

## SACU Consolidates Before Centenary - by Catherine Sasman



SACU Executive Secretary Ms. Tswelopele C. Moremi

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**In 2010, the Southern African Customs Union (SACU) turns 100 years, making it the oldest customs union in the world. SACU Executive Secretary Tswelopele Moremi speaks to New Era about the union's plans for the year.**

### **What is SACU's priority plan for 2009?**

The SACU priority plan for the year includes promoting the further integration of the SACU economies into the global economy through trade negotiations, the establishment of the outstanding SACU institutions, policy harmonisation and trade facilitation.

On the integration of SACU economies into the global economy, priority will be given to ensuring a smooth implementation of the SACU-EFTA Agreement, which came into force in July 2008. The focus will be ensuring that the SACU economic operators take full advantage of the Agreement by assisting all Member States set up all the administrative institutions and procedures necessary for implementation of the Agreement.

In addition, focus will be on the finalisation of the MERCOSUR Agreement. The MECOSUR Agreement should be signed by both parties and begin implementation in the first half of 2009. SACU has also prioritised the negotiations with India.

On the remaining SACU institutions, during the first half of 2009, SACU will recruit the Coordinator for the Tariff Board. The Coordinator will assist Member States in establishing National Bodies. We should have the Tariff Board operational before the end of the year.

On policy harmonisation, priority will be on the completion of the industrial policy framework. This will facilitate the work of the Tariff Board. At the same time, efforts will be put towards achieving greater cooperation on agriculture policy.

To date, an assessment of the agriculture sector in the SACU region has been undertaken and efforts are underway to establish the key areas for cooperation.

In the area of trade facilitation, the SACU Council approved a comprehensive customs reform project, which will start implementation in April 2009. This project will focus on customs legislation, policy and IT systems. This should greatly reduce the cost of doing business in the region.

This builds on the technical work that was done last year by the Secretariat in servicing the work of the Commission and in implementing the Decisions of Council.

Perhaps when looking at our key achievement in the past year, one could say that we now have a fully established Secretariat. We have filled all key positions with professionals from the five SACU member countries (Botswana, Lesotho, Namibia, South Africa and Swaziland).

The Secretariat staff have begun to engage in a lot of technical work and studies to facilitate decision-making by SACU Member States.

More importantly, last year was a turning point in the history of SACU. For the first time since 1910 and since the 2002 SACU Agreement came into force in July 2004, the SACU Ministers of Finance and Trade held a SACU Council of Ministers Retreat in Kasane, Botswana.

The Retreat provided an opportunity for introspection on how SACU has served its Member States, and where we want to take SACU. The ministers discussed a number of strategic issues.

The main conclusion was that SACU has served its Member States very well. It is important to consolidate its establishment. Remember, before 2002, SACU was largely not visible. With the 2002 Agreement, the Member States decided to create a very transparent, democratic and effective institution. The Ministers also recognised that to make it a modern dispensation meeting the needs of an international organisation, it is important to fully implement the 2002 SACU Agreement and establish all the institutions that are provided for in the 2002 SACU Agreement.

SACU Member States also recognised that there have been some challenges in the last couple of years. Some of these are those dealing with developments at a regional level.

Overall therefore, there is a clear work programme that is beginning to emerge, based on the report of the Council of Ministers Retreat and decisions the Ministers took, but the whole approach is to accelerate the full implementation of the SACU Agreement, by putting up functioning institutions, by continuing to engage with third parties through trade negotiations, and by trying to strengthen SACU in such a way that it can play a meaningful role in regional development.

**Last year the SADC Free Trade Area was launched. What are the achievements this initiative has brought about?**

SACU Member States are also members of SADC. What has to be understood is that right from the beginning of the implementation of the SADC Trade Protocol, SACU countries were expected to liberalise much faster than other countries in SADC. There is a lot of interest by non-SACU States to do business with SACU. We have hence liberalised faster than the other countries. For us, the free trade area is beneficial, in the sense that with the liberalisation of other countries, it gives SACU the opportunity for a bigger market of 247 million.

Africa has a lot of Regional Economic Communities (RECs). Deepening integration efforts that are underway in and among these RECs, will lead to an eventual expanded Free Trade Area on the African Continent.

These blocs are all deeply integrated at a political level. However in recent years economic and trade integration has been placed on the forefront as a vehicle to increase economic growth, development, poverty reduction and improved welfare.

It has also become clearer that the dynamic global environment brings constant challenges to these regions, hence the need to keep abreast of these challenges through enhanced trade and development through the vehicle of integration.

In our own region we have SACU, which is integrated at the level of a Customs Union with an already free area of trade; we have SADC, which includes SACU Member States and has launched its FTA in 2008 with plans for deeper integration towards a Customs Union, Monetary Union and Common Market.

Together, Southern Africa countries make up a substantial part of the African continent and if successful in their integration efforts, will form a large free trade area, which would go a long way in achieving continental free trade.

The SADC FTA that was launched in August 2008 means elimination of tariff and non-tariff barriers on trade among members. SACU has always supported this move and the launch of the Free Trade Area is widely regarded as a means to deepen integration, increase trade and improve development and welfare of the region's citizens.

**The whole world is currently going through difficult times as economic indicators continue to hit the down turn. In Southern Africa many countries who are members of SACU including Namibia heavily depend on revenue from SACU. How has this ongoing economic turbulences affected SACU?**

It is true that SACU Member States are affected by the current world economic slowdown. The impact in a particular Member State will depend on domestic policies.

With this slowdown in consumer demand, a motor vehicle sale which is the major contributor to the Common Revenue Pool (CRP) has declined. Consequently, the size of the Common Revenue Pool for 2008/09 has had to be revised downwards in the current financial year. Member States can therefore expect a reduction in SACU receipts.

However, it is vital to note that the economic slowdown has affected all regions of the world, with world output expected to decline to 0.5 percent in 2009.

The crisis has suppressed demand for most commodities emanating from the region, such as diamonds, gold, platinum and copper. These developments may lead to job losses and will exacerbate an already weak domestic demand. The performance of the Stock Markets in the region has also been severely affected. In addition, economic growth for the SACU economies has had to be revised downwards in the medium term.

The Member States are aware of these developments. However, SACU cannot solve global problems as they relate to deep structural issues. We can however act jointly and engage issues together in order to try and ride out the storm.

**Does this mean we can expect a reduction in SACU contribution to the member country's revenue?**

The Common Revenue Pool is shared among Members according to a predetermined formula. The proceeds from the Pool become part of the revenue that Member States use in their budgets to carry out national activities like the provision of social services, including education and health and the provision of infrastructure.

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**How will this reduction affect the economies of the Member States?**

The anticipated slowdown in the growth of SACU receipts will mean that the SACU economies will have to adjust their expenditure in line with the expected reduction in SACU receipts.

In some cases this may mean a reduction in the real allocations for social expenditure.

Is there anything governments of these countries should do as part of preparations for this revenue reduction should it happen?

Member States will be forced to re-assess the spending priorities for the SACU economies.

It is however gratifying that SACU Member States have adopted policies to diversify their revenue base. Whilst the tax base of these economies is narrow, there will be a need to look for innovative ways of augmenting revenue, including the strengthening of tax administration.

**Any major challenges facing SACU? If any, what are some of these challenges and how is SACU overcoming them.**

There were some challenges, such as the negotiations for an Interim SADC EPA with the EU. On the whole, these challenges tested the integrity of the Union. It is pleasing to note that SACU remains resilient and is able to stand together in the face of challenges.

SACU Member States managed to get together and agree on strategies for addressing some of their differences.

Related to these challenges is the launch of the SADC customs union in 2010. The dilemma here is that a country cannot belong to more than one customs union. This is more of a challenge because all SACU member states are members of SADC and SACU member states will be placed in a position where they have to make a choice between the two customs unions. A country cannot belong to more than one Customs Union.

In order to prepare for the launch of the SADC Customs Union, SACU has undertaken a number of studies to inform itself of the possible implications.

The Secretariat is constantly monitoring the situation and advising Member States on any possible adverse effect this may have on individual Member States.

**Last year you had been advocating for the establishment of institutions such as the Tariff Board and the Tribunal. What is the latest on that?**

As indicated earlier there are several institutions provided for in the 2002 SACU Agreement whose establishment is under way such as the Tariff Board and the Tribunal.

The Annex on the Tariff Board and National Bodies has been ratified by all Member States. A model legislation to assist Member States standardise their support legislation for the operation of the National Bodies and the Tariff Board was adopted and is currently being used by Member States to prepare their domestic legal frameworks.

There has been capacity building initiatives to train Member States on trade remedies and defensive mechanisms in international trade. Member states have also been trained in tariff investigations. The Tariff Board should be operational by the end of the current year.

A draft Annex on the Tribunal has been prepared. This should be adopted before the end of the year and thereafter, the Tribunal will be operationalised.

**Why are these institutions necessary?**

The establishment of the institutions is an integral part of the achievement of the SACU objectives as outlined in Article 2 of the SACU Agreement. In particular, these institutions underpin the principle of joint decision making on SACU matters. For example, the Tariff Board will allow for all Member States to participate equally on tariff setting.

**Can you give us an update on the SADC EPA negotiations and SACU's participation in this regard?**

There are seven countries in the SADC EPAs, with all five SACU countries being part of this. Only Angola and Mozambique in this arrangement do not belong to SACU. We have therefore taken an interest in the negotiations. At Secretariat level we have gone in there to monitor developments and assist Member States, and keep track of how some of these issues will be impacting on our Member States.

The negotiations over the last year or so have put a lot of strain on SACU to the extent that not all the Member States have agreed on how to approach the negotiations. Their interests were different. And for the first time, SACU found itself in a difficult situation. The idea is to get all the Member States move in tandem and protect the integrity of the Customs Union.

At the SACU Council of Ministers Retreat, the ministers indicated that they would like to re-strategise and move together as a block. I'm happy to note that from the EPA meetings that took place in Swakopmund last week there seems to be a lot of progress made in those negotiations that

address also some of our own member states' concerns and there was recognition that there is still room to bring parties together to negotiate.

The other challenge for SACU is in the sense that normally when we enter into negotiations with third parties, we do so as SACU, however the EPA negotiations were done under the SADC umbrella.

**We are always talking about economic integration for SADC or Africa, some critics are saying, this is just an ambitious dream which will never work. From your point of view, will it work?**

Empirical research shows that there are benefits from economic integration. The larger the participants in the integration process, the larger the benefits. SACU is committed to regional integration and the Abuja Treaty, which outlines the steps to continental integration. SACU fully supports the efforts by SADC, COMESA and the EAC to establish a free trade area.

**What could be the challenges, if this dream is to be fully and effectively realised?**

Countries are at different levels of economic development, and their policy imperatives may be at variance. Harnessing these may be a major challenge. This may be a particular challenge for example, where countries need to agree a common external tariff, common policies, and so on.

A further challenge would be how to collapse the various RECs that exist in Africa into a continental economic community. In addition, the fact that the production structures of the countries in the region do not complement each other, make efforts towards integration very difficult. However, Continental integration is possible and should be pursued.

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