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DIRECTORATE B
- Policy Department -

Information Note on the Political and Economic Situation of South Africa

and

EU-South Africa Relations

Abstract:

This note outlines the current situation in South Africa, politically and economically. Special attention is given to relations between the EU and South Africa.

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1. Basic Information

Official name	Republic of South Africa
Form of state	A federal state, consisting of a national government and nine provincial governments
Legal system	Based on Roman-Dutch law and the 1996 constitution, in force since 4 February 1997. South Africa has one of the most liberal constitutions in the world
National legislature	Bicameral parliament selected every five years, comprising the 400-seat National Assembly and the 90-seat National Council of Provinces
Electoral system	List-system proportional representation based on universal adult suffrage
National elections	April 14th 2004; the next election is to be held in 2009
Head of state	President, elected by the National Assembly; currently Thabo Mbeki; under the constitution, the president is permitted to serve a maximum of two five-year terms; Mr Mbeki is serving his second term
National government	African National Congress majority government, consisting of state president and deputy president from the majority party in the National Assembly, and a cabinet drawn from the majority party and all other parties achieving over 5% of the national vote
Main political parties	The African National Congress (ANC) in coalition with tripartite alliance, of the smaller South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU); other parties include the Democratic Alliance (DA), the Inkatha Freedom Party (Inkatha or IFP), the Independent Democrats (ID), the United Democratic Movement (UDM), the Freedom Front Plus (FF+), the African Christian Democratic Party (ACDP), the Pan Africanist Congress (PAC) and the National Democratic Convention (Nadeco)
President	Thabo Mbeki (ANC)
Deputy President	Phumzile Mlambo-Ngcuka (ANC) *since June 2005*

Key ministers	Agriculture & land affairs	Lulama Xingwana (ANC)
	Communications	Ivy Matsepe-Casaburri (ANC)
	Defence	Mosiuoa Lekota (ANC)
	Education	Naledi Pandor (ANC)
	Finance	Trevor Manuel (ANC)
	Foreign affairs	Nkosazana Dlamini-Zuma (ANC)
	Health	Manto Tsahabalala-Msimang (ANC)
	Home affairs	Nosiviwe Mapisa-Nqakula (ANC)

Housing	Lindiwe Sisulu (ANC)
Justice & const.development	Brigitte Mabandla (ANC)
Labour	Membathisi Mdladlana (ANC)
Minerals & energy	Buyelwa Sonjica (ANC)
Prov. & local government	Sydney Mufamadi (ANC)
Public enterprises	Alec Erwin (ANC)
Safety & security	Charles Nqakula (SACP)
Trade & industry	Mandisi Mpahlwa (ANC)
Transport	Jeff Radebe (ANC)

Central bank governor Tito Mboweni

1.1. Key Political Players

President: Thabo Mbeki is now serving his second and final five-year term in office, following the ANC's record victory at the April 2004 general elections. Mbeki replaced the iconic Nelson Mandela as South Africa's president in June 1999 and as a leader of the region's economic and diplomatic powerhouse, he is now widely considered as the most important man in Africa. Although far less boisterous and universally popular than Mandela, Mbeki has proved to be a more than capable replacement, helping to build on his predecessor's efforts to reintegrate the country into the international arena after years of wilderness. During his first term as president, Mbeki played a big role in regional affairs, including the formation of the new pan-African regional, political and economic grouping, the African Union (AU)—which replaced the 39-year-old Organisation of African Unity (OAU)—and the New Partnership for Africa's Development (NEPAD), the continent's economic recovery blueprint, with which he is associated closely, as well as efforts to bring peace to a number of trouble spots in Africa. Mbeki is nonetheless subject to criticism over his policies on a broad range of issues, including his handling of the country's unemployment, crime and HIV/AIDS crisis.

Deputy President: Phumzile Mlambo-Ngcuka was named as the country's first female deputy president in June 2005 when Jacob Zuma was dismissed upon being implicated in a multi-million dollar corruption scandal. A former teacher, Mlambo-Ngcuka has been a member of parliament since 1994 and served as a cabinet minister for nearly a decade—deputy minister of trade and industry (1996-1999) and minerals and energy minister (1999-2005)—before her promotion. At 49, Mlambo-Ngcuka is one of the youngest cabinet members, which, allied to her 'handicap' of gender in what is still essentially a predominantly male-dominated society, makes her exceptional rise to power very surprising. With the post of the deputy presidency widely considered to be a stepping stone to the presidency, Mlambo-Ngcuka is now seen as the strong favourite to succeed Mbeki as president in 2009. Although it is not certain whether Mlambo-Ngcuka harbours such power ambitions, her chances of becoming the country's first female president improved when Mbeki openly declared that his successor will likely be a woman.

Minister of Finance: Trevor Manuel is the ANC's first—and to date only—finance minister. Manuel is widely respected among the business community for his skilled handling of the country's economy, overseeing the smooth transition from the Apartheid-era system to an open, market-led system.

Minister of Foreign Affairs: Nkosazana Dlamini-Zuma, who was once married to former deputy president Jacob Zuma, was named to the key post following the June 1999 general elections. Her chances to succeed Mbeki in 2009—and thus become the country's first-ever female president—were severely reduced in June 2005 following Mbeki's promotion of another female candidate, Phumzile Mlambo-Ngcuka, to the deputy presidency post.

Minister of Environment and Leader of the New National Party (NNP): Marthinus van Schalkwyk became the most senior non-ANC figure in the government following his appointment as environment minister in the new cabinet line-up announced shortly after the April 2004 general elections. His appointment was widely expected, ever since his party entered into a political alliance with the ANC to administrate the Western Cape province in 2002, thus keeping the ANC's main parliamentary opposition, the Democratic Alliance (DA), from running the key province.

Central Bank Governor: Tito Mboweni became the new governor of the South African Reserve Bank (SARB) when he took over from Chris Stals in August 1999, having been appointed to the post by outgoing president Nelson Mandela in July 1998. In taking over this role, Mboweni became the first black governor of the SARB and has more or less followed the same monetarist policies favoured by his predecessor. A trained economist, Mboweni's previous experience included guiding the country through a tough period of labour legislation negotiations in his previous role as minister of labour

1.2. Other Key Political Players

Ex-President: Nelson Mandela has dominated the political scene in South Africa since his release from prison in February 1990 and subsequent tenure as president. Despite his official 'retirement' from active politics following the June 1999 general elections and all official public life in 2003, Mandela still commands considerable respect in his own country and beyond, with his name often being mentioned in connection with a number of humanitarian efforts around the world.

Leader of the Democratic Alliance: Tony Leon and his then Democratic Party became the official opposition to the ANC in parliament, following the results of South Africa's second ever all-race general elections. Leon, who became the leader of his party in 1994, consolidated his position further a year later in June 2000 when the DP merged forces with the former-ruling NNP (which has since withdrawn from the alliance) and the small Federal Alliance (FA) party to form the Democratic Alliance (DA). He has notably been successful in lifting the party's electoral support from about 2% in 1994 to 12% in 2004 and 16% in the 2006 local elections. But it is felt that the party's support has reached a ceiling as most of DA electorate is white. Leon, who is a former lecturer from the University of the Witwatersrand, a lawyer and a Johannesburg city councillor, has announced that he will not stand for election as party leader in May 2007. Helen Zille, the current mayor of Cape Town, could be his successor. Cape Town is the only major city in South Africa not run by the ANC.

Leader of the Inkatha Freedom Party (IFP) and Former Home Affairs Minister: Mangosuthu Buthelezi, left office when Mbeki's 2004 government was formed. He was put in charge of the Home Affairs docket by former president Nelson Mandela following South Africa's first all-race general elections in 1994 in what was seen as a largely symbolic gesture, aimed at reconciling the supporters of his IFP and the ANC in the IFP stronghold of the KwaZulu-Natal

(KZN) province in the lead-up to the historic polls. Buthelezi, after turning down an offer to be deputy president, remained in charge of home affairs after Mbeki was elected in 1999. Buthelezi's own personal standing as the IFP leader is also coming under increasing scrutiny, with some beginning to view his 30 plus years-long tenure as the party's leader and dominant figure as a problem rather than a strength.

Former Deputy President: Jacob Zuma served as deputy president for six years after his surprise appointment back in 1999, following his fellow Zulu and opposition IFP leader Mangosuthu Buthelezi's decision to reject it. However, his time as the government's number two came to an abrupt end in June 2005 when President Mbeki was forced to sack him, following his implication in a multi-million dollar corruption trial, in which his former financial adviser, Shabir Shaik, received a 15-year jail sentence for charges including paying some 1.3 million rand to Zuma in order to secure lucrative business deals. In a separate case, Zuma was charged with rape in December 2005. Although subsequently acquitted of the charges, the damage to his reputation has diminished any chance of potentially holding the presidency. He remains popular, however, and his potential political influence should not be underestimated.

Former Secretary-General of the ANC: Cyril Ramaphosa, a prominent anti-Apartheid figure during the late 1980s, was once considered to be former president Nelson Mandela's chosen successor and natural heir to the presidency. However, in the race to become deputy to Mandela and eventually succeed him, the former trade-union leader was outflanked by Mbeki, leading him to abandon active politics and instead pursue his highly lucrative business interests. Despite his decision to leave full-time politics, Ramaphosa remains immensely popular within the ruling ANC, for which he served as secretary general between 1991 and 1997. He also served as the ANC's main negotiator in the constitutional talks with the National Party that led to the establishment of democracy and chaired the Constitutional Assembly responsible for drafting a permanent constitution. Ramaphosa is still a member of the ANC's 60-strong National Executive Committee, winning the greatest number of votes in party elections in 1997 (the second highest in 2002). He became the first magnate of South African black empowerment and is also considered its wealthiest. Ramaphosa was one of the three senior ANC members named—and subsequently cleared—by Defence Minister Steve Tshwete in April 2001 as plotting to oust Mbeki from power (see below).

2. **Political Situation and Outlook**

2.1. Background

The ruling African National Congress (ANC) is expected to maintain its overwhelming hegemony for the near future. However, last year's rape allegations against former deputy president, Jacob Zuma, prompted ANC tripartite alliance partners COSATU and SACP to soften their support for him. On the one hand, Mr Zuma has already been reinstated as deputy president of the ANC now that he has been found not guilty; on the other hand, he still faces corruption charges.

For political analysts, however, the key question is how–or whether–Mr Zuma's acquittal impacts on the battle for succession within the ANC. Although Mr Zuma himself is not a viable candidate, he represents a potent symbol for an increasingly dissatisfied constituency within the ANC, which could affect ANC leadership elections in 2007. Indeed, the Zuma camp has sufficient strength to influence the choice of Mr Mbeki's successor in what is shaping up to be a battle between the left and the centre along economic policy lines. The Zuma camp is likely to support a candidate perceived to be sympathetic to the left and its policies of redistribution. It is not going to be easy to find a candidate who can make the technocratic approach to government adopted by Mr Mbeki and his supporters sound similarly charismatic, and the current deputy president, Phumzile Mlambo-Ngcuka, does not appear to have built up a particularly strong support base within the ANC. Whether or not he is in a position to resurrect his own career, Mr Zuma therefore remains a strong force in South African politics.

The ANC and its leadership will be preoccupied with maintaining party unity, the tripartite alliance with the SACP and COSATU, and an orderly process of electing a successor to Mr Mbeki as ANC president at the party's national congress in December 2007. There could be a major power struggle within the party between the supporters of Mr Mbeki and his technocratic approach to government and the populist faction on the left, the outcome of which could determine whether the SACP decides to contest the 2009 national and provincial elections in its own right. However, strenuous attempts are likely to be made to find a compromise candidate. Mr Mbeki, nevertheless, still has the power to influence the direction of South African democracy.

Despite these tensions, the alliance is unlikely to fragment in the near future. However, the ANC could well accede to opposition requests to abolish the floor-crossing mechanism[1] in an attempt to pre-empt defections and the formation of a new leftist party during the next floor-crossing period (possibly between September 2006 and April 2008), or else simply not activate the mechanism. The municipal elections on March 1st 2006 resulted in a comfortable victory for the ANC, although civic organisations gained ground at the polls on the strength of widespread dissatisfaction with the government's failure to provide services, particularly to poor urban areas. The ANC is likely to pay more attention to service delivery and poverty alleviation in an attempt to contain this dissatisfaction.

The opposition parties will remain weak and fragmented. Because the ruling party has such a broad base, it has been difficult for opposition parties to establish an identity that is both credible and distinct from the ANC. Opportunism and personality clashes have also played into the hands of the ANC, widening its electoral majority and leading increasingly to a virtual one-party state. The ANC will continue to ignore the opposition parties, thus weakening the operation of multiparty democracy. Meanwhile, the playing-field will become increasingly uneven: as black economic empowerment (BEE)[2] takes hold among major companies and in the press it will become more and more difficult for opposition parties to obtain funding and coverage. In addition, the ANC will continue to conflate state and party, and state-owned media and public

[1] In 2003 South Africa introduced legislation to allow elected politicians to "floor cross" to different parties during specified windows of time–a system that clearly benefits the African National Congress (ANC). Floor-crossing is now widely criticised by opposition parties and analysts, who realise that it undermines the principle of proportional representation. The dominant party dispenses patronage and therefore gains members, while the smaller parties lose elected representatives and revenue in terms of the funding formula. With the legislation stipulating that a minimum of 10% of a party's representatives have to cross the floor for their actions to be valid, larger parties (in effect, only the ANC) are protected at the expense of the smaller ones. To date, the main losers have been the Inkatha Freedom Party (IFP), the United Democratic Movement (UDM) and the African Christian Democratic Party (ACDP).

[2] The government's black economic empowerment (BEE) strategy (formally approved in early 2004 but operating as a policy mandate well before then) aims to redress apartheid-era inequities by increasing the economic participation of those who were disadvantaged.

funds will be used to boost its electoral image. Although there are insignificant policy differences between the major opposition parties, only a credible new black leader could broker the formation of a larger unified opposition party. This is unlikely to occur in the near future.

2.2. The Zuma Affair

President Thabo Mbeki finally took the tough decision of dismissing his deputy and most likely successor, Jacob Zuma, following his implication in multi-million dollar corruption trial, in which his former financial adviser, Shabir Shaik, received a 15-year jail sentence in early June 2005. Mbeki commented on the situation, saying: '*As president of the Republic, I have come to the conclusion that the circumstances dictate that in the interest of the Honourable Deputy President, the government, our young democratic system and our country, it would be best to release the Honourable Jacob Zuma from his responsibilities as deputy president of the Republic and member of the cabinet.*'

Shaik, a Durban-based businessman, was convicted on two counts of corruption and one of fraud, including paying some 1.3 million rand to Zuma in order to secure lucrative business deals. Although Zuma himself is yet to have his day in court, Shaik's conviction and his clear implication has effectively sealed his fate. Zuma faces two counts of corruption. In September State prosecutors were unable even to complete their indictment and the case was thrown out of court before it properly started. But Zuma suffered a setback in another case when the Supreme Court of Appeal rejected an application by Shabir Shaik against conviction for corruption. This could add weight to calls for Mr Zuma to be charged again.

Slim hopes that the still popular former government number two will become the country's next president effectively disappeared in December 2005 when he was charged with raping a 31-year-old, HIV-positive AIDS activist and family friend at his Johannesburg house, leading to his suspension as the ANC's deputy chairman. Although Zuma has since been cleared of the charge and maintains his innocence against the corruption charges, the scandalous nature of the charges levied against him–and the details which have followed–have led to a diminishing of his reputation. However, given his enduring popularity with the rank and files members of the ANC and its political partners, most significantly the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP), and the considerable influence he still wields within the tripartite alliance, it would be rash and premature to dismiss Zuma as a politically spent force just yet. Even if Zuma himself is no longer seen as a potential president by most of the country, he may still have a big say in who would emerge as Mbeki's successor when the president steps down in 2009.

2.3. Elections

2.3.1. 2004 general elections

The ANC overwhelmingly defeated its opponents in the national election on April 14th 2004. The ANC managed to secure a two-thirds majority of the votes, upping its share from 66.4% in 1999 to 69.7%. Total votes cast as a proportion of total registered voters resulted in a 76.7% poll but, when the number of eligible voters is considered, only about 58% turned out. The election was generally considered “free and fair”, with only a few isolated cases of intimidation and no violence, even in KwaZulu-Natal, which had been a problem province in the past with clashes between the ANC and the IFP.

The votes received by both the ANC and the combined opposition have fallen since 1994 – votes for the ANC from 12.2m in 1994 to 10.9m in 2004 and the combined votes for other parties represented in parliament from 7.1m in 1994 to 4.5m in 2004. Opposition parties have therefore lost more ground than the ANC since 1994. However, between 1999 and 2004 the ANC gained 277,000 votes and the DA 404,000 votes, with the new Independent Democrats (ID) registering 270,000 votes (1.7% of the poll). Losers were the New National Party (NNP), the IFP and the United Democratic Movement (UDM). The DA consolidated its position as the main opposition party, obtaining 12.4% of the vote as against 9.6% in 1999. The IFP lost ground, polling 7% as against 8.6% in 1999, while the NNP (the successor to the National Party, which ruled South Africa for 46 years from 1948-94) almost disappeared, its support falling from 6.9% in 1999 to 1.7%. The UDM's share of the vote slid to 2.3%, from 3.4% in the previous election, but the party still claimed nine seats.

2004 Election Results

Parliamentary Elections (14 April 2004)		
Party	**%**	**Seats**
African National Congress (ANC)	69.68	279
Democratic Alliance (DA)	12.37	50
Inkatha Freedom Party (IFP)	6.97	28
United Democratic Movement (UDM)	2.28	9
Independent Democrat (ID)	1.73	7
New National Party (NNP)	1.65	7
African Christian Democratic Party (ACDP)	1.60	6
Freedom Front Plus (FF+)	0.89	4
United Christian Democratic Party (UCDP)	0.75	3
Pan-African Congress of Azania (PAC)	0.73	3
Minority Front (MF)	0.35	2
Azanian People's Organization (AZAPO)	0.27	2
TOTAL	*100.00*	*400*

Source: Independent Electoral Commission (IEC): www.elections.org.za.

2.3.2. 2006 local elections

Despite predictions that voter apathy, its failure to deliver on previous election promises and the growing perception of corruption within the government, the ANC was confirmed as the overall winner of the 23 February 2006 local government elections, winning 66.34% of the nationwide vote. The ANC was followed in second place by the DA with 14.77%, IFP with 8.05%, and the ID with just 2.02%. The result has allowed the ANC an overall majority in 223 councils and five municipal councils, with a sixth—Cape Town—won narrowly by the DA ahead of the ANC. However, the DA failed to secure an overall majority and was forced to rely on the support of the small parties who won in the 210-member Cape Town council, except the Independent

Democrats (ID) party, which came third in the ballot, aligning itself with the ANC.

3. International Relations

3.1. Overview

South Africa's foreign policy will continue to be shaped by the objectives of the New Partnership for Africa's Development (Nepad), an ambitious pan-African development initiative championed by Mr Mbeki. It will maintain a high level of commitment to any new round of global trade talks, in which it will ostensibly seek to champion the interests of poor African countries. In addition, Mr Mbeki will seek to strengthen and expand South Africa's ties with Asia and the Middle East, as shown by the leading role that the country took in setting up the New Asian-African Strategic Partnership in April 2005.

The crisis in Zimbabwe will continue to be the major foreign policy issue for South Africa. Mr Mbeki has used up a considerable amount of time and personal credibility in trying to solve Zimbabwe's political crisis via "quiet diplomacy"–an approach that has proved to be a dismal failure. Even if the mounting economic crisis in the country forces Zimbabwe's president, Robert Mugabe, to accept some South African conditions in return for financial support in 2006, the prospect of rapid progress towards resolving the country's political crisis is unlikely. It is more likely that Mr Mugabe's adamant rejection of all pressure to change his policies, despite the Zimbabwean population's growing need for international help, could see his government become more distant from its powerful neighbour, South Africa, and even other African leaders, although they are unlikely to press for any decisive action.

3.2. Nepad

Nepad argues that Africa needs to involve itself much more closely in the global economy. To do this it needs to implement a series of reforms, which will be supported by the G8 through a combination of external debt relief and improved trade access to the developed world. Increased financial aid is mentioned but deliberately downplayed to emphasise that the thinking behind the plan is that responsibility for the success of the plan lies with African leaders. It includes:

- the establishment of civil order and more democratic government;
- the prevention and reduction of conflict throughout Sub-Saharan Africa;
- greater respect for human rights;
- increased investment in human resources through health and education;
- policies aimed at diversifying African economies and boosting trade with the rest of the world;
- measures to enable Africa to adopt new technologies; and
- the combating of the range of diseases that afflict the continent, from AIDS to malaria.

Mr Mbeki has constantly stressed that although his goals may be ambitious there is still a strong moral obligation to push such ideas forward and strive to promote African development. Moreover, although many African governments may be recalcitrant, if some countries do adopt Nepad’s prescriptions and start to grow rapidly they will serve as trailblazers for others to follow. African countries could then act in mutual support of each other, promote African issues on the global agenda and talk to other African leaders from a much stronger political and economic base. An encouraging development is that a number of countries have agreed to submit to Nepad's peer review process, which envisages the assessment of each government by a council of Africa's "wise men", including Chris Stals, a former governor of the South African Reserve Bank.

3.3. Regional Cooperation

South Africa is a full member of the South African Customs Union (SACU) and the Southern African Development Community (SADC). As a qualified signatory to the Lomé Convention and the Cotonou Agreement, South Africa is also a member of the ACP group. It is not directly involved in the negotiations for the Economic Partnership Agreements but provides assistance and advice to the SADC countries that are.

In recognition to its continental role South Africa became in 2002 the first chair of the African Union and it also remained the driving force behind Nepad, a commitment of African leaders to take ownership and responsibility for the sustainable economic development of the continent. Today South Africa remains one of the most committed and supportive members of the African Union. In recognition of its role South Africa was chosen in 2004 to host the Pan African Parliament. NEPAD has now become the official Socio-Economic programme of the African Union and South Africa continues to provide the bulk of the funds and of the capacity for this initiative. The challenge ahead will be to fully integrate Nepad in the African Union.

4. **Economic Situation**

4.1. Background

South Africa has by far the biggest, most developed economy in Africa, with the services, mining, and manufacturing sectors making a significant contribution to the country's economy. With a GDP per capita of around US$2,300 per annum, South Africa ranks alongside other middle-income countries, such as Chile, Mexico, Hungary, Thailand, and Malaysia. Nevertheless, due to the legacy of the apartheid system of rule, under which the country was governed until it held its first all-race universal elections in 1994, the income per capita figure is largely misleading, with huge income disparities between the country's minority white and majority black population. Generally speaking, a significant proportion of the white population enjoys a lifestyle and a living standard on a par with the most advanced economies in the world, while the black majority has to endure conditions found in the least developed countries. The marked variations in economic production occur not only between races, but also within races, between urban and rural geographic areas, and within race groups. The Gauteng province, which contains two of the country's biggest metropolises-Johannesburg and Pretoria produces around 40% of GDP, whereas large parts of the country remain less developed with little commercial activity.

Economic performance at the height of the economic sanctions in the 1980s was poor as the consequences of political isolation materialized with an annual average real growth rate of less than 1% over the period of 1985-1993. Growth was, to some extent, undermined by the prevailing international trade and financial sanctions, an inefficient state and overbearing defence sector, wholesale social-labour dislocation, simmering and overt public unrest, and apartheid-inspired violence. Since the end of apartheid-rule, the overall economic performance improved, with the economy growing at an average annual rate of 3.8% between 1995 and 2005. Nevertheless, this is still far below the performance of other emerging markets among which South Africa finds itself.

When it comes to economic policy, the ruling tripartite alliance – consisting of the African

National Congress (ANC), the Congress of South African Trade Unions (COSATU), and the South African Communist Party (SACP) – is often forced to perform a balancing act between fulfilling the expectations of the majority poor black population and going along with global economic realities, which at times require some harsh and unpopular measures. When the ANC-led government came to power, its main macroeconomic strategy was focused around the Growth, Employment and Redistribution (GEAR) program, based on promoting the free market and financial and fiscal discipline, and aims for economic growth, job creation, and the development and distribution of basic services to all South Africans. The principles contained in GEAR are still largely adhered to, but there have been some broad changes made to some of the GEAR elements and targets in recent years. The government's latest broad macroeconomic policy targets are embodied in the Accelerated and Shared Growth Initiative for South Africa (ASGISA), which aims to lift economic growth to 6% and halve unemployment and poverty by 2014.

In order to advance its cause and move the economy forward and onto a sounder footing, the government has to implement what at times are painful measures, often resulting in job losses. This has often resulted in strong opposition from those who put the party into power, as well as from its political partners, the SACP and the umbrella labour movement (COSATU). There is no dispute with regard to the huge development needs that exist, but the authorities have decided that the economy needs to open up to the rest of the world after so many years of international isolation, and that in reality there is no other choice in the long run. Implicitly, this also meant living within overall financial constraints until the economy is re-structured onto a sounder, more openly global footing. These decisions are made all the more difficult because of South Africa's well-documented history and the continued existence of immense economic inequalities.

In the 10 years since the end of apartheid rule, South Africa has achieved a level of macroeconomic and political stability not seen in the country for 40 years. The government has successfully liberalized imports and pursued an export-oriented economic development strategy with a focus on building a modern, competitive manufacturing industry to reduce its previous reliance on the mining sector, which is affected by commodity price fluctuations. Under the custodianship of Finance Minister Trevor Manuel, the country has also achieved a degree of fiscal stability, a moderate budget deficit, sound balance of payments and lower inflation enabling it to adopt a more expansionary fiscal stance, and redirected expenditures to infrastructure development and social priority spending. The budget deficit has come down from 9.5% of GDP (including the deficits of the Bantustans) in 1993 to a preliminary estimate of 0.4% of GDP for 2005/06. Total public sector debt has fallen from over 60% of GDP in 1994 to barely over 50% of GDP in 2002/03. The country has also successfully eliminated its net open forward currency position (NOFP) in 2004.

Having won its third consecutive general elections in April 2004, the government has once again put the battle against poverty, increased investment, and the creation of jobs at the top of its economic agenda. With an official rate of just above 30%, the rate of unemployment in South Africa is considered to be extreme, with unofficial estimates putting the figure closer to 40%.

4.2. Outlook

South Africa's mildly expansionary 2006 budget–the tenth budget of the finance minister, Trevor Manuel–has been widely greeted with approval by the private sector. The higher than expected receipts have resulted in a budget that offers something to all constituents through a combination of tax relief, increased expenditure and a reduction of the deficit. Higher social spending will include additional funding for new housing programmes, community infrastructure, education, health and welfare. At the same time, the overall fiscal deficit is officially forecast to remain well below the psychological barrier of 3% of GDP over the next three years, increasing to 1.5% of GDP in the 2006/07 fiscal year (April-March) before easing to 1.2% of GDP in 2008/09.

4.3. Fiscal Policy

Recent official estimates indicate that the budget deficit for the fiscal year 2005/06 (April-March) is estimated to have been a lower 0.6% of GDP, compared with the government's original target of 3.1% of GDP, owing largely to stronger than expected economic growth and further strong growth in domestic revenue. According to the government's forecasts, the fiscal deficit is expected to remain well below the psychological barrier of 3% of GDP over the next three years, increasing to 1.5% of GDP in 2006/07 before easing to 1.2% of GDP in 2008/09. Fiscal revenue is forecast to rise to R446.4bn in 2006/07, R492bn in 2007/08 and R547.1bn in 2008/09 as real GDP growth boosts domestic revenue. Expenditure is also projected to increase rapidly, to R472.7bn in 2006/07, with provision being made to tackle the backlog in infrastructure investment; spending on infrastructure is set to increase by 14.2% as against 11.4% in 2005/06. Higher social spending will include additional funding for new housing programmes, community infrastructure, education, health and welfare. Overall, the Economist Intelligence Unit now expects the fiscal deficit to edge up from 0.6% of GDP in 2005 to 1.9% of GDP in 2006 and to 2.1% of GDP in 2007 (calendar years). A budget deficit of this size will be easily funded through a mixture of foreign and domestic debt.

4.4. Monetary Policy

Monetary policy will remain focused on containing inflation, as measured by CPIX (consumer prices excluding mortgage costs), within the official target range of 3-6% per year set by the South African Reserve Bank (SARB, the central bank). With inflation remaining lower than official expectations, the MPC is highly likely to leave rates unchanged for the rest of 2006. However, if oil and food prices rise and demand for consumer credit remains robust, the prospect of an interest-rate rise in the second half of 2006 will increase. Signs of inflationary pressure arising from higher prices, continued strong growth in domestic spending and increasing credit demand will remain key to the MPC's future monetary policy response. The MPC is expected to pursue a tighter monetary policy in 2007.

4.5. External Sector

South Africa has a relatively open economy, with foreign trade (imports plus exports) accounting for more than 50% of gross domestic product. The EU, the US and Japan are among its largest trading partners. (See Annex 5 for trade data with the EU) Trade with Africa has increased significantly over the last ten years. Most of South Africa's exports to industrialised countries consist of primary and intermediate commodities. A large proportion of exports consists of unprocessed raw materials; the mining industry contributes the most to the country's total exports. However, South Africa is increasingly adding value before exporting. South Africa is a major exporter of coal, gold, diamonds, platinum, wool, sugar, manganese and chrome ores, and base minerals such as iron ore. The country is also an exporter of seasonal fruit, and animal hides and skins. Exports of chemicals, metal products, machinery, transport equipment and manufactured goods have increased, particularly into Africa, in recent years. South Africa's historical policy of import substitution, characterised by stiff tariff protection and quantitative import restrictions designed to promote domestic industry, has been liberalised considerably since the mid-1990s. Imports have continued to rise in recent years, reflecting a rising demand for intermediate and capital goods. The combination of rapidly rising imports—stimulated by growing domestic demand, high oil prices and the importation of military equipment—and more modest export growth (due largely to the dampening effect of the rand) had an adverse impact on the country's trade balance in 2004. Imports increased from US$35.3bn in 2003 to US$48.5bn in 2004, while merchandise exports increased from US$38.6bn in 2003 to US$48.4bn in 2004 as a result of increased global demand for commodities and a stronger world economy. As a result, for the first time the trade balance posted a small deficit, of US$114m, in 2004.

South Africa had to run large merchandise trade surpluses in the apartheid era to counter large capital outflows. This resulted in current-account surpluses that narrowed with the trade liberalisation from the 1990s. Deficits in the current account became manageable, and in 1995 South Africa registered its first deficit (equivalent to 1.5% of GDP) for ten years. The deficit on South Africa's services and income account has shown a widening trend in the last few years, primarily because of the increased foreign purchase of bonds and equities and the consequent outflows of dividends. Other components of services payments include freight and merchandise insurance. There is also a significant outflow of remittances by a declining but still significant number of migrant workers in gold mines, on large farms and in other employment. Services receipts, particularly from foreign tourism, passenger fares, freight, insurance and the provisioning of ships and aircraft typically cover about 80% of payments. In 2001 and 2002 high services receipts enabled small surpluses to be recorded in the current account (equivalent to 0.6% of GDP in 2002), the first since 1994.

These surpluses were an exception, however, and the current account reverted to a modest deficit of 1.6% of GDP in 2003 and a higher 3.3% of GDP in 2004, and an even higher 4.6% in 2005. The continued widening of the deficit is due partly to the weakening of the trade balance and partly to higher dividend payments to non-residents and increased interest payments on the government's foreign debt. The current-account deficit is forecast to rise slightly to 4.7% in 2006.

5. EU–South Africa Relations

5.1. Overview

The rationale for EU involvement is based on the assumption that South Africa is a pole for the development of peace, democracy and economic growth for the entire Southern Africa region. If

South Africa is to play this role, it must still overcome major social and economic challenges which have started to be addressed, during the past seven years:

- 50% of the population are defined as poor, using a SA poverty line equivalent to about $2,40 per person per day;
- poverty is mainly rural (72% of the poor live in rural areas);
- poverty is mainly present within black communities and in particular the female-headed households;
- South Africa's income inequality is among the highest in the world (the poorest 20% of the population receive 3,3% of income while the richest 10% receive 47,3%). There are extreme variations in human development indices between races and provinces (Eastern Cape, KwaZulu Natal and the Northern Province being the provinces where poverty is most severe).

The social challenges remain staggering. As indicated above, lack of basic infrastructure (housing, water and sanitation, electricity), high unemployment, widespread AIDS, high level of crime and violence against women and children and poor education need to be tackled through comprehensive programmes, in order not to achieve a higher rate of economic growth in the long run but to improve income distribution and reduce poverty and social discrimination.

Previously, a *Country Strategy Paper for South Africa* for 2000-2002 was approved by the Member States. This document identified major challenges and constraints to development in South Africa. It was the basis for the negotiation of a *Multi-annual Indicative Programme (MIP) 2000-2002*, agreed upon in June 2000. On 31 July 2003 a new *Country Strategy Paper and Multi-annual Indicative Programme* was formally adopted by the Commission and the government of South Africa. The programme was the result of intensive negotiations with the South African authorities, of co-ordination with other donors, primarily the EU Member States, and of consultations with the civil society in the country. It sets aside an indicative amount of € 386 million for the next three years.

The main objective was to support the South African government's policies and efforts to reduce poverty and mitigate the impact of HIV/AIDS. It focused on four major areas of co-operation:

- equitable access to and sustainable provision of social services
- equitable and sustainable economic growth
- deepening democracy and
- regional integration and co-operation

Complementing the support in the form of grants from the Commission budget, was the European Investment Bank's Memorandum of Understanding, which was signed in 2001 and provided for loans in the average amount of € 115-120 million p.a.

Regulation (EC) No. 1726/2000 of the European Parliament and of the Council has been adopted for the 2000-2006 period and constitutes the legal base for budget line B7-3200. This legal base covers the administrative, procedural and legal aspects of implementing the EPRD in South Africa.

The EU-South Africa TDCA has been designed with a strong regional component, so as to be of benefit not just to South Africa but to Southern Africa as a whole. For South Africa’s immediate neighbours in Botswana, Lesotho, Namibia and Swaziland (the BLNS states) the provisions concerning the establishment of a Free Trade Area between the European Union and the Republic of South Africa will be especially significant since these countries belong to a customs union (SACU) with South Africa.

As members of the Cotonou Agreement, Botswana, Lesotho, Namibia and Swaziland have preferential access to the EU market for their exports. Botswana, Namibia and Swaziland also benefit from the special Trade Protocols for Beef and Sugar. This will remain unaffected by the FTA between the EU and South Africa.

5.2. State of Play: towards an EU-South Africa Strategic Partnership

A number of recent and upcoming events have led to an in depth rethinking of South Africa-EU relations:

- The assessment by South Africa of the achievements of Ten Years of Democracy,
- The recent shift in South African economic policy from structural macro-economic stability combined with improved delivery of social services towards more interventionist promotion of economic growth focusing on employment,
- The review of the bilateral agreement, the "Trade, Development and Cooperation Agreement" (TDCA),
- The full entry into force of the TDCA on 1 May 2004, including of those provisions that were not provisionally applied,
- The ongoing preparations of the Community Financial Perspectives 2007-2013,
- The upcoming end of term review of the current indicative programme, and the preparation of the post-2006 Country Strategy Paper.
- The adoption by the Council and Parliament of the "European Consensus" on the overall EU Development Policy. And the more recently adopted proposal for a new EU Strategy for Africa, which considers South Africa as an anchor country on the continent.

The November 2004 Cooperation Council (Annex 4) has adopted "Joint Conclusions", indicating the way forward and setting broad guidelines for developing this new relationship. Recommendations are for a holistic approach, integrating development cooperation, trade, political dialogue, cooperation in trade related, economic and other areas, into a mutually beneficial partnership benefiting both the poor, informal "second" economy of the country and the developed, industrialised "first" segment of South African economy and society. The new approach will focus increasingly on integrating South Africa into the world economy, on economic growth and on jobs with Poverty Alleviation as an overarching objective.

Implementation of these Joint Conclusions is currently under way and requires the following steps:

Revision of the text of the TDCA

From the outset, both sides have agreed that the TDCA is still by and large a valid agreement and that a full overhaul is not required. Nevertheless, some of the provisions need to be updated and the revision is an opportunity to look at the entire agreement and update the language where required. One of the main areas for revision obviously is the trade liberalisation section of the

Agreement[3].

Exploring the relevance of EU Regional Policy to South Africa

A high level delegation from several South African ministries has toured Europe in April 2005 on a first fact finding trip about European Regional Policy and its implementation as well as about the role o the Structural Funds. Further visits and exchanges are being considered.

Implementation of the new areas of cooperation

Exchanges of views between the two sides have taken place and will run parallel to the negotiations for the revision.

Drafting of a new Country Strategy Paper and Indicative Programme

Development cooperation with South Africa is now covered by the new Development Cooperation Instrument (DCI). Good progress has been made in preparing a new Country Strategy and Indicative programme for 2007-2013[4]. An evaluation of the current programme has been conducted and preparatory sector studies are under way or about to be launched. Strong coordination with Member States in the field has been established, with eight Member States and the Commission drafting a joint broad Country Strategy together. Under the DCI the European Parliament has a right to scrutinise the CSP/NIP, as well as the annual programmes.

A strategic partnership

Reflections on a more coherent and strategic partnership, integrating all the facts of the TDCA, that would be more than the sum on its components, are currently under way. The Commission has presented a Communication to Council and Parliament on an EU strategy for South Africa[5] that would form the broader framework for this integrated strategic partnership. This communication is meant to be a concrete application of the Africa Strategy for the specific case of South Africa. On 24 October 2006 the European Parliament has adopted a resolution based on an own-initiative report by the Development Committee[6].

The November 2006 Joint Cooperation Council adopted a statement on the Strategic Partnership, calling for the establishment of a joint Action Plan to implement it. The Action Plan is currently being drafted.

5.3. EU Development Assistance

The European Commission has provided assistance to disadvantaged communities in South Africa since 1986. The initial programme, the Special Programme for Victims of Apartheid, channeled funds through several non-governmental organisations operating inside the country, the SA Council of Churches, the Southern African Catholic Bishops' Conference, the Kagiso Trust and the trade unions, through the Brussels-based International Confederation of Free Trade Unions (ICFTU). From 1986-1994, the European Commission committed over 450 million euro

[3] COM(2006)0348, 28 June 2006.
[4] The document is still not available at the date of concluding this note.
[5] COM(2006)0347, 28 June 2006.
[6] P6_TA-PROV(2006)0430, see annex 1.

to South Africa for about 700 projects aimed at offsetting the inequalities of the apartheid regime. In 1995, in consultation with the South African Government, this programme became the European Programme for Reconstruction and Development in South Africa (EPRD). Its aim is to alleviate poverty, stimulate the economy, generate employment and promote growth. In November of 2005, the European Parliament agreed upon a development strategy for Africa, which would include development in South Africa (Annex 2).

The EU is South Africa's largest foreign donor and in line with this the EPRD is the largest development programme in South Africa (€ 133 million commitment appropriations in 2006). In addition several projects of minor volume are being financed by the EU budget. Individual European Union Member States implement bilateral assistance programmes in addition to the EPRD. EPRD programmes are designed in close co-operation with the South African Government and the implementation process is carried out in conjunction with the relevant authorities. While an estimated 70% of EPRD funds go to projects such as water supply, sanitation, health, education and training and local economic development, a minimum of 25% of EPRD resources is channeled through decentralised co-operation projects (non-governmental organisations, community based organisations, etc.).

Past development programmes have included improving living standards for the poor in historically disadvantaged areas, support for small and medium-sized enterprises, capacity building in public services, and infrastructure projects. While these priorities continue to be addressed (e.g. the government's January 2003 decision on a food security programme for 150.000 households), new and ongoing projects focus on education and training, improvement and access to water and sanitation, health care, as well as local economic development, aimed at job creation.

5.4. Framework for long-term cooperation

Negotiations on building a long-term, comprehensive and stable framework for cooperation between the EU and South Africa started in June 1995, after a period of intense preparatory work by the Commission, EU Council and the government of South Africa.

In recognition of South Africa's unique circumstances, and taking into account the interests of other countries in the region, the EU offered a framework for cooperation around 2 pillars:

5.4.1. Qualified membership of the Cotonou Agreement

South Africa's qualified membership of the (then) Lomé Convention had been approved on 24 April 1997. It came into effect on 1 June 1998. While not eligible for non-reciprocal trade preferences and access to funding from the European Development Fund (EDF), South Africa participates fully in the Cotonou institutions and its firms have access to tenders and contracts for EDF projects in all ACP countries.

The Cotonou Agreement provides for a revision clause which foresees that the Agreement is adapted every five years. In accordance with this clause, negotiations to revise the Agreement were launched in May 2004 and concluded on 23rd February 2005. The overriding objective of revision process was to enhance the effectiveness and quality of the ACP-EU partnership.

The EU and eight SADC countries are currently negotiating an Economic Partnership Agreement (EPA), launched on 8 July 2004. This will replace the trade-related provisions of the Cotonou Agreement and will have implications for South Africa, because of its trade relationship with the SADC countries involved, which includes a Customs Union and a Free Trade Area; as well as its TDCA with the EU. In order to avoid a potential conflict of interests and to assist the participating SADC states in the negotiations, South Africa and the EU have agreed that the former will become an active participant in the EPA negotiations. The aim would be to harmonise the two processes and to establish a coordinated trade framework between the EU and Southern Africa.

5.4.2. TDCA agreement between South Africa and the EU

The Bilateral Agreement on Trade, Development and Cooperation (TDCA) between South Africa and the EU was approved by the European Council in Berlin on 24 March 1999 and was signed in October 1999 and entered into force in 2000 under provisional arrangements. It will lead, after a period of transition of 10-12 years, to a Free Trade Area between the EU and South Africa and covers around 90% of trade between the EU and South Africa.

Following the completion of the ratification procedures for the TDCA by the EU Member States and the South African Parliament, the agreement was fully implemented on 1 May 2004. This means that all the chapters included in the Agreement will now become effective, including economic cooperation and political dialogue.

The most ambitious provisions of the TDCA with South Africa are those concerning the establishment of a Free Trade Area (FTA) between the EU and South Africa. Effectively, at the end of the 10-year transition period 95% of EU imports from South Africa will enter into the market free of duty. The respective figures on the South African side are 12 years and 86%.

Other areas of cooperation covered by the Agreement include**:**

- arrangements for cumulation of origin
- cooperation between customs services
- cooperation in the field of competition policy and public aid
- securing the protection of intellectual property rights
- cooperation in the area of public procurement
- promotion of standardisation and conformity assessment
- liberalisation in the field of services
- cooperation in the field of statistics
- cooperation in the field of transport, including international maritime transport
- trade promotion (in particular in favour of small and medium-sized enterprises)

Under the Agreement, the EU and South Africa will develop cooperation in a wide range of economic and industrial matters, to their mutual advantage, and in the interest of the Southern African region as a whole. This will focus on :

- diversifying and strengthening their economic links
- promoting sustainable development in their economies

- supporting patterns of regional economic cooperation
- promoting economic cooperation between small and medium-sized enterprises
- protecting and improving the environment

Cooperation in the areas of industry, investment promotion, telecommunications and information society, energy, mining, tourism, agriculture, fisheries, consumer policy and services, including financial services will be promoted by this Agreement.

The TDCA also provides for continued financial assistance for development activities at a substantial level for the duration of the Agreement. As the Agreement is open-ended in character, this paves the way for long-term development cooperation between the two sides. The modalities regarding the funding criteria and the implementation of the financial assistance is not specified in the TDCA. These will be decided in the context of the ongoing dialogue between the Community and the Government of South Africa.

In addition to trade, economic and financial cooperation, the TDCA also covers cooperation on environment, cultural contacts, information and media as well as social cooperation, human resource development, health, data protection and the fight against drugs and money laundering.

The regular political dialogue may cover all subjects of mutual interest and it should encourage the support for democracy and the rule of law, respect for human rights and the promotion of social justice, creation of acceptable conditions to eliminate poverty and all forms of racial, gender, political, religious and cultural discrimination. This political dialogue will take place at Ministerial and other levels. On general matters of foreign policy, particularly with a view to promoting peace and long-term stability in Southern Africa, the political dialogue could be extended to include all countries in the SADC region.

The first SA-EU Ministerial meeting following full entry into force of the SA-EU Trade, Development and Co-operation Agreement (TDCA) and the enlargement of the EU was held on 23 November 2004 in Brussels. (Annex 4) As the first Co-operation council of the TDCA, the parties involved, noting on the recent progress in trade relations, welcomed the agreement. During a Joint Cooperation Council on 7 November between the EU and South Africa, the two parties reaffirmed their cooperation and agreed to work to prepare for full implementation of the TDCA. (Annex 3) In December 2005, the European Parliament moved to update the TDCA agreement to include the new members of the European Union. (Annex 1)

There may be sectors of the economy, both in South Africa and in other SACU countries, which might suffer adjustment costs from the gradual opening up to competition with EU producers. Some of them may actually require continued protection. In order to minimise any possible adverse effects for the BLNS (Botswana, Lesotho, Namibia and Swaziland) countries, most sensitive products, i.e. beef and sugar, are excluded from the FTA. Furthermore, the Agreement provides for a safeguard clause that can also be invoked for protection of new industries in both South African and the BLNS states.

At present the budgets of the BLNS countries rely heavily on customs revenue from the common SACU pool account. As with any trade liberalisation programme, the FTA would undoubtedly lead to a decrease in this source of income.

However, there is already acknowledgement within SACU that this present system of financing is inefficient and unsustainable. In order to promote long term economic growth, the SACU countries need to move towards other sources of income. The EU has offered support to alleviate possible transitional difficulties.

Trade Flows under the TDCA

Since the TDCA came into force, trade flows between South Africa and the EU have fluctuated, but show overall positive growth in both directions. The first few years of the TDCA saw somewhat stagnant trade between the two areas. However, the last few years have seen a constant improvement in trade flows in both directions.

Evolution of EU Trade with South Africa

European Union, Trade with South Africa								
Year	Imports	Yearly % change	Share of total EU imports	Exports	Yearly % change	Share of total EU exports	Balance	Imports + Exports
2001	16.297		1,66	12.578		1,41	-3.719	28.875
2002	15.871	-2,6	1,69	12.616	0,3	1,40	-3.255	28.487
2003	15.014	-5,4	1,60	13.587	7,7	1,55	-1.427	28.600
2004	15.774	5,1	1,53	16.044	18,1	1,66	270	31.817
2005	16.725	6,0	1,42	18.071	12,6	1,70	1.347	34.796
3m 2005	3.950		1,51	4.267		1,82	317	8.217
3m 2006*	4.416	11,8	1,35	4.778	12,0	1,76	362	9.195
Average annual growth		0,7			9,5			4,8

South Africa, Trade with the European Union								
Year	Imports	Yearly % change	EU Share of total imports	Exports	Yearly % change	EU Share of total exports	Balance	Imports + Exports
2000	13.169		41,68	11.292		32,27	-1.877	24.460
2001	12.911	-2,0	42,01	11.475	1,6	33,37	-1.436	24.387
2002	12.984	0,6	43,53	10.160	-11,5	31,58	-2.824	23.144
2003	14.435	11,2	44,34	10.015	-1,4	31,35	-4.420	24.450
2004	17.095	18,4	41,52	11.709	16,9	32,62	-5.386	28.803
7m 2004	9.658		41,66	6.674		32,64	-2.984	16.332
7m 2005	11.500	19,1	42,90	10.012	50,0	37,56	-1.488	21.512
Average annual growth		6,7			0,9			4,2

Source: DG Trade, 22 May 2006

5.4.3. Other Agreements

In addition, 2 separate agreements have been negotiated on the following areas:

- Science and Technology, which came into force in November 1997,
- Wine and Spirits, concluded in January 2002.

Negotiations on a fisheries agreement have stalled. The EU's purpose is to secure access to South-African fishing grounds for the European fishing fleet, whereas the South-African side would rather guarantee access to "historically disadvantaged communities". On resumption of talks on 5 March 2001, it appeared that the standpoints were as far apart as ever and negotiations have been suspended since.

In January 2002, South Africa and the European Union signed a long-awaited deal on wine and spirits that will bring more duty-free South African wine to the EU market. The agreement, signed at the Nederberg Wine Estate in Paarl, ensures the phasing out of the use by South African producers of the names port, sherry, grappa and ouzo.

This is of particular importance to the EU. The agreements provide better protection for EU appellations of origin than the protection available at multilateral level, i.e. the TRIPs Agreement. They will provide exclusive protection for the EU wines such as "Champagne", "Chianti", "Mosel", "Port" and "Sherry". As regards "Port" and "Sherry", South Africa will refrain from using these terms for their own wines after transitional periods of twelve years on its domestic market and after five years on export markets, whereby the periods already started from 1 January 2000. They also provide for the elimination of conflictual trademarks, considered as misleading as to the origin of the wine, and which were acquired before the entry into force of the TRIPs Agreement for "non-originating" wines. In the spirits sector, all European traditional names will be protected, including, after a transitional period of five years, "Grappa" and "Ouzo".

Each side agreed also on a procedure to accept in future new practices introduced by the other, on the basis of strict requirements such as health and consumer protection and the preservation of good wine making practices. Moreover, South Africa will allow EU wine that has undergone specific practices (such as enrichment) or wine with particular analytical composition (e.g. late harvest or high quality wine from grapes affected by noble rot) to be marketed in its territory. In return, the EU will authorise the import of specially treated South African wine, taking into account specific climatic conditions.

Both parties have agreed on the mutual recognition of licences issued by the exporting country. The technical details will be laid down in a separate exchange of letters.

The concluding negotiations also agreed on adjusting the annual volume of the duty free tariff quota for South African wines imported in bottles. The new volume will be 420,000 hl (as opposed to 320,000 hl), effective from January 2002.

€ 15 million of Commission aid for restructuring of the South African wine and spirit industry will also come into effect when the wines and spirits agreements take effect.

A Joint Committee consisting of the Commission and South African representatives will be set up to monitor and manage the correct operation of the agreements.

In 1999, EU wine imports from South Africa amounted to € 201 million, while its wine exports to South Africa totalled only € 11 million. By contrast, the EU had a bilateral trade surplus in spirits with EU exports amounting to € 90 million as compared with € 4 million worth of imports.

6. Annex

6.1. EU-South-Africa Strategic Partnership

Annex 1

European Parliament resolution on an EU-South Africa Strategic Partnership (2006/2234(INI))

The European Parliament ,

– having regard to the Communication from the Commission to the Council and the European Parliament of 28 June 2006 entitled 'Towards an EU-South Africa Strategic Partnership' (COM(2006)0347),

– having regard to the Communication from the Commission to the Council and to the Representatives of the Governments of the Member States meeting within the Council to give orientation to the Commission for the revision of the Agreement on Trade, Development and Cooperation between the European Community and its Member States, of the one part, and the Republic of South Africa, of the other part, of 28 June 2006 (COM(2006)0348),

– having regard to the Agreement on Trade, Development and Cooperation (TDCA) between the European Community and its Member States, of the one part, and the Republic of South Africa, of the other part(1) , which was signed in October 1999 and was applied provisionally and partially from January 2000 and which entered fully into force on 1 May 2004,

– having regard to the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000(2) (the 'Cotonou Agreement'),

– having regard to the report by the UN Millennium Project: "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals',

– having regard to the Joint Statement by the Council and the Representatives of the Governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy, "The European Consensus'(3) ,

– having regard to its resolutions of 17 November 2005 on a Development Strategy for Africa(4) and of 6 July 2006 on the EU-Caribbean Partnership for Growth, Stability and Development(5) ,

– having regard to Rule 45 of its Rules of Procedure,

– having regard to the report of the Committee on Development (A6-0310/2006),

A. whereas South Africa is the most significant political power in Sub-Saharan Africa, acting in particular in the framework of the African Union and the New Partnership for Africa's Development (NEPAD), at African level, and in the framework of the Southern Africa Development Community (SADC), at regional level, and an important player at global level, including in the multilateral World Trade Organisation (WTO) trade negotiations, as well as a growing contributor to peace-keeping and conflict resolution in Africa,

B. whereas South Africa is by far the strongest economy in Sub-Saharan Africa as well as in the African, Caribbean and Pacific (ACP) group of States, and whereas in the wake of the fifth WTO ministerial conference held in Cancún it has played a leading role within G-20 as a representative of Africa's developing countries and has endeavoured to increase those countries' leverage in negotiations on issues which are crucial to their economies,

C. whereas South Africa has acted as a member of the WTO's Cairns Group with a view to protecting the interests of economies which export agricultural products,

D. whereas income disparities have been inherited from the apartheid era with the majority of the white population living in conditions comparable to western European standards, while the majority of the black population lives in conditions comparable to those in the least developed countries, with almost half of the population living below the poverty line,

E. whereas the South African Government's black economic empowerment (BEE) strategy was approved in 2004 and aims to redress apartheid era inequalities by increasing economic participation by the disadvantaged population,

F. whereas the unemployment rate is extremely high in South Africa with an official rate of above 30% and unofficial estimates close to 40%,

G. whereas the unemployment rate reflects continuing racial discrimination, since unemployment affects 50% of the black population, 27% of the coloured population, 17% of the Asian population and a mere 6% of the white population,

H. whereas the immigration situation in South Africa is a very special one as, on the one hand, it has attracted for decades legal (e.g. gold and diamond mining) and illegal (better standard of living) migration from the whole southern African region and, on the other hand, it is a country suffering greatly from the 'brain drain' phenomenon, particularly in the medical sector,

I. whereas the South African Government has set out its macroeconomic policy targets in the Accelerated and Shared Growth Initiative for South Africa (ASGISA), aiming to lift economic growth to 6% and to halve unemployment and poverty by 2014,

J. whereas South Africa has the highest number of HIV-infected people in the world with 320 000 people having died from AIDS in 2005, the AIDS pandemic being a humanitarian tragedy which has a particularly damaging effect on children who are orphaned and who suffer abuse and which is also affecting the South African economy,

K. whereas South Africa is an engine for the economy of the whole region of Sub-Saharan Africa and whereas the economic development of South Africa can have an effect on poverty alleviation and the achievement of the Millennium Development Goals (MDGs) at regional level,

L. whereas the high crime rate hampers economic development and the tourist industry and discourages foreign direct investment,

M. whereas the EU is South Africa's most important trading partner, while trade with South Africa is of moderate importance to the EU,

N. whereas South Africa is a qualified member of the Cotonou Agreement not eligible for non-reciprocal trade preferences and not benefiting from funding through the European Development Fund, but participating in political cooperation and the ACP-EU institutions,

O. whereas the EU is by far the most important donor to South Africa, providing about 70% of total donor funds which amount to about 1.3% of the national budget,

P. whereas economic and trade relations and cooperation in political, social, cultural, environmental, health and other fields, are covered by the TDCA, which aims to create a free trade area with an asymmetric timetable and protection of sensitive sectors,

Q. whereas the Commission has proposed a new EU-South Africa Strategic Partnership with three main objectives, i.e. to create a single, coherent and clear framework covering all areas of cooperation, to move from political dialogue to strategic political cooperation and to enhance existing cooperation with a revised TDCA,

R. whereas the TDCA has enabled the EU to close the gap in the trade balance with South Africa and has put a greater burden on South Africa than on the EU in terms of tariff adjustments, with the effect that the EU benefits more from the current TDCA than does South Africa,

S. whereas EU agricultural and EU high technology products are entering the South African markets with negative effects on the agricultural sector and on the development of South African strategic value-added production, such as pharmaceuticals, machinery and vehicles,

T. whereas South Africa has already made extensive commitments under GATS in the service sector and faces severe constraints in achieving acceptable levels of access and universal service,

U. whereas the Commission intends to revise the TDCA, particularly by including further provisions on the liberalisation of trade and binding commitments on services, investment, government procurement, intellectual property, competition, standardisation, customs and rules of origin,

V. whereas the inclusion of investment and government procurement may create difficulties for South Africa and for other Southern Africa Customs Union (SACU) countries,

W. whereas the Commission also proposes to bring the TDCA into line with the revised Cotonou Agreement concerning the proliferation of weapons of mass destruction, the fight against terrorism, the fight against impunity, and the prevention of mercenary activities,

X. whereas the Commission intends to propose to the EU-South Africa Joint Cooperation Council on 14 November 2006 a draft EU-South Africa Action Plan on the implementation of the

Strategic Partnership,

1. Welcomes the Commission's approach which is to take steps towards an EU-South-Africa Strategic Partnership and to propose a coherent long-term framework for cooperation;

2. Emphasises that this Strategic Partnership should provide a single framework under which the existing cooperation instruments can improve performance in the interests of the South African population and economy;

3. Emphasises that the Strategic Partnership should be complementary to the EU-Africa Strategy and incorporate existing strands of work on the Development Cooperation Instrument, Economic Partnership Agreements (EPAs) and other ongoing negotiations;

4. Stresses that the Action Plan should have poverty alleviation as its overriding objective, in line with the Cotonou Agreement and with a view to achieving the MDGs, and takes into account the effect of the Strategic Partnership on the countries of the region and on the EPA negotiations;

5. Stresses that tackling the HIV/AIDS crisis, with a balanced approach between prevention (with an emphasis on sexual and reproductive health), treatment and cure, must remain a political priority for the South African Government; welcomes the Government's decision in favour of a programme to deliver anti-retroviral drugs, but nonetheless insists that its implementation be urgently improved;

6. Welcomes the new approach which is to move from political dialogue to strategic political cooperation in which South Africa is identified as the 'anchor country' capable of pursuing shared objectives on regional, African and global issues, taking into account the fact that South Africa plays an important role as spokesperson for Sub-Saharan African countries in international fora such as the WTO and the United Nations;

7. Calls for South Africa to clarify the relationship between SADC, SACU and TDCA , with a view to devising a more orderly regional development policy; calls on the Commission to clarify EU policy in relation to SADC, SACU and TDCA, taking into account the EPA negotiations;

8. Suggests that the EU-South Africa political dialogue should be further developed by means of regular exchange visits by parliamentary delegations (which are essential if there is to be greater mutual understanding of matters of common interest, the two parties' respective democratic systems and areas of responsibility);

9. Emphasises the specific political role which South Africa is already playing for the whole continent (e.g. for Sudan, Congo, Liberia) and considers that this position has to be acknowledged and supported by the European Union; emphasises in this context the importance of the African Union − of which South Africa is one of the founders and also an active member − as a possible spokesperson for the African continent in a globalised world, and hopes for further development of the African Union;

10. Calls, in this respect, on South Africa to use this political influence to bring about a peaceful settlement of the crisis in its neighbouring country Zimbabwe;

11. Asks the Commission to bear in mind the fact that South Africa has built up important policy and trade links with Asian and Latin American countries and with developed countries in the

context of international configurations;

12. Stresses that the Action Plan should take economic differences between the EU and South Africa into account, particularly in the area of trade, as − with regard to semi-developed economies − is acknowledged by the WTO itself in its advocacy of special, differential treatment which will enable certain tariffs and other trade measures needed for the purpose of protecting those fledgling economies to remain in force;

13. Stresses that under the Action Plan, particular emphasis should be placed on creating incentives for foreign investment through the drawing up of an innovative strategy in association with the South African authorities with a view to overcoming the main obstacles to investment, such as the social and economic impact of AIDS, the high crime rate and state involvement in employment policy and property;

14. Urges the Commission not to insist on including in the revised TDCA elements which would hamper South African economic development or the struggle for poverty alleviation, not to interfere in South Africa's decisions regarding the participation of the private sector in the provision of basic services and to draw lessons from the failure of the SACU-US free trade negotiations, in which the USA tried to impose unacceptable conditions on SACU;

15. Suggests that the EU budget provide appropriations to facilitate the difficult trade integration process in the southern African region;

16. Suggests that the Action Plan and the EU budget include support for a sound South African energy security strategy taking into account climate change and its social and environmental impact on the poor in South Africa and the region, focusing inter alia on the development of renewable sources of energy, in particular small hydropower plants, wind energy and biomass;

17. Stresses that the Action Plan should have a participatory and multi-stakeholder approach and focus on support for South African priorities, including action to combat the spread of HIV, the government's measures for economic recovery and the fight against economic inequality, foster social cohesion and ensure that economic benefits spread beyond the emerging financial elite, in line with the ASGISA and the BEE strategy;

18. Suggests that those South African demands for technical assistance which are focused on reaching the development objectives of the country and also contribute to the social and economic development of the region should be prioritised, with a view to encouraging other African leaders to assume their responsibilities as regards drawing up and implementing a sustainable economic development model for the continent;

19. Furthermore, proposes that an area of cooperation should be developed in the field of education and training, to include exchanges of students and teachers and a South Africa Window in the Erasmus Mundus programme;

20. Notes the considerable benefits that South Africa has derived from loans from the European Investment Bank and calls for at least an equal level of support to be maintained for the period 2007-2013 while taking into account the needs of micro enterprises and SMEs;

21. Insists that development assistance should be allocated locally and external experts only

employed and goods only imported when no comparable expertise or goods are available in the region;

22. Stresses the pioneering role in the field of immigration policy which South Africa could play for the southern African region and also for the African continent as a whole thanks to its unique experience in this field; stresses therefore that South Africa urgently needs to strengthen its efforts to adopt a coherent and efficient migration policy; calls on the Council and the Commission to foster these efforts with an exchange of experiences as well as to focus on this special role of South Africa in migration programmes such as AENEAS and its follow-up programme;

23. Urges the Commission to stay in constant dialogue with the South African Government and to include Parliament, local governments and civil society in the discussion of Strategic Partnership and of the Action Plan and its subsequent implementation;

24. Instructs its President to forward this resolution to the Council, the Commission, the governments and parliaments of the EU Member States and the Government and the National Assembly of the Republic of South Africa.

6.2. European Parliament resolution on a development strategy for Africa, 17/11/2005

Annex 2

(2005/2142(INI))

The European Parliament,

- having regard to the United Nations Millennium Declaration of 8 September 2000, which sets out the Millennium Development Goals (MDGs) as criteria established jointly by the international community for the elimination of poverty,

- having regard to the successive Human Development Reports drawn up by the United Nations Development Programme,

- having regard to the report by the UN Millennium Project Task Force headed by Professor Jeffrey Sachs entitled "Investing in Development: a practical plan to achieve the Millennium Development Goals",

- having regard to the March 2005 report of the Commission for Africa entitled "Our Common Interest",

- having regard to the 2004-2007 Strategic Plan of the Commission of the African Union (AU), adopted on 7 July 2004 at the third Summit of African Heads of State and Government in Addis Ababa, Ethiopia,

- having regard to the African leaders' October 2001 document: "The New Partnership for Africa's Development" (NEPAD), which was declared a programme of the AU at the first summit of that organisation,

- having regard to the Programme of Action of the International Conference on Population and Development (ICPD),

- having regard to the European Programme for Action to Confront HIV/AIDS, Malaria and Tuberculosis through external action (2007-2011) (COM(2005)0179),

- having regard to the Coherent Policy Framework for External Action to Confront HIV/AIDS, Malaria and Tuberculosis,

- having regard to the Economic Report on Africa 2004 entitled "Unlocking Africa's Trade Potential" by the UN Economic Commission for Africa,

- having regard to G8 Africa Action Plan, released on 27 June 2002 by the Group of Eight in Kananaskis,

- having regard to the Progress Report by the G8 Africa Personal Representatives on implementation of the Africa Action Plan, released on 1 July 2005 by the Group of Eight in London,

- having regard to the Gleneagles Communiqué, released on 8 July 2005 by the Group of Eight in Gleneagles,

- having regard to the European Commission's Report of 29 October 2004 on the Millennium Development Goals 2000-2004 (SEC(2004)1379),

- having regard to the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee of 12 April 2005 entitled "Speeding up progress towards the Millennium Development Goals - The European Union's contribution" (COM(2005)0132),

- having regard to the European Community's Development Policy Statement adopted by the Council and the Commission on 10 November 2000 (currently under revision),

- having regard to the Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions of 13 July 2005 entitled "Proposal for a Joint Declaration by the Council, the European Parliament and the Commission on the European Union Development Policy – "The European Consensus" (COM(2005)0311),

- having regard to the Conclusions of the General Affairs and External Relations Council (GAERC) of 22-23 November 2004 and of 23-24 May 2005, and the conclusions of the European Council of 16-17 June 2005,

- having regard to the successive UNCTAD reports on Economic Development in Africa,

- having regard to the action plan drawn up at the Africa-Europe Summit held in Cairo on 3-4 April 2000 under the aegis of the Organization of African Unity and the European Union,

- having regard to the EU-US Declaration entitled "Working Together to Promote Peace, Stability, Prosperity, and Good Governance in Africa" of 20 June 2005,

- having regard to the document: "Why we need to work more effectively in fragile states", published in January 2005 by the UK Department for International Development,

- having regard to the study entitled "Ending Africa's Poverty Trap"(1) ,

- having regard to Articles 177 to 181 of the Treaty establishing the European Community,

- having regard to its resolutions of 26 October 2000 on the Commission communication to the Council and the European Parliament on cooperation with ACP countries involved in armed conflicts(2) , of 25 April 2002 on the financing of development aid(3) , of 3 September 2002 on trade and development for poverty eradication(4) , of 15 May 2003 on capacity-building in the developing countries(5) , of 15 May 2003 on the Commission communication to the Council and the European Parliament on education and training in the context of poverty reduction in developing countries(6) , of 3 June 2003 on the implementation of macro-financial assistance to third countries(7) , of 14 January 2004 on the New Partnership for Africa's Development (NEPAD)(8) , of 31 March 2004 on Governance in the European Union's development policy(9) , of 13 January 2005 on debt relief for developing countries(10) , of 24 February 2005 on action against hunger and poverty(11) , of 24 February 2005 on the Commission's legislative and work programme for 2005(12) , of 28 April 2005 on the Annual Report on Human Rights in the World 2004 and the EU's policy on the matter(13) , and of 6 July 2005 on the Global Call to Action: Making Poverty History(14) ,

– having regard to Rule 45 of its Rules of Procedure,

– having regard to the report of the Committee on Development and the opinions of the Committee on International Trade and the Committee on Foreign Affairs (A6-0318/2005),

A. whereas the EU has committed itself to increasing its level of Official Development Assistance (ODA) to 0.7 % of GDP by 2015 (0.56 % by 2010), and to allocating at least 50 % of the increase to sub-Saharan Africa; and whereas such increase must go hand in hand with improved quality, effectiveness, transparency and visibility of aid,

B. whereas the EU is by far the largest donor in Africa, but is lacking the necessary leadership and vision to build a coherent approach,

C. whereas, in order to promote sustainable development, African governments themselves bear the primary responsibility for good governance, the fight against corruption, and investment in poverty reduction in their countries; and whereas the principle of African ownership is therefore essential in EU-Africa relations, but needs a different approach in well-performing and in fragile States,

D. whereas the Third AU Summit of African Heads of State and Government has adopted a Strategic Plan defining 23 priority programmes to be carried out between 2004 and 2007, which constitute a comprehensive roadmap for achieving economic growth and development on the continent, covering also civil society and the continent's ties with the international community in tackling poverty, disease, unemployment and illiteracy in Africa,

E. whereas the Commission has launched a process of consultation with African organisations around its proposed Africa strategy, but this consultation has regrettably not been extended to the ACP countries or to African civil society,

F. whereas in March 2005 the AU Economic, Social and Cultural Council (ECOSOCC) was launched, with a general assembly representing 150 African civil society organisations at national and regional levels and representing also the African diaspora,

G. whereas poverty reduction through the achievement of the MDGs must be the cornerstone of EU development policy, and hence of an EU Strategy for Africa, also in the areas of peace and security and economic empowerment,

H. whereas poverty reduction strategies in Africa must address the many complex causes of poverty, some of which have to do with internal African situations, others with the way in which the international donor community functions; and whereas, therefore, the new Africa strategy should address the causes of poverty, prioritizing national efforts to eradicate poverty as part of an organised and coordinated international approach,

I. whereas the costs of gender discrimination are highest for low-income countries as women are at the heart of development, caring for and supporting their families and playing a central role in rural economies and food production, but often have no access to education, basic health care, particularly reproductive health care, the economic system and property rights,

J. whereas the effectiveness of EU development aid depends to a large extent on coordination and leadership in different policy areas, regions and countries, both between Member States and the Commission and between Member States themselves, and on greater coherence between other EU policy areas and development policy,

K. whereas the 2000 Partnership Agreement between the ACP countries and the EU, signed in 2000 in Cotonou (the Cotonou Agreement) is an ongoing long-term cooperation, with a framework offering a broad range of principles, policies and instruments for poverty eradication,

L. whereas an Africa strategy should be geared towards economic progress for the whole continent, but the majority of African States are fragile and suffer from structural instability, and will therefore neither attract investment nor develop a private sector, and whereas that Africa strategy should have a special approach to the needs of fragile states in order to avoid their further lapsing into poverty and violence and consequently destabilising their neighbours,

M. whereas many African countries find it difficult to absorb critical developmental aid in fields such as education, health, public management and administration; and whereas there is, therefore, a need for good and effective governance, corruption eradication and effective human resource training,

N. whereas most African countries spend more on servicing debt than on basic social services; whereas, however, debt relief alone is not a panacea and does not in itself create resources, reduce poverty or promote development,

O. whereas there is a large diversity of African cultures and whereas development cannot be achieved without a proper understanding of those cultures, including the role of religious and ethnic communities,

P. whereas in most African countries, the dialogue between governmental authorities and civil society remains difficult, thereby hindering the process of democratisation,

Q. whereas, in order to be credible, accountable and transparent, a strategy for Africa must also include a detailed implementation action plan with a clear timeline, a detailed indication of the means and financial resources to be mobilized (including financial commitments by the Member States), an indication of the different levels of intervention (local, national, regional, pan-African) and their respective roles, and an indication of a genuine joint monitoring mechanism to assess progress (involving Parliament and the AU),

Principles and institutions

1. Stresses that the EU needs to develop a differentiated approach, distinguishing between cooperation partnerships in political, social and economic stability for well-performing States and partnerships towards such structural stability for fragile States;

2. Stresses that the EU should approach well-performing States as equal partners in a

relationship based on full ownership, to enable them to maximise efforts in achieving the MDGs (e.g. through budget and sector support), and that fragile States must be approached in a relationship based on a level of ownership and using policy instruments compatible with the prevailing circumstances; notes that budget aid, especially in fragile States, must carefully be assessed on a case-by-case basis so as not to favour military expenditure, thus prolonging conflicts; wherever possible, the Commission and Member States should strive to move along the spectrum from project aid to sector-wide approaches, and from these to direct budget support;

3. Recognises that donor community efforts should complement the shift and impact of renewed African self-confidence manifested in the newly created institutions, the AU and the regional bodies; reaffirms that political will, in donor countries as well as in Africa, is the key factor for reaching the MDGs;

4. Welcomes, in this respect, the 2004-2007 Strategic Plan of the Commission of the AU, and urges the European Commission to direct the actions proposed in its own strategy towards supporting financially, logistically, technically and in terms of human resources the institutions of the AU and the initiatives and priorities worked out by them (such as NEPAD), rather than proposing new donor-driven initiatives and parallel structures;

5. Emphasises that an integrated EU strategy for Africa must also address the lack of coherence between other policy areas and development policy, and indicate how other policy areas can contribute (both in terms of policy setting and in terms of financing) to the implementation of the strategic development plan, aimed at poverty eradication, for the continent;

6. Welcomes the EU Member States' commitment to the ODA target of 0.7% of gross national income (GNI) and encourages the Commission and the Council to monitor efforts to achieve this target; further calls for a continued investigation into innovative sources of finance which could provide much needed funds beyond the 0.7% target;.

7. Stresses that addressing the lack of coherence should also include addressing issues such as export subsidies, tied aid, debt burden, export credits and commercial use of food aid ;

8. Calls for increased coordination of European aid between national and EU-level strategies and actions, but also between Member States themselves, to avoid aid fragmentation and duplication, and to enable the EU to assume the global leadership role it ought to play in the fight against poverty;

9. Stresses the need for budgetisation of the European Development Fund, which would make for a better utilisation of funds and reduce the gap between commitment and payment appropriations;

10. Stresses, in this context, that the Commission must not position itself merely as the 26th EU aid donor but must establish itself as a reference point for coordinating and ensuring the complementarity of aid, as part of a joint programme based on 'The European Consensus'; and calls for intensified efforts, as a matter of priority, to identify the value-added of Community aid, and to identify EU donor leader(s) for specific thematic issues and partner countries;

11. Calls for the necessary mechanisms to be put in place in order to implement policies on coherence, coordination and complementarity that will enhance the effectiveness of EU

development cooperation;

12. Calls on the Commission to support fully the drive for harmonization amongst donors, according to the Paris Declaration on Aid Effectiveness of 2 March 2005 by the OECD/DAC, which stresses that a very important part of the harmonization agenda consists in aligning donors' assistance firmly behind locally set priorities; stresses that delivering aid through local systems is part of improving the local institutions and making them accountable;

13. Welcomes the establishment of specific units within the AU secretariat that will be instrumental in speeding up and improving AU development policies and calls on the Commission to support their establishment and functioning;

Good governance and capacity building

14. Stresses the overall needs for capacity building, especially in the fields of administration, healthcare, education, economics and democratisation, in the public as well as in the private sector;

15. Stresses the prominent place which financial and technical support must have in order to strengthen administration, accountability and transparency at local, national, regional and pan-African levels (including in the AU and its institutions);

16. Stresses that the construction of a functioning State must go hand in hand with support for civil society, in order to ensure the sustainability of democratisation; calls for particular attention to be given to the dialogue with religious communities and churches, considering their cultural importance in Africa;

17. Stresses that the construction of a functioning state respecting the rule of law must go hand in hand with support for civil society, in order to ensure the sustainability of democratisation; calls for particular attention to be given to the dialogue with religious and ethnic communities, trade unions, local movements, non-governmental organisations, and international organisations;

18. Stresses that national parliaments and civil society organisations should play an important role in planning, prioritising and scrutinising development cooperation policy,

19. Emphasises that the guiding principles of the EU development strategy for Africa should be based on social and political dialogue determined by democratic values as enshrined in the Cotonou Agreement and in the United Nations Universal Declaration of Human Rights and International Covenant on Economic, Social and Cultural Rights, without which no sustainable African development is possible.

20. Welcomes the aim of reinforcing the capacities of national and regional parliaments and stresses the role of Parliament (together with the Commission) in all EU initiatives to this effect;

21. Supports the principles of genuine partnership, ownership and policy dialogue; underlines that Poverty Reduction Strategy Papers (PRSP) of partner countries should be prepared by the countries themselves with the close participation of democratically elected parliaments and civil society organisations;

22. 22 Underlines the crucial role of women in agriculture, health care and education on the way towards achievement of sustainable development, stresses the need to involve women at all stages of not only development policy but in all political decision-making processes, including planning and assessment;

23. Recalls that respect for human rights by countries in receipt of EU development funds is essential and urges the EU players involved in development assistance, while drawing up and monitoring projects funded or co-funded by the EU, to consider the progress - or the lack of progress - made with regard to human rights by such countries;

24. Stresses the need for the EU to work towards a democratisation of international institutions in order to achieve a stronger representation of developing countries' interests, and in particular the need to urge for democratisation of the World Bank, the International Monetary Fund and the World Trade Organization;

Social infrastructure

25. Emphasises that the availability and affordability of basic health care services is an absolute condition for the successful implementation of health policies in Africa; stresses therefore the need for national African health programmes to focus on basic healthcare (both curative and preventive), availability of safe water, sanitation and sexual and reproductive health; emphasises the need for special efforts to assure access to basic services for the poorest and most vulnerable populations in Africa;

26. Welcomes the policy proposals of the new EU Programme for Action to Confront HIV/AIDS, Tuberculosis and Malaria and calls for effective programme implementation and adequate budget allocations; reiterates that cooperation is required with the organisations working towards these objectives, such as Global Alliance for Vaccines and Immunization (GAVI), the Vaccine Fund and the Roll Back Malaria Partnership;

27. Stresses the important role of access to sexual and reproductive health in order to attain the MDGs on maternal health and child mortality;

28. Urges the Commission to ensure that the EU is at the forefront of efforts to ensure that basic education is free and compulsory; insists that this must be combined with substantial new resources and more targeted spending of existing resources;

29. Calls for increased and appropriate use of information and communication technology (ICT), to be used in innovative ways to extend health care to rural and remote areas, and to introduce e-education (as called for by NEPAD's e-Africa Commission) as an alternative to traditional education delivery systems in a bid to achieve qualitative education for all;

30. Stresses that alongside efforts in basic education, attention should be given to higher education, in order to ensure a sufficiently educated workforce in basic education and health services;

31. Stresses the need to protect the development and ensure the social protection of children as a basic feature of the development strategy for Africa, given that more than 50% of the population of Africa are children and points out that a significant factor in combating poverty in

the long term is to invest through education in the human capital;

32. Stresses that the Commission should spend at least 20 % of the development funds it allocates to Africa on basic health and basic education;

33. Stresses that the EU needs to implement concrete policies and programming addressed to reduce the spread of HIV/AIDS and its impact on children, their families and the communities they live in since the impact of HIV/AIDS threatens to undercut the development gains in most countries in Sub-Saharan Africa;

34. Calls on the Commission to support the initiative for an African Decade of Disabled Persons, which was adopted by the Organization of African Unity during its 35th session, held in Algiers in July 1999;

35. Stresses the need, in order to break Africa's cycle of poverty, of an unprecedented level of investment in this generation of children and their survival, development and protection at the centre of policy and practice;

36. Considers that investing in girls' education is the most effective development strategy since educated girls generate smaller an healthier families, leading to increased productivity and poverty reduction;

37. Stresses the importance of the education of girls and women for improving health, including such aspects as sexual and reproductive health, and the prevention of sexually transmitted diseases (STDs) such as HIV/AIDS, and diseases related to the water supply and sanitation, such as tuberculosis, malaria, cholera and diarrhoea;

Economic growth

38. Urges that full account be taken of the fact that most African countries are heavily dependent on primary commodities, which are particularly vulnerable to price fluctuation and tariff escalation, and stresses the importance of diversification, the development of processing industries and small and medium-sized enterprises;

39. Asks the Commission to carry out an assessment of the effectiveness of EIB financing instruments under the Cotonou Partnership Agreement, including the new Investment Facility, in furthering the EU's development policy objectives. While performing its duties in pre-assessing EIB operations, the Commission should carry out an evaluation of EIB lending against Country Strategy Paper priorities for each ACP country;

40. Underlines the importance of creating a stable and predictable investment climate – inter alia through respect for the law, for property rights and for rules concerning intellectual property – to achieve sufficient and sustained foreign financial inflows and thus create jobs, reduce the "brain drain" and create an environment conducive to stable economic growth; stresses the importance of micro-finance to build a strong middle class to sustain economic growth;

41. Believes, in order to reach a level of competitiveness which could make Africa a full partner in international trade, that a sustainable development strategy should be built to combat poverty in Africa, which takes into account the real needs of the population, based on economic

integration within regions to stimulate growth by the creation and sustainment of domestic and regional markets and exploiting economies of scale;

42. Emphasises the importance of tourism as a vehicle for economic and social development; calls for tourism to be fully integrated into EU development policy;

43. Stresses that a successful conclusion of the WTO Doha Round must contribute positively to developing countries, in particular in Africa; and believes that this includes applying Special and Differential Treatment to developing countries and abolishing all trade-distorting agricultural subsidies;

44. Agrees with the Commission's approach to infrastructure in the widest sense of the definition, including water, energy, ICT and transport; insists, however, that large investments in infrastructure must be systematically preceded by assessment studies on their contribution to economic development and poverty reduction and must be better balanced with the funds allocated to social infrastructure such as basic education and health;

45. Underlines that an Economic Partnership Agreement (EPA) as a development-centred tool for liberalisation has the potential to promote economic growth in Africa; in this context, calls on the Commission to address concerns with regard to the lack of accompanying measures for compensation for tariff losses, support for capacity-building, technical assistance and other supply-side constraints, the continuation of non-reciprocity in market access and, if necessary, the extension of the negotiation timetable; calls, furthermore, on the Commission to actually deliver figures on the financing of accompanying measures and to strengthen technical assistance to allow a better outcome;

46. Asks the Commission, within the ambit of the negotiations of the EPAs and WTO, to strengthen the technical assistance to ACP countries to allow a fair and transparent outcome; calls again for better technical and structural support for Least Developed Countries (LDCs) in order to help them in their global market access;

47. Asks the Commission to support African countries in the ambit of the WTO negotiations with a strategy to protect their agriculture up to the point of self-sufficiency , in order to guarantee a decent income for small farmers, increase local production, guarantee food security and proceed to selective market openings, as has been the case in Europe;

48. Recalls, as established in the WTO Doha Declaration, in the conclusions of the International Conference on Financing for Development (Monterrey, 2002) and of the World Summit on Sustainable Development (Johannesburg, 2002), that developing countries, especially African ones, should be provided with technical assistance aimed at building the institutional and regulatory capacity required to capture the benefits of international trade and preferential arrangements.

49. Stresses that the EU should look for further possibilities in its trade and agricultural policies to give developing countries more opportunities for economic growth, and urges other countries to do likewise within the ongoing WTO negotiations, especially with regard to the LDCs;

50. Welcomes the renewed commitment on granting 100% debt relief to 18 of the poorest and most heavily indebted countries made at the meeting of the World Bank, International Monetary

Fund and African Development Bank; calls for the expansion of debt relief commitments to those governments which respect human rights and the principle of good governance, and prioritise poverty eradication on the basis of MDG-needs; stresses that all debt relief should be additional to increases in ODA;

51. Underlines the positive role that Public Private Partnerships (PPPs) can play in development and in strengthening the problem-solving capacities of countries;

Peace and security

52. Calls on the Commission to develop a comprehensive approach to conflict prevention and reconstruction as an integral part of partnerships towards structural stability for fragile States;

53. Underlines the importance of regional bodies in providing a ground for maintaining a peaceful environment; emphasises the need for support to the regional bodies to establish a harmonised regulatory framework to fight the proliferation of light arms and landmines;

54. Agrees that the Africa Peace Facility, created in 2003 by the AU Heads of State at the Maputo Summit, needs to be strengthened and encourages other civilian mechanisms to contribute to conflict prevention, resolution and management in Africa, with increased, flexible and sustainable EU funding; emphasises that development policy is one of several tools for addressing the root causes of insecurity but that it should not be subordinated to security policy; notes, however, that all expenses from the Community's development cooperation budget and the European Development Fund must comply with the criteria for eligibility as ODA defined by the OECD/DAC;

55. Emphasises the importance of EU electoral observation missions in conflict prevention and in the promotion of democracy; calls on the Council and the Commission to increase the global European Initiative for Democracy and Human Rights (EIDHR) budget line with a view to intensifying support for the EU electoral observation missions, stresses that election observation mission conclusions must be duly reflected in the formulation of European external policies;

56. Stresses the need for coherent regional and national strategies for disarmament, demobilisation, reintegration and reinsertion (DDRR) to support the stabilisation of post-conflict situations;

57. Stresses that an integrated EU strategy for Africa represents a binding framework for a coherent policy of the European Union and its Member States; takes the view that the application of Article 96 of the Cotonou Agreement to a Partner State prevents any EU Member State from continuing to cooperate, in parallel, with that country's police, military or other security forces or from resuming cooperation before the measures concerned have run their course;

Environment/natural resources

58. Underlines the need for increased EU efforts to tackle the enormous environmental challenges faced by many of the poor, who are often totally dependent on natural resources for their survival;

59. Welcomes, in this context, recent Commission commitments - long overdue - to go from

word to deed in regard to environment mainstreaming, and to put strategies for the promotion of sustainable development high on its agenda;

Implementation

60. Requests the Commission to combine its strategy for Africa with a detailed implementation action plan with a clear timeline, a detailed indication of the means and financial resources to be mobilised (including financial commitments by the Member States), an indication of the different levels of intervention (local, national, regional, pan-African) and their respective roles, and an indication of a genuine joint monitoring mechanism to assess progress (involving Parliament and the AU);

61. Insists that this implementation plan must cover all of Africa, including north Africa, sub-Saharan Africa and South Africa, for which at present separate regulations and agreements exist (the MEDA Regulation, the Cotonou Agreement, and - for South Africa - the Trade, Development and Cooperation Agreement and the EPRD Regulation), and separate responsibilities at the level of the Commission, and requests the Commission to indicate how these will be coordinated and aligned in order to contribute to the implementation of the priorities set forward for the whole continent by the AU;

62. Points out that the essence of the proposals contained in the Commission's above-mentioned communication depends on the implementation of existing national and regional programmes, and regrets that in this respect no new proposals have been made to improve their implementation, or to adapt their goals and programming of actions to the new priorities, and that no review of the existing Country Strategy Papers and national and regional indicative programmes has been proposed as a consequence of this new strategy document and the new developments in Africa (particularly the creation of the AU and its institutions);

63. Expresses disappointment at the lack of ambition of the proposed financial framework: the Commission only envisages the possibility of mobilizing increased financial resources for the "post-9th EDF period" and does not discuss the possibility of using debt relief as a means for mobilizing additional financial resources for the MDGs;

64. Instructs its President to forward this resolution to the Council, the Commission, the governments of the Member States, the AU and the ACP.

6.3. EU-South Africa Joint Co-operation Council, Brussels, 7 November 2005

Annex 3

COUNCIL OF THE EUROPEAN UNION
Brussels, 7 November 2005 — 14067/05 (Presse 285)
Press release

British Foreign Secretary Jack Straw and South African Foreign Minister Dr Nkosazana Dlamini Zuma co-chaired the sixth meeting of the EU-South Africa Joint Co-operation Council in Brussels today. The EU delegation also included Lord David Triesman, Minister for Africa for the United Kingdom, Mr Georg Lennkh, Austria's Special Envoy for Africa, Mr Louis Michel, European Commissioner for Development and Humanitarian Aid and Mr Javier Solana, EU SG/High Representative CFSP. The South African delegation also included Ms Thoko Didiza, Minister for Agriculture and Land Affairs and Dr Rob Davies, Deputy Minister of Trade and Industry.

The meeting cemented the productive relationship which the EU and South Africa have established.

In the plenary session the EU and South Africa agreed to broaden the scope of EU- South African relations and work towards a truly strategic partnership based on political, trade, development and economic co-operation. They agreed that it was important to work together to prepare for full implementation of the Trade, Development and Co-operation Agreement (TDCA).

Both sides welcomed the deal reached in the automotive sector after five years of negotiations. This breakthrough will pave the way for further strengthening of SA-EU relations in other areas of cooperation.

Furthermore, South Africa and the EU had constructive dialogue on other matters of mutual concern, such as the EU's draft chemical legislation (REACH), EU procurement rules and reform of the main UN bodies, including the Security Council. South Africa and the EU asserted their commitment to an ambitious and balanced outcome of the Doha Development Agenda.

The EU and South Africa reaffirmed the importance of meeting the Millennium Development Goals in Africa, and emphasised the need for all parties to deliver on the commitments made this year in support of and by Africans, including those at the Millennium Review Summit. With the envisaged adoption of a new EU strategy for Africa in December, the EU underlined its resolve to deepen the partnership between Africa and the EU. The EU and South Africa agreed to do their utmost to strengthen African institutions and capabilities to address the many and complex challenges facing the African continent.

During the discussion of political issues, the EU and South Africa will exchange information on Africa's conflict zones. The EU congratulates South Africa on its efforts as mediator seeking resolution of some of Africa's most dangerous conflicts, notably in the Great Lakes region and Côte d'Ivoire. The EU and South Africa will also discuss Zimbabwe.

The EU and South Africa welcome this invaluable opportunity to work towards enhanced co-operation and look forward to continued dialogue in the future.

6.4. South Africa – European Union Joint Co-operation Council Meeting 23 November 2004, Brussels

Annex 4

COUNCIL OF THE EUROPEAN UNION

Brussels, 24 November 2004
14868/04 (Presse 330)

JOINT COMMUNIQUÉ

The first SA-EU Ministerial meeting following full entry into force of the SA-EU Trade, Development and Co-operation Agreement (TDCA) and the enlargement of the EU was held on 23 November 2004 in Brussels.

The Co-Chairs of the meeting were Dr. N.C. Dlamini Zuma, Minister of Foreign Affairs of the Republic of South Africa and Mrs. A. van Ardenne-van der Hoeven, Minister for Development Co-operation of the Netherlands. The EU delegation included the Minister of Foreign Affairs and Immigration of Luxembourg, Mr. Jean Asselborn, the European Commissioner for Development and Humanitarian Aid, Mr. Louis Michel and the Council Secretariat. The political discussion at the Council meeting took place in troika format on the EU-side.

1. South Africa - EU Relations

The Parties acknowledged the historical importance for EU-South Africa relations of the visit made by President Thabo Mbeki and welcomed his address to the European Parliament's plenary in which he set out an encouraging vision on the future of Africa and the role Europe should play in the continent's development. The Parties welcomed the first Ministerial meeting of the Co-operation Council of the TDCA pursuant to full ratification of the Agreement and the enlargement of the EU. They also recognised that it heralded a new era in the relations between South Africa and the EU and it marks the beginning of full implementation of the EU– South Africa TDCA.

South Africa and the EU expressed their satisfaction that full implementation of the TDCA deepened and broadened existing co-operation in all the areas covered by the agreement viz. political dialogue, trade, trade related issues, economic cooperation and development co-operation. The Parties also underscored that the eradication of poverty through economic growth is a central theme in SA-EU relations. In this regard, the Parties welcomed the positive results emanating from the provisional application of the TDCA. They noted that since provisional application of the TDCA in January 2000 bilateral trade had grown by close to 50%.

The Parties noted the discussions between President Mbeki and President Barosso on regional policies of the EU and challenges facing South Africa in supporting the underdeveloped part of its economy (the "second economy"). In this regard South Africa informed the EU that early next year it would be sending a team of senior officials to the European Commission and to some Member States to study the application of Pre-Accession instruments, and Structural and Cohesion Funds. The EU welcomed this endeavour and pledged its support to ensure that the study was a success. In this context, the Parties noted the readiness of the European Commission to structure an exchange of views on these matters with the competent South African authorities and institutions, which should also involve the expertise of EU Member States.

The EU welcomed South Africa's utilisation of the 10th Anniversary of Freedom and Democracy as not just one of celebration, but also a period of national reflection. It congratulated South Africa on the progress it had made over the past 10 years in growing its economy and providing basic social services to the millions of South Africans who were previously marginalised. The EU also recognised the existence of functioning democratic institutions in South Africa and observance of the rule of law, the development of a culture of good governance and respect for human rights. South Africa in turn acknowledged the important contribution made by the EU in the advancement of South Africa's reconstruction effort. Both parties acknowledged that 10 years was not enough to overcome all development challenges in South Africa. In this regard the EU pledged that it would continue to support South Africa in its struggle to eradicate poverty.

South Africa reiterated its confidence that the enlargement of the EU would strengthen and deepen the already excellent relations between South Africa and the EU. This view was reinforced by the fact that both South Africa and the acceding states would find immediate mutual benefits in terms of increased trade, strengthened political dialogue and increased scientific exchanges within the framework of the TDCA. At the same time, the EU assured the South African side, that public investments in the new Member States would not be to the detriment of the African continent in general or South Africa in particular.

2. Review of recent developments in Africa

South Africa informed the EU that the African Union had established most of its organs including the Commission, the Peace and Security Council, and the Pan African Parliament and that they were functioning. It was stated that the Peace and Security Council was well positioned to facilitate the resolution of conflicts in Africa, albeit it required financial support to effectively carry out its mandate. On this issue, the EU confirmed that it would continue to support peace initiatives, conflict resolution and post conflict management efforts in Africa. The Parties agreed on the potential for co-operation between the European Parliament and the Pan African Parliament.

The Parties acknowledged that NEPAD is the AU's socio-economic programme for the rejuvenation of the African continent. They welcomed the achievements of NEPAD during its third year of implementation.

South Africa and EU recalled that the African Peer Review Mechanism is a voluntary self monitoring mechanism whose aim is to foster the adoption of policies, standards and practises that will lead to political stability, high economic growth, sustainable development and accelerated regional and economic integration. In this regard the Parties agreed that the APRM would contribute greatly to improved governance and greater transparency throughout Africa. Thus, the EU congratulated South Africa and all the other African countries that had voluntarily acceded to the APRM.

The Parties exchanged views on conflict areas in the African continent. In this regard the EU congratulated South Africa on its efforts as a mediator for peace in Africa notably in the Great Lakes region and Côte d'Ivoire. The Parties acknowledged that progress had been made towards peace in the Great Lakes region as both the DRC and Burundi were seized with preparations for the holding of elections. The Parties confirmed their support for the process leading to and including elections in these countries. They also agreed and reaffirmed the importance of the EU to work with the African Union and the United Nations to facilitate peace on the African continent.

The issue of Zimbabwe was identified as a matter of mutual concern. The EU reiterated its willingness to maintain contact with the Government of Zimbabwe on the basis of progress in EU benchmarks laid down and communicated to Zimbabwe.

The EU acknowledged South Africa's commitment to work towards a solution in Zimbabwe. It also reaffirmed its commitment to join efforts with South Africa and other SADC countries towards an improvement of the situation in Zimbabwe. In this regard the Parties recalled the decision by the SADC Heads of State and Government held in August 2004 in Mauritius to adopt the Principles and Guidelines governing democratic elections within its member states. The Parties also expressed their support to SADC as it works with the Government and the people of Zimbabwe in preparations for the coming Parliamentary elections to be held in March 2005. Further to this the Parties also recognised and agreed that meaningful internal dialogue in Zimbabwe was the most feasible way forward.

3. Peace and Security

The parties noted the significant progress made by the AU in establishing a peace and security architecture on the continent. They recognised the important contribution made to this by the EU through the African Peace Facility and in this context noted the adoption by the EU General Affairs and External Relations Council on 22 November 2004 of the Draft Action Plan for European Security and Defense Policy Support in Africa. South Africa expressed its willingness to study the substance of the Plan and communicate its comments to the EU.

Both Parties reiterated their determination to implement the Peace Facility in the spirit of the Maputo Declaration, which emphasises the pivotal role of the African Union in the joint management of the Fund. In this regard the EU welcomed South Africa's contribution to the Peace Facility. The Parties recognised the important contribution the African Peace Facility is making to peace and security on the Africa continent. They agreed that discussion on its future should continue.

Both sides stressed that poverty, underdevelopment and conflict in Africa should be looked upon as areas of mutual concern and that ongoing dialogue between the EU and South Africa would be used as a forum in which these concerns could be addressed.

4. Multilateralism

The Parties agreed that effective multilateralism was a common foreign policy goal for the EU and South Africa. Both underlined their strong commitment to the enhancement of EU-South Africa relations, which would result in the augmentation of a functioning and consistent cooperation in a multilateral framework.

South Africa and the EU reiterated their firm belief that effective multilateralism was essential to address global challenges including conflict, poverty, underdevelopment and international terrorism. To this end the Parties agreed that the reform of the UN was critical and that it had to be comprehensive so as to address global challenges. The EU took note of the South African position on the reform of the UN Security Council, including permanent representation of Africa in the Council.

Both Parties acknowledged that the Millennium Declaration and the joint efforts to reach the MDG's are essential in addressing global challenges. Recognising the importance of the Millennium Declaration to worldwide peace, poverty alleviation and development, the Parties agreed that it was important to mobilise more financial resources to achieve the Millennium Development Goals

The Parties acknowledged the roles of South Africa and the EU in keeping the Doha Round of the WTO's multilateral trade negotiations on track. They also committed themselves to ensure that the July package that outlines a roadmap for these negotiations would be implemented expeditiously. The Parties reiterated their firm belief that a successful outcome of the Doha Round was essential to the achievement of the MDG's.

The Parties agreed that multilateralism was particularly pertinent in areas of global concern such as the Middle East Peace Process. In this regard they reaffirmed the importance to accelerate implementation of the Road Map.

5. Way forward

The Parties emphasised the necessity for continued and effective dialogue on political issues, economic co-operation, and development. They called for expedient implementation of the Council Conclusions and for a progress report to be tabled at the next JCC to be held in South Africa before the end of 2005.

6.5. EU-South Africa Trade Statistics

Annex 5 – EU-South Africa Trade Statistics

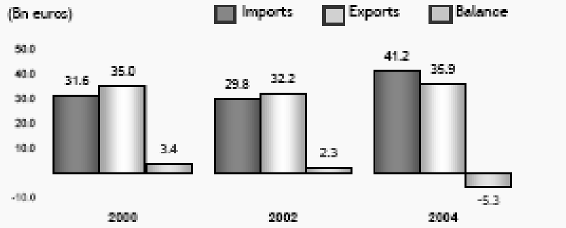
SOUTH AFRICA

Population		46.9	Mio inhabitants				
Area		1 221	(1000qkm)				
Gross domestic product	2005	192	Bn euros	Exports-to-GDP ratio:	20.8	% in 2004	
GDP per capita	2005	4 099	Euros				
(IMF, World Economic Outlook)				2002	2003	2004	2005
Real GDP (% growth)				3.7	3.0	4.5	4.9
Inflation rate (%)				9.2	5.8	1.4	3.4
Current account balance (% of GDP)				0.6	-1.3	-3.4	-4.2

GDP BY SECTOR

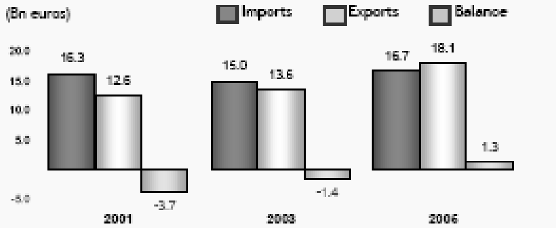
Source: World Bank (WDI)

SOUTH AFRICA MERCHANDISE TRADE WITH THE WORLD



Source: IMF (Direction of Trade Statistics) * excl intra EU Trade

EU25 MERCHANDISE TRADE WITH SOUTH AFRICA



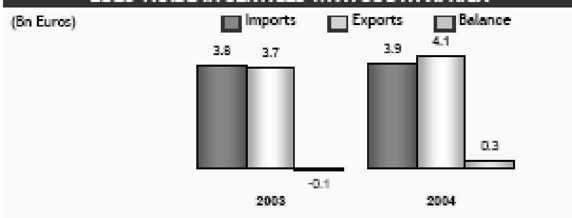
Source: Eurostat, statistical regime 4

% OF THE WORLD *	2000	2002	2004	% OF EU TOTAL	2001	2003	2005
Imports	0.54	0.71	0.72	Imports	1.66	1.60	1.42
Exports	0.64	0.83	0.67	Exports	1.41	1.55	1.70

EU25 MERCHANDISE TRADE WITH SOUTH AFRICA BY PRODUCT (2005)

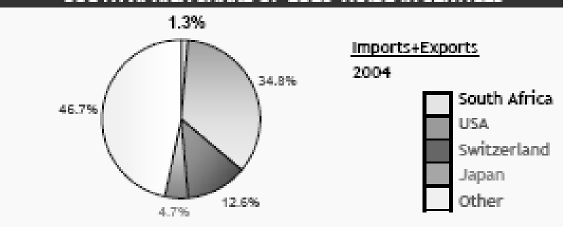
Source: Eurostat, statistical regime 4

EU25 TRADE IN SERVICES WITH SOUTH AFRICA

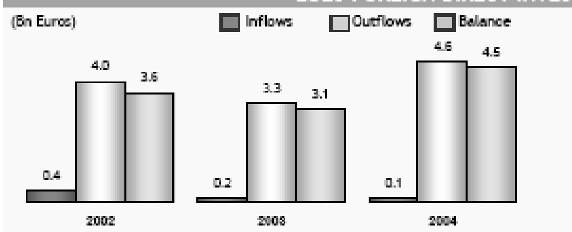


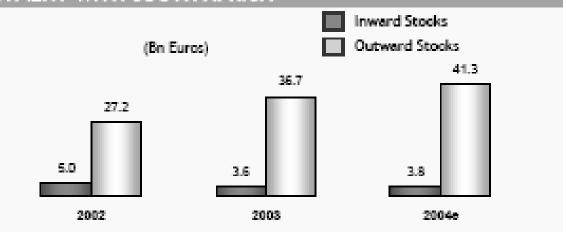
Source: Eurostat (excluding government services)

SOUTH AFRICA SHARE OF EU25 TRADE IN SERVICES



EU25 FOREIGN DIRECT INVESTMENT WITH SOUTH AFRICA





Source: Eurostat

2004, estimated FDI stock = stock 2003 + flows 2004

Source: DG Trade, 22 May 2006

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