

During the period under review, work started on the policy development agenda. On industrial policy, SACU Member States recognised the importance of balanced industrial development of the Common Customs Area as an important objective for economic development and pursuant to this, agreed that common policies and strategies with respect to industrial development be developed. A workshop was held on this in August 2006 which concluded that SACU should start work on the development of the common industrial policy. At the workshop the urgent need for an industrial policy was emphasized for SACU as it is an essential step towards the effective operation of the National Bodies and the Tariff Board. It will also be an important component in formulating tariff and trade policy which has a bearing on revenue sharing arrangements.

The Member States further exchanged their existing policies in order to start a discourse on the meaning and scope of a SACU industrial policy and begin to identify possible components of such a policy. During 2007, a SACU Task Team was also formed composing of the Member States contact persons to oversee the development of the industrial policy. The Task Team was entrusted to develop a roadmap to firstly spearhead the process of defining a common understanding and vision for common industrial policy development for SACU. During the latter part of the year, Member States submitted papers on their levels of ambition as regards to their understanding of common policy development. This process is expected to be followed with developing generic elements common to all Member States' industrial policies and an analysis to identify gaps, commonalities and divergences concerning industrial policies in SACU Member States.

Agricultural Policy

On Agriculture, Member States recognise the importance of the agricultural sector to their economies and agree to cooperate on agricultural policies in order to ensure the coordinated development of the agricultural sector within the Common Customs Area. A workshop held in 2006, to discuss future cooperation on agricultural policies as provided for in Article 39 of the SACU Agreement, had concluded with the understanding that there was a need to set out the common definition, objectives, and scope of the policies to be included Agricultural Policy Cooperation. The workshop report further outlined a process, detailing possible actions and timeframes for the timely implementation of Article 39.

The workshop was the first opportunity for SACU Member States' agricultural officials to brainstorm on Article 39. The workshop not only served as a forum for orientation but also a forum for stock-taking, information sharing and objective-setting. The Member States also submitted their agricultural policies to the Secretariat and it was observed that upon close inspection, the policies are of a varying nature and needs extensive analysis and collation into a comprehensive discussion document.

During 2007, a Sub-Committee of the Agricultural Liaison Committee (ALC) concerned on Agricultural Policy Development approved the terms of reference to develop a policy audit and inventory of the agricultural policies in Member States. The audit involves collating existing policies, policy processes, and sectoral competitiveness of Member States. The audit aims at identifying areas where policy harmonization already exists and where gaps in policies and potential policy conflicts occur. The resulting audit could then be used to develop a coordinated policy framework. The intention is that the policy audit be completed during the first part of 2008.

Competition Policy

During the year under review, Member States agreed to cooperate with each other on the enforcement of competition laws and regulations. Policies and instruments to address unfair trade practices between Member States must also be developed.

The process of considering Competition issues within SACU is driven by the Articles 40 and 41 of the 2002 SACU Agreement. Article 40 deals with Competition Policy and the requirement for Member States to all have Competition Policies as a pre-requisite for an intra-SACU cooperation mechanism. The cooperation mechanism should also point out the process with respect to the enforcement of Competition Policies and regulations within SACU. Article 41 requires that policies and instruments be developed to address Unfair Trade Practices between Member States and for these to be annexed to the SACU Agreement. When the new SACU Agreement came into effect in 2004, the process of developing annexes to these articles started when the Trade and Industry Liaison Committee took the initiative to work on the development of an Annex on Unfair Trade Practices as contained in Article 41 of the SACU Agreement.

In this regard, the work on the development of Article 40 and 41 commenced in December 2006 with the adoption of the Roadmap by the Council on the proposed activities, process and procedures of developing the Competition Policy. A steering committee was constituted in December 2006. In order to get a comprehensive and realistic view on policy perspectives on competition issues within SACU as well as to ensure consultative input to the process, mission visits were conducted to all Member States during the first quarter of 2007. This was done in cooperation with UNCTAD.

The draft annexes have been finalised and need to be discussed and adopted by the Member States for implementation next year.

Sectoral Priorities (SACU Textile and Clothing Sector)

With respect to the development of the long-term strategy for the SACU textile and clothing sector, this has become a priority for the Council. The Council also directed that a consultant be commissioned to undertake research on all aspects relating to the development of a long-term strategy, including the cost-benefit analysis of the Textile and Clothing Industry Development Programme (TCIDP) and the options for a replacement scheme for the TCIDP.

As a result, the Task Team has been established in 2007 which developed the Terms of Reference for a study on the long-term strategy. It is the intention that this Terms of Reference be adopted early next year to initiate research in this area.

Other Policy Development and Research Initiatives

With respect to technical barriers to trade and sanitary and phyto-sanitary measures, Member States strive to harmonize product standards and technical regulations within the Common Customs Area and have agreed to cooperate on the enforcement of measures from time to time as to facilitate free flow of goods between Member States. This has prompted the Member States to interrogate and collate information on all non-tariff barriers in agriculture. The Member States agreed to consult internally with all relevant institutions, including technical institutions overseeing some of these non-tariff barriers, with a view to provide country reports to the Secretariat to ensure a consolidated policy paper for SACU.

The SACU proposal on the extension of the Mozambique, Malawi, Tanzania and Zambia (MMTZ) Market Access Arrangement had been accepted by the Council. In this regard, MMTZ were requested to gazette their market access offers to BLNS.

On administration of Agricultural Rebates, the Member States enquired on the listing and quantification of all agricultural rebates to get an analysis of the possible impact of rebates on food security and what the positions are on the review of administration of wheat and dairy facilities as well as quota levels. Two workshops were held in 2007 in which Member States were informed of the nature and process of the administration of rebates. The report has indicated that the rebates have a positive impact on food security in the Member States' economies.

On Infant Industry Protection, a workshop was held during the year to discuss the policy relevance of Infant Industry Protection as per Article 26 of the SACU Agreement. The workshop presented its policy recommendations to the ALC wherein they were adopted. Currently, a process is underway to develop a implementation legal annex that details the legal guidelines for Infant Industry Protection implementation.

Key Achievements

The key achievements in the area of policy development can be summarised as follows:

- Completion of the draft Annexes on Competition Policy and Unfair Trade Practices.
- SACU workshop on Agriculture Policy development.
- Adoption of the Policy Report on Developing Modalities for Infant Industry Protection (Article 26).
- Analysis that details the nature and process of the administration of Agricultural Rebates.
- Approved SACU position on MMTZ market access quotas.

Chapter 5 – SACU SECRETARIAT OPERATIONAL ENVIRONMENT

The Secretariat

The SACU Secretariat is the technical arm of SACU. It is one of the permanent institutions of the SACU. The Secretariat's function is to provide a wide range of services, such as coordination of technical studies, follow-up on implementation of the 2002 SACU Agreement and monitoring and implementation of decisions of the SACU Council of Ministers. It is headed by the Executive Secretary, assisted by three Directors. The Executive Secretary has overseen employment of professional staff that possesses specialised skills in various fields.

Operations of the Secretariat commenced in January 2004 with the deployment of the Executive Secretary. Subsequently, six positions were created and filled in 2005, namely: Director Trade Facilitation & Revenue Management; Director Policy Development & Research; Director Corporate Services; Legal Advisor; Internal Auditor and Human Resources Specialist.

The recruitment of professional and support staff accelerated in 2006 and 2007 and the number of staff recruited as at 31 December 2007 reached 26. The total staff complement for the Secretariat is pegged at 40.

Article 10 of the 2002 SACU Agreement states that the SACU Secretariat shall:

a) be responsible for the day-to-day administration of SACU;

b) coordinate and monitor the implementation of all decisions of the Council and the Commission;

c) arrange meetings, disseminate information and keep minutes of meetings of SACU Institutions;

d) assist in the harmonization of national policies and strategies of Member States in so far as they relate to SACU;

e) be headed by an Executive Secretary who shall be a citizen of a Member State;

f) have such other staff as may be determined by the Commission from time to time;

g) be responsible for keeping a record of all transactions into and out of the Common Revenue Pool;

h) coordinate and assist in the negotiation of trade agreements with third parties;

i) perform such other duties as may be assigned to it from time to time by the Council and the Commission; and

j) be the depositary of all records of SACU.

During the period under review, the Secretariat commenced the development of the SACU Secretariat Strategy which espouses the Secretariat's Purpose, Vision and Values.

Purpose, Vision and Values

Our Purpose:

The SACU Secretariat exists to facilitate the achievement of the SACU objectives as outlined in the 2002 SACU Agreement. With neutrality and dedicated focus, we provide support for all SACU activities, thereby influencing the SACU agenda. Our organisation offers expertise, consistency and continuity in the drive to promote regional integration for the benefit of all Member States. By engaging with diverse, challenging regional and global issues, we grow ourselves and others with whom we work. We make an innovative contribution through collaboration, professionalism and determination.

Our vision:

To be a regional leader, exemplifying the ideal practice of providing quality service to a Customs Union.

Our Values:

Visionary Leadership: We recognize the need to set a vision in our respective areas of work that stretches our organizational focus beyond the immediate situation and out to a shared future.

Trustworthiness: We value honesty and we expect people to always treat one another professionally and with respect, leading to mutual trust.

Performance-driven: We value the willingness of people to be responsible and accountable for:

- the quality of their work;
- the importance of achieving positive results; and
- their ability to meet or surpass expectations and manage resources entrusted to them in a cost effective and efficient manner.

Integrity: We believe in exercising Integrity in all business dealings with our trade partners; our business associates and our allies in serving our stakeholders.

- We treat them with respect, fairness and integrity at all times and expect the same in return.
- We will always take the high road by practicing the highest ethical standards, and by honouring our commitments.
- We will take personal responsibility for our actions, and treat everyone fairly and with trust and respect.

People Centred: We are committed to an environment characterized by continuous learning, an entrepreneurial, can-do spirit and a team orientation. In addition, we are committed to an environment that is willing to allow for a healthy balance between our professional and personal lives. This commitment will enable us to attract and retain the best-qualified people and create a workplace of which we can be proud and where we can always enjoy our work, while seeking to carry out our mission.

Working Together: We recognize our strength and our competitive advantage is and always will be people. We value the skills, strengths, and perspectives of our diverse team. We will continually learn, and share ideas and knowledge. We will encourage cooperative efforts at every level and across all activities in our Organisation.

SACU Secretariat Directorates

The work of the Secretariat is implemented through four functional units which are the Directorates of:

a) The Executive Secretary's Office;

b) Trade Facilitation and Revenue Management;

c) Policy Development and Research; and

d) Corporate Services.

The Executive Secretary's Office

This Directorate comprises four units, namely:

- Office of the Executive Secretary
- Legal Assurance
- Audit Assurance
- Communications

The role of the Executive Secretary's office is to facilitate and ensure the implementations of all decisions of the SACU Council of Ministers and the SACU Commission. The Executive Secretary's Office provides strategic direction to the Secretariat and facilitates communication initiatives which will assist to position and promote SACU and enhance its image. The Executive Secretary's office also facilitates and ensures Legal Assurance and Audit Assurance of the Organisation.

Trade Facilitation and Revenue Management

This Directorate comprises two units, namely:

a) Trade Facilitation

b) Revenue Management

Objectives of this Directorate are to:

- facilitate the equitable sharing of revenue arising from customs, excise and additional duties levied by Member States;
- support Member States in implementing an agreed Revenue Sharing Formula;

- promote intra-SACU free movement of goods through cross-border co-operation and trade; and
- provide a reliable database on key SACU economic indicators.

Policy Development and Research

This Directorate comprises two units, namely:

a) Policy Development and Research

b) Trade Negotiations

Objectives of this Directorate are to:

- support the SACU objectives for enhanced economic development, diversification, industrialization, and competitiveness;
- support SACU's regional and global integration through trade negotiation and trade facilitation; and
- ensure that SACU's interests are safeguarded and enhanced in global, multi and bilateral, trade negotiations, as well as to ensure that SACU plays a leading role in the development and implementation of the regional integration agenda, and maintain and improve the in tegrity of the Customs Union.

Corporate Services

This Directorate comprises of five units, namely:

a) Human Resources

b) Information Technology

c) Documentation and Conferencing

d) Facilities Management and Procurement

e) Financial Management

The primary objective of this Directorate is to provide professional and efficient corporate support services to all SACU Institutions.

This focuses on the consolidation of the Secretariat in terms of ensuring the development of sound strategic and operational policies business process that will facilitate the smooth running of the organisation.

Human Resources

The Human Resources unit manages the Secretariat's human resource requirements, terms and conditions of service of staff, recruitment, performance management, staff training and skills development, remuneration policy and general human resources policies and procedures.

During the period under review, the unit has initiated a review of the Secretariat's human resources policies and procedures, remuneration policy and performance management system.

Job profiling evaluation and grading of jobs continued to be undertaken during the period under review to ensure alignment of jobs to the technical requirements of the Secretariat and the market.

Staff Recruitment was the major focus during the period under review with the view to capacitating the various Directorates and supporting them in delivering the technical mandate of the Secretariat.

Staff Development activities that were carried during the period under review were:

Enterprise Wide Risk Management training was provided to all Professional Staff on Enterprise Wide Risk Management, which covered identification and assessment of risk with accompanying controls to mitigate risk to acceptable levels.

Diplomacy and Etiquette training was provided to all Support Staff covering etiquette and protocols, Secretariat relationship with Member States, Host Country Procedures and Regulations and Consular Matters.

Payroll and Human Resources System training on enhanced features of the Payroll and Human Resources System was provided to Human Resources staff, focusing on improving controls and payroll management as well as the implementation of an Employee Self Service functionality for leave planning and management.

A Report Writing Workshop was conducted for Professional Staff to develop an in-house report writing style for the preparation of reports and documents.

Induction on Conditions of Service – Some of the Staff who joined the Secretariat at the beginning of year under review were taken through the Staff Handbook which contains their Conditions of Service. A review of these policies was instituted during the third quarter of the period under review.

Information Technology

The Secretariat has continued to strengthen its information communication technology capabilities through the Information Technology unit. The main project for the period under review was the installation of video conferencing equipment in Member States and the Secretariat. The goal for this project is to enhance communication between Member States as well as communication with the Secretariat.

Other projects include development and implementation of an Electronic Documents and Records Management System, a Disaster Recovery Plan and an Enterprise Resource Planning (ERP) system.

In its contribution to the productivity, efficiency and effectiveness of SACU's institutions, the unit has the following strategic goals:

- Maintain an infrastructure, architecture and applications that are secure, reliable, scalable and adaptable to changes in the environment;
- Optimize Communication and Collaboration systems to improve service delivery and dissemination of timely, reliable information to stakeholders;
- Research, Procure and Implement an Electron ic Documents and Records Management System (EDRMS) to provide a secure and accessible digital repository to SACU records and documents; and
- Integrate resources to streamline procedures, processes and support electronic workflow.

Documentation and Information Repository

This unit is responsible for handling all documentation and logistics relating to Council meetings, which are held quarterly. Submission guidelines for this documentation are contained in the Rules of Procedure for SACU Institutions. The unit also manages timelines for preparation of documents and other materials, coordinates contact points in Member States and will ultimately be responsible for the development and maintenance of a Repository of all SACU related documentation.

Facilities Management and Procurement

One of the key projects of this unit is the construction of the SACU Head Quarters Building for which a Task Team, comprising of representatives from the Member States, was established in 2006. The road map for the project includes securing a title deed and appointment of Architects, Civil and Structural Engineers, Quantity Surveyors, Electrical Engineers and Mechanical Engineers. Drawings will be submitted to the Council for approval in July 2009 and construction is expected to be completed by mid 2011.

The unit is also responsible for implementing and revising procurement policies and procedures, which form part of the financial policies and procedures of the Secretariat. In this regard, the unit is responsible for coordinating the work of the Tender Committee and overseeing procurement of all the Secretariat's goods and services.

The unit is also tasked with custodianship for all the assets of the Secretariat, provision of general support services such as security services, general maintenance, cleaning and courier and shipment of official correspondence and documentation.

Financial Management

The Financing of the Secretariat is provided under Article 34 of the 2002 SACU Agreement, which states that the budgeted cost of financing the Secretariat, the Tariff Board and the Tribunal will first be deducted from the Common Revenue Pool before distribution of shares among Member States.

The financial year of the Secretariat begins on the 1st of

April. The Financial Policies and Procedures stipulate that the budgets of the Secretariat, the Tariff Board and the Secretariat should be combined as one document, unless otherwise directed by the Finance and Audit Committee.

The checks and balances of the Secretariat include the existence of a full time Internal Auditor and submission of quarterly Management Accounts to the Finance and Audit Committee, as well as an annual audit of the Secretariat's financial statements. The use of SAP is one fundermental part of the process.

At the 8th Council meeting held on 8 September 2006 in Gaborone, Botswana, the SACU Council of Ministers decided that appointments for the audit of the SACU Secretariat financial statements be rotated amongst Auditors-General of the Member States on a three-year rotational basis. In this regard, the Auditor General of Botswana was appointed to serve as external auditor of the SACU Secretariat for the years 2005/06, 2006/07 and 2007/08.

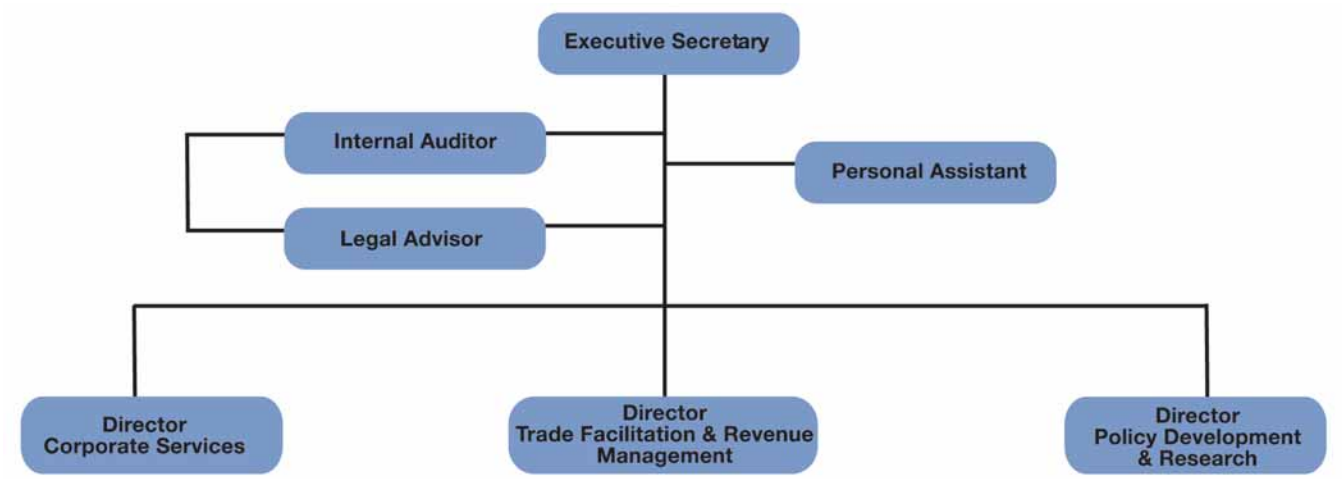
The Auditor General of Botswana has since issued unqualified audit certificates for the years 2005/06 and 2006/07, whilst the Auditor General of Namibia issued an unqualified audit certificate for the Secretariat's first year of operation, 2004/05.

The Secretariat is currently revising its Financial Policies and Procedures, in line with the current policy manual which states that Financial Policies and Procedures of the SACU Secretariat shall be reviewed every two years.

Functions of the following staff provide direct capacity for strengthening the internal control environment:

- Director Corporate Services
- Internal Auditor
- Finance Manager
- Administration & Procurement Manager
- Accountant
- Finance and Administration Assistant

Structure of the SACU Secretariat



CHAPTER 6 - CHALLENGES AND WAY FORWARD

Implementation of the 2002 SACU Agreement

Implementation of the 2002 SACU Agreement started in earnest from July 2004. This however also coincided with a number of important developments at the regional level, including the debate on the SADC Customs Union and the SADC/EPA negotiations. This has meant that SACU Member States have had to deal with the challenges of building and nurturing new institutions of SACU provided for in the Agreement while at the same time making their contributions to the broader regional integration initiatives under SADC and other regional bodies.

This situation has posed enormous challenges to SACU Member States in a number of areas. Firstly, it is stretching the technical and human capacities of the Member States in managing multiple regional trade arrangements. Secondly, it places a major responsibility on the SACU Member States to strengthen internal consultation mechanisms and be able to develop strategic positions on emerging regional integration developments on a constant basis. Thirdly, regional developments have challenged the cohesiveness of the Member States in matters involving the implementation of the SACU Agreement.

To address the above challenges a Task Team on Regional Integration will in 2008 address the:

- Realignment and implementation of the policy recommendations from the two studies on regional integration agenda towards the full implementation of the SACU Agreement.
- Development and Adoption of a SACU Wide Strategy that is acceptable to all Member States taking into account the developments on the broader regional integration agenda unfolding at SADC level.
- Realisation of the economic implications of the launch of full FTA in August 2008 on the different Member States of SACU.
- Re-evaluation of the preferred model currently for SACU to offer itself as a building block for a SADC Customs Union through expansion of membership for the revenue sharing arrangements, CET, and the Common Revenue Pool.
- Implications of the SADC-EU EPA negotiations on the Regional integration agenda for SACU.

Establishment of SACU Institutions

SACU Tariff Board and SACU Tribunal

Work is underway to establish a Tariff Board and a Tribunal. Member States are in the process of establishing National Bodies. The National Bodies will study, investigate and determine the impact of tariffs within respective Member States and periodically propose such changes as may be deemed necessary and make recommendations to the Commission through the Secretariat. They will adhere to similar procedures in all Member States.

The SACU Tariff Board is one of the Institutions established by the SACU Agreement, but which is yet to be operational. It is envisaged that a Tariff Board will be in place in August 2009.

The SACU Tribunal is one of the other Institutions established by the SACU Agreement, which is yet to be operational. The SACU Secretariat hosted a workshop in March 2007 on the establishment of the SACU Tribunal. The workshop was attended by experts from the five SACU Member States. The aim of the workshop was to highlight the most important issues pertaining to the SACU Tribunal and to identify the major challenges facing SACU in the establishment of the SACU Tribunal. It is envisaged that the Tribunal will be operational by the beginning of August 2009.

Capacity Building

There is an inherited lack of technical skills in SACU on areas concerning its trade and policy agenda. Dual strategies are required for capacitating Member States and allowing the Secretariat, national institutions and the other SACU bodies to develop and assist in this process.

Capacity building initiatives in 2007 have been undertaken among the SACU Member States and at the Secretariat level as an effort towards the full implementation of the 2002 SACU Agreement.

Trade Facilitation and Revenue Management

In the area of Trade Facilitation, capacity and resource constraints remain a challenge that impact on the pace at which the five key customs initiatives are able to be implemented. In addition, customs automation and systems incompatibility remains a challenge.

In the area of Revenue Management, the challenge of ensuring reliable and accurate trade data used for computing revenue shares remains a challenge. Work on developing a data integrity minimum standard and capacitating Member States with data auditing will be pursued in 2008.

Trade Negotiations

The delays experienced in ratifying the three bilateral agricultural agreements with Iceland, Norway and Switzerland, which form part of the instruments establishing free trade between SACU and EFTA, present a significant challenge for SACU as an institution.

The initialling and eventual implementation of the Interim EPA, SADC presents significant challenges to SACU as a Customs Union. These challenges relate to the integrity of the CET; the impact on efforts towards deepening regional integration within the SACU region; severely restricting existing and future policy space vis-à-vis common trade and industrial policy within SACU; as well as effective customs control measures to prevent transhipment of goods amongst Member States.

In 2008 the following will continue to be pursued:

- Streamlining ratification procedures amongst SACU Member States.
- Dealing with the challenges arising out of the initialling of the Interim SADC-EC EPA by four of the five SACU Member States.
- Enhancing trade negotiating capacity amongst SACU Member States.
- Ensuring a successful conclusion to the WTO Doha Development Agenda.
- Addressing the challenges posed by the lack of common policies.
- Finalizing and implementing the Common Negotiating Mechanism.

Policy Development and Research

Major challenges facing SACU in the area of policy development include:

- Finalisation on a common vision and ambition for SACU Industrial Policy.
- Agreeing to phase out the Non-Tariff Barriers of SACU Member States.
- Adoption of Annexes as it relates to Competition and Agricultural Policies.
- Developing an applicable infant industry protection annex that suits all Member States interests.
- Timely completion of the long-term strategy for the SACU textile and clothing sector.
- Translating and aligning common policy development to other related work on institution building (Industrial Policy and Tariff Board) and common positions which is essential for trade negotiations.

The year 2008 should realise a level of comfort on progress of developing common policies and Member States have realised that there is a concerted effort and political will needed to realise the goal of developing common policies.

In summary, SACU has faced challenges in the establishment of the Institutions, positioning of SACU, regional integration, work programmes and human resources availability and capacity building. Capacity building will continue in 2008.

The year 2008 will be a defining year for SACU as a regional entity. The year will entail strengthening and positioning of SACU in the region towards the role of deepening regional integration. SACU will pursue clear policies and action programmes in 2008 with the aim to play a catalytic role in ensuring that its Member States improves its trade competitiveness and enhance economic development at a regional, continental and global level. SACU Member States, through the SACU Council of Ministers, have afforded the necessary priority to these issues. A considerable effort and resources, both at Member State level and at the SACU Secretariat, will be spent to ensure the future of SACU and its integrity as a regional economic unit.

ANNEX I SACU MEMBER STATES COUNTRY ECONOMIC PROFILES

BOTSWANA

Botswana is a landlocked country with a population estimated at 1.758 million according to the 2001 census. The economy is pillared on mining, particularly diamond mining which accounts for approximately one-third of GDP. The economy is also anchored by non-mining specifically agriculture, tourism, and manufacturing. In light of the volatility in the mining sector, the authorities are currently striving to diversify the economy away from minerals; this was reiterated by the theme of 2007/08 budget speech; "Improved Productivity-The Key to Sustainable Economic Diversification and Global Competitiveness". Since Independence, Botswana is rated among the fastest growing economies in the world and least corrupt in Africa with prudent macroeconomic management and good governance.

In real terms GDP grew significantly from 2.8 percent in 2003/04 to 9.5 percent in 2004/05 mainly due to increased productivity in the mining sector that grew by approximately 18 percent per annum. However, there was an economic slowdown in 2005/06, which plunged the real growth rate to 0.6 percent, attributable to the decline in mining output. The economy rebounded in 2006/07 with real GDP estimated at 6.2 percent. According to the 2007 IMF Article IV Consultation Staff Report, it is projected that the real GDP growth rate would average 4.3 percent in 2007 and 6.0 percent in 2008 and is projected to slow down to 3.8 percent in 2009.

Despite the prudent macroeconomic policies, inflation reached its highest level to 14.2 percent in April 2006 due to among other things, the effects of the devaluation of the Pula in May 2005 and the rippling effects of increasing world oil prices. However, during the first half of 2007, inflation followed a downward trend, reaching 6.3 percent in April but increased in the second half mainly due to increasing oil and food prices. On average, the inflation rate measured 7.1 percent in 2007 compared to 11.6 percent in 2006. As the prospects for further capital spending in the medium term are high, it is highly likely that the inflation rates will remain high.

The authorities would continue counteracting the scourge of high inflation by using interest rates and monetary policy to ensure that inflation is within the set range. According to the Country Economic Background Paper submitted to Finance Technical Liaison Committee in November 2007, during 2006/07 in the wake of declining inflation, interest rates were responsive and were lowered to an average of 12.03 percent while the prime-lending rate decreased to 16.1 percent in June 2007.

The new exchange rate regime adopted in May 2005 has resulted in the global competitiveness though there had been some variations particularly between the currencies that constitute a Pula basket. A depreciation of the Pula in 2006 resulted in a surge of exports. According to the 2007/08 Budget Speech, it was reported that non-diamond exports grew by 20 percent per annum between 2003 to 2006. In 2006, total exports were valued at P26.4 billion compared to P22.7 billion realized in 2005. This kind of performance has resulted in Botswana enjoying the current account surplus of 15.4 percent of GDP in 2006. The projected current account surplus for 2007 is estimated to be 10.7 percent of GDP. Reserves increased by 40.6 (Approx 41) percent from 2005 to P48.8 billion in 2006 exhibiting 30 months import cover compared to 22 months import cover in 2005.

According to a 2005/06 Labour Force Survey, the unemployment rate dropped to 17.6 percent during a 10 year period from 1995/96 to in 2005/2006. Even though it is the lowest within SACU unemployment remains a challenge for Botswana. Efforts are made to decrease the rate by among other things, institutionalising small and medium enterprises.

In accordance with the Medium Term Review of the National Development Plan 9 (NDP9), a Fiscal Rule was adopted that Government expenditure need not exceed 40 percent of GDP and the rule serves as a procedural guide in budget preparations. The 2005/06 budget outturn exhibited an overall budget surplus of 8.5 percent of GDP mainly attributable to SACU receipts which increased by 12.4 percent. The final outturn of 2006/07 budget also showed a budget surplus of P7.66 billion, attributable to SACU receipts (included adjustment payment with regard to 2005/06) that amounted to P2.1 billion and under-spending of Development and Recurrent budgets. Notable efforts are made to increase non-mineral tax revenue and the establishment of the Botswana Unified Revenue Service (BURS) in 2004 is an example of Government efforts to expand the non-mineral tax base.

LESOTHO

Lesotho is a small, mountainous country landlocked by South Africa. According to the 2006 census, the population is estimated at 1.88 million growing at an average rate of 0.11 percent per annum. According to the Country Economic Background Paper submitted to the Finance Technical Liaison Committee in November 2007, during 2004 to 2006, the economy grew at an average growth rate of 4.7 percent. The main contributor to growth has been mining which rebounded in 2004, taking over manufacturing which is currently the second largest contributor to economic growth. Since the inception of African Growth and Opportunity Act (AGOA), manufacturing has been the anchor of the Lesotho's economy but plunged in 2004 following the end of the Multi Fibre Agreement (MFA). The slowdown in the manufacturing sector was further exacerbated by the appreciation of the rand and the secondary sector generally, slowed down due to among other things, the winding down of the Lesotho Highlands Water Project. The manufacturing sector registered a negative growth rate of 0.5 percent and 3.5 percent in 2004 and 2005 respectively but rebounded with a positive growth rate of 6.9 percent in 2006.

Inflation is basically imported from South Africa since Lesotho imports more than 90 percent of goods and services from South Africa; and it therefore closely follows the trends in South Africa. In 2006, the annual inflation rate reached 6 percent, up from 3.4 percent in 2004, and is projected to reach 7.2 percent in 2007 and continue to follow an upward trend in the medium term. The main reason for the hike in prices was the global increase in crude oil and food prices.

Because Lesotho is a member of the CMA and the Rand is recognized as a legal tender; The Loti is pegged at par to the Rand. Movements in Rand are directly transmitted to Loti; from 2003 to 2005, the Rand appreciated against the US dollar and other major currencies mainly due to high gold prices and high interest rates. However, due to increase in oil prices in 2006, the Rand depreciated against the US dollar and other major trading currencies.

Likewise, interest rates have been following the trend in South Africa and is used as a tool to counteract the effects of inflation. As presented in the June 2007 Fiscal Framework, the prime lending rate increased from 11.5 percent in 2005 to 13.5 percent in 2006 as South Africa increased the repo rate in the wake of a weakening Rand and inflationary pressures resulting from among other things, a widened current account deficit, high oil prices and increased demand for credit. It is expected that the interest rates will follow an increasingly upward trend until such time that inflation is within the target range.

According to the Country Economic Background Paper submitted to the Finance Technical Liaison Committee in November 2007, the current account balance improved from a deficit of 13 percent of GDP in 2003 to 4.4 percent of GDP in 2006. The improvement is largely attributable to the increase in merchandise exports particularly of clothing and textiles and substantial increase in net income from abroad and current net transfers. Exports increased by 27 percent in 2004 but fell by 8.7 percent in 2005 despite an increase in diamond exports. This was mainly due to the expiration of the MFA. However, exports rebounded in 2006 to record growth of 8.5 percent in 2006, this was due to the depreciation of the Rand. Imports increased by 12 percent in 2004 but decreased by 6 percent in 2005 mainly due to the downswing in the manufacturing sector, which by then was regarded as an anchor to the economic growth. It picked in up in 2006 by 13 percent due to improved economic activity and it expected to follow a constant trend in the future. The external reserves recouped to 8.8 months of import cover in 2006 from 6.6 months import cover in 2004.

Lesotho continues to follow a prudent macroeconomic management. Besides the political riots of 1998 that resulted in an economic downswing, the country has been enjoying the perpetual fiscal surplus from 2003/04. As presented in the June 2007 Fiscal Framework, the overall fiscal balance including grants was 7 percent of GDP in 2004/05; this declined to 2.2 percent of GDP in 2005/06 due to the instability in the manufacturing sector but recouped to 14% of GDP in 2006/07, mainly due to increased SACU receipts. SACU receipts contribute on average 55 percent of total revenue. The first receipts after the introduction of the new SACU sharing formula were paid out in 2005/06 to Member States and Lesotho's share contributed 24 percent to GDP. In 2006/07, SACU receipts contributed 39.3 percent to GDP while in 2006/07, SACU receipts contributed 32 percent. Increase in SACU receipts in the latter two years were boosted by the increased size of the Common Revenue Pool and a substantial payment of adjustment in lieu of 2005/06 that was paid in during the last quarter of 2006/07.

In light of over dependence on SACU receipts, efforts are made to mobilize domestic taxes and increase the tax base. The establishment of the Lesotho Revenue Authority has brought some improvements to tax administration and enforcement, evidenced by increasing receipts of Income Tax and VAT, which contribute 10 percent and 8 percent of GDP respectively.

NAMIBIA

Namibia is classified as a lower middle-income country with the population estimated at 2 million and growing at 1.8 percent per annum. The latest labour force survey of 2004 estimated the unemployment rate to be at 37 percent, under the broad definition. The country faces social challenges, marked by large income disparities as indicated by the Gini-coefficient of 0.6. In 2006, the economy grew at an average of 3.9 percent compared to 4.7 percent in 2005 and was expected to grow at 3.6 percent in 2007. It is projected that the economic growth would accelerate to 4.7 percent in 2008 and average 5.2 percent over the 2008/09 – 2010/11 MTEF period.

The recent GDP growth was spurred by improved performance in sectors like transport and communication (mainly due to intensified competition in the mobile telecommunication sub-sector), construction and wholesale, retail trade and repairs. The mining industry contributed approximately 11.3 percent of GDP over the last eight years, of which diamond extraction accounted for approximately 8.3 percent of GDP. Recent growth performance was rather mixed. It is worth mentioning that mining also accounts for almost 40 percent of foreign exchange earnings. The agricultural sector is dominated by meat, fish products and grapes that remain the major exporting commodities to the EU market; recently efforts have been made to diversify exports from the agricultural sector to Asia. Recent analyses have shown that tourism is one of the major contributors to output as well as to export earnings.

Namibia is a member of the CMA with the Namibia Dollar (N$) is pegged at par with the Rand. Inflationary pressures are mainly influenced by domestic and international developments. The global hikes in oil prices coupled with strong increases in food prices resulted in annual inflation reaching 5.1 percent 2006, its highest level since 2003. Inflation is expected to reach 6.7 percent in 2007. In an attempt to curb inflationary pressures, the Bank of Namibia Monetary Policy Management Committee increased the bank rate from 7 percent by 150 basis points to reach 8.5 percent from June to October 2006 and further increased the rate by another 200 basis points to 10.5 percent in 2007 while the prime lending rate was increased to 15.25 percent as reported in the quarterly bulletin of the Bank of Namibia.

Namibia continues to practice sound macroeconomic management and has a conducive investment climate and increasing business confidence. This is substantiated by a reduction in the budget deficit from 7.2 percent of GDP in 2003/04 and 3.6 percent of GDP in 2004/05 to 0.2 percent of GDP in 2005/06. In recent years, SACU receipts have contributed to budget and fiscal surpluses. SACU receipts accounted for around 40 percent of total revenue followed by domestic tax revenue which accounts for around 35 percent; grants and other income constituted the remaining revenue. Efforts are made to diversify revenue away from trade taxes in an attempt to have sustainable revenue collection. On the expenditure side, salaries on average account for about 40 percent of total expenditure, equivalent to 14 percent of GDP and the 2006 IMF Article IV Consultations advised towards enhancing tax administration and undertaking expenditure reforms. This was again reiterated in 2007 IMF Article IV Consultations.

The country is characterized by a high private-savings rate mainly due to pension contributions from the public sector. According to the OECD 2007 African Economic Outlook, assets of pension funds and insurance in Namibia are equivalent to GDP though a substantial amount of these assets are invested in the South African financial markets. However, efforts are made to retain and invest these funds locally.

SOUTH AFRICA[1]

South Africa is a regional economic hub with a population of 48,5 million and GDP per capita of US$5,943, lower than that of Botswana by US$7,183.[2] Since 2004, the real growth rate averaged 5 percent compared to 3 percent between 1999 and 2004. In 2007, the economic growth rate moderated to 4.9 percent, mainly due to sluggish growth in the United States driven by mortgage and debt crisis; and domestically spurred by suppressed consumption due to the effects of rising interest rates;

and high oil prices. Despite the global risks, the economy is expected to grow to maintain its long-term growth trend of positive growth in the medium term.

Strong economic activity is due to construction, manufacturing and services. Though the economic growth is robust, the country is still faced with daunting social challenges, mainly high poverty and unemployment levels. It is estimated that 41.0[3] percent of population still live below the poverty line while unemployment is estimated at 25.5 percent.

South Africa follows an inflation target regime within the band of 3 - 6 percent. The inflation outlook is posing a serious risk for the South African monetary authorities, mainly the result of the combined impact of sharp food and oil prices. Capacity constraints, especially in energy and construction sectors, will create additional pressure points. The tightening of monetary policy by the South African Reserve Bank will amongst others reduce the inflation growth rate to around 4,9 percent in 2009, significant dropping from 7,9 percent in 2008.

In a climate of rising interest rates, the strong reserves position, prudent fiscal stance and the positive balance of payments position are likely to provide a cushion to the economy. Rand weakness, measured in terms of nominal effective exchange rate, has also been dramatic, shedding almost 12 percent of its value since the beginning of 2008. However, the reserves position has grown to nearly R34, billion by end of January 2008. Increased pressure is expected from the current account with demand for import increasing to meet local energy sector demand. In 2007, the current account deficit rose to 7,2 percent from 6,5 percent in 2006, and will remain marginally at the high end of around 8 percent till 2010. Terms of trade for South Africa are likely to cushion the deficit effect largely owing to strong commodity prices.

South Africa continues to reap the benefits of a strong revenue trends, and as a result expanded fiscal space. Tax revenues reached a peak of 29.2 percent of GDP during 2006/07 due to strong tax collections and robust economic performance and a strong economic base. For the outer years of 2010, however, the revenue performance should abate to just 28,9 percent of GDP.

Audited revenue outturn for 2006/07 amounted to R481.2 billion[4] which was R34.8 billion higher than originally expected. SACU receipts accounted for 5 percent of the total revenue while personal income tax, VAT and corporate tax accounted for approximately 80 percent of total revenue.[5] The improved performance is attributable to amongst others, increasing levels of corporate profitability, above-inflation wages and salaries and increasing levels of employment. However, the increasing interest rates and the implementation of National Credit Act is expected to moderate revenue buoyancy and it is expected that the 2007/08 overrun would be modest.

As a share to GDP, corporate tax increased to 6.6 percent while personal income tax and VAT increased to 7.8 percent and 7.4 percent respectively in 2006/07. It should be noted that personal income tax exhibited a decreasing share of GDP over time due to increasing levels of tax relief but is expected to increase in 2007/08 due to among other things, increases in wages. Generally, the improved tax compliance and increased efficiency in tax administration supports enhanced tax revenue collection.

SWAZILAND[6]

Swaziland is a small, open landlocked economy surrounded by South Africa and Mozambique and it is regarded as a low-middle country due to its GDP per capita of US$ 2,600 as recorded in 2006. It has a population of 1.126 million that is estimated to grow annually by 2.9%. The average annual real growth rate from 2001 to 2006 was 2.6 percent, which shows a decline compared to average growth rate of 3 percent from 1995 to 1999. It is estimated that 69 percent of the population lives below the poverty line and unemployment is estimated at 29 percent.

Manufacturing is the anchor of economic growth, contributing 34 percent to GDP. In recent years, agriculture exhibited a decline in productivity and its contribution to GDP has also declined from approximately 30 percent in the 1980s to 10 percent currently. Construction improved due to private investment and massive government financed capital expenditure. Overall, the economy grew by 2.8 percent in 2006 compared to 2.1 percent and 2.3 percent in 2004 and 2005 respectively. The improved economic performance in 2006 was spurred by increased manufacturing productivity triggered by the strong growth in foreign direct investment.

Swaziland is the member of the CMA and the Lilangeni is pegged to the Rand. The Rand is accepted as a legal tender. The inflationary pressures are directly influenced

by those in South Africa and like Lesotho; Swaziland does not have an independent monetary policy. The commodity prices have a spell of imported inflation since a large volume of imports is from South Africa. Courtesy of the South African inflation-targeting regime, the inflation rate has been low, averaging 3.4 percent in 2004 and 4.8 percent in 2005. However, due to the perpetual increases in world oil prices, high current account deficit and the increased demand for credit, the inflationary pressures have been mounting in South Africa, resulting in the inflation rate slipping to 5.3 percent. The economic situation worsened in 2007, resulting in commodity prices hiking to average of 6.2 percent, resulting in Swaziland following suit.

Interest rates are used as tool in monetary policy to counteract inflationary pressures and the interest rates closely follow those in South Africa. In 2006, the discount and prime lending rates reached 9 percent and 13 percent respectively and further increased by 50 basis points in 2007. The interest rate hikes in 2007 have been particularly influenced by the slowdown in the US economy and the high current account deficit coupled with high debt levels; also triggered by an increase in credit demand in South Africa, the resultant of which was a widened current account deficit. These factors also resulted in the fluctuations in the exchange rate, with the Lilangeni depreciating against the US$ and other major trading currencies in 2006, but appreciated during the second half of 2007.

On the external sector, the balance of payments (BOP) recorded a surplus of E957 million in 2006 spurred by surpluses in the current account. In particular, the current account depicted a surplus of E77.5 million in 2001 to E664.4 million in 2006. The improvement in the current account is attributable to net transfers largely emanating from SACU transfers. The capital account also improved to a record surplus in 2006 due to growth in foreign direct investment. Exports increased by 24 percent from E12,351 million in 2002 to E15,294 million in 2006 while imports increased by 21 percent within the same period exhibiting a declining trade balance.

Fiscal deficits were realized from 2001/02 at 6.8 percent of GDP down to 1.8 percent of GDP in 2005/06. The deficit widened in 2005/06 due to the wage increases effected in 2004 that resulted in the wage bill totalling 15 percent of GDP up from 11.2 percent in 2003/04. The deficits were mainly financed externally and through domestic borrowing, resulting in depletion of reserves and high debt levels. This resulted in the reserves falling to the lowest recorded at 1.3 months of import cover. The cost driver is general payments that include emoluments and purchases of goods and services. The appropriated fiscal deficit for 2006/07 stood at 2.1 percent of GDP and the commitment was to contain it with that level despite mounting expenditure pressures. However, the fiscal stance rebounded in 2007/08 and it was projected that the fiscal surplus would reach 2.6 percent of GDP mainly driven by increased revenue from SACU. According to the 2007/08 Budget Speech, revenue increased by 37.5 percent from 2006/07 budget and SACU receipts contributed 71 percent of total revenue, reiterating the fact that SACU receipts remain the major source of revenue. The challenge for Government is to diversify sources of revenue away from trade taxes.

Footnotes

[1] Source of information and data is the 2007 Medium Term Budget Policy Statement

[2] Figures for both Botswana and South Africa on the GDP per capita taken from Economist Intelligence Unit (EIU) Country Profile 2008 for Botswana.

[3] Source: Development Indicators

[4] Consolidated national revenue amounted to R501.6 billion that included R20.6 billion from social security funds.

[5] The number of registered individual taxpayers has increased to 5,3 million during 2007.

[6] Data sourced from Country Economic Back ground Paper submitted to Finance Techn cal Liaison Committee in November 2007 and 2007/08 Budget Speech

ANNEX II SACU MEMBER STATES KEY ECONOMIC INDICATORS

Table 1 SACU Member States key economic indicators

	Botswana	Lesotho	Namibia	South Africa	Swaziland
Population	1.7 million	1.88 million	2.0 million	48,5 million	1.1 million
GDP market price	67,166 billion	9.3 billion	39.8 billion	1,807.3 trillion	10.61 billion
GDP/ca	39,510	4,822	20,292	US$5,943(i)	9,416
Total Gov. Revenue including grants (in billions)	25,894	4,496	13,108	481.2[2]	5,535.4
Tax	23,409	4,006	11,963	495.5	5,190.4
Non-tax	2,353	490	1,105	10.9	345
Public Exp and net lending	20,504	4,291	13,193	470.2	5,826
Surplus/(deficit)/GDP	8.5%	2.2%	1.4%	0.6%	(1.8)%
Debt/GDP	4.7%	51.4%	33.2%	30.5%	14.3%
CPI headline	8.6%	3.4%	2.2%	7.1%	4.8%

Source: Economic Background Papers submitted by Member States to the Secretariat

ANNEX III SACU IMPORT STATISTICS

Table 2 SACU Import Statistics (in million Rands)

INTRA-SACU IMPORTS	2002/03 for 2005/06 shares	2003/04 for 2006/07 shares	2004/05 for 2007/08 shares	2005/06 for 2008/09 shares	Average growth %	Average
Botswana	17,164.74	16,520.23	19,083.36	16,878.56	-0.6	17,411.72
Lesotho	8,072.62	7,927.53	8,358.23	8,483.02	1.7	8,210.35
Namibia	12,154.96	14,289.89	13,344.41	14,009.59	5.3	14,449.71
South Africa	7,045.30	13,099.43	15,162,344,501	13,423.75	24.0	10,958.67
Swaziland	12,453.17	10,937.45	15,162.34	10,667.22	-5.0	12,305.05

Source: Economic Background Papers submitted by Member States to the Secretariat

ANNEX IV TRENDS IN SACU REVENUE SHARES AMONG MEMBER STATES

Table 3 Trends in SACU revenue shares among Member States (in billion Rands)

REVENUE SHARES (in Rbn)	2005/06	2006/07	2007/08	2008/09	Annual growth %
Botswana	4,007.55	5,549.24	8,329.58	9,472.80	33.21
Lesotho	1,983.98	2,784.02	3,822.29	4,901.10	35.18
Namibia	3,228.19	5,393.87	6,014.53	8,502.20	38.10
South Africa	13,027.10	16,477.91	20,795.90	24,264.40	23.04
Swaziland	2,794.96	3,653.63	4,591.06	6,009.00	29.07
Total payment out of CRP	25,041.78	33,858.67	43,553.35	53,149.50	28.51
% SHARE OF CRP					
Botswana	16.00	16.39	19.13	17.82	17.34
Lesotho	7.92	8.22	8.78	9.22	8.54
Namibia	12.89	15.93	13.81	16.00	14.66
South Africa	52.02	48.67	47.75	45.65	48.52
Swaziland	11.16	10.79	10.54	11.31	10.95

Source: Economic Background Papers submitted by Member States to the Secretariat