

The agricultural sector can overcome the impact of potential Agoa exit

The hostile disposition of United States' (US) President Donald Trump toward South Africa raises serious concerns about the possible exclusion of South Africa as a beneficiary of African Growth and Opportunity Act (AGOA), which is set for renewal in 2025.

By [Meluleki Nzimande](#) and [Megan Jarvis](#)

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With South Africa consistently ranking as the top Agoa user, as well as the number one African agricultural exporter under AGOA, we look at the possible ramifications for agriculture.

A law implemented in 2000 by the US, Agoa, establishes a unilateral trade preference programme allowing certain exports from South Africa and many other eligible sub-Saharan African countries enter the US market, duty-free.

Under Agoa, two-thirds of South Africa's agricultural exports to the US benefit from tariff-free treatment. Since its inception, South Africa has exported over \$7bn (R125bn) worth of agricultural products to the US. This is according to a November 2023 United States Department of Agriculture (USDA) Foreign Agricultural Service report, entitled "AGOA Supports South African Agriculture".

Impact of a potential Agoa loss

A November 2023 report published by the Brookings Institution, a non-profit organisation based in the US, detailed the potential impact of an Agoa exit for South Africa. The report found that the impact of loss of preferential market access under Agoa on exports and gross domestic product (GDP) would be small.

Their model estimated that, at worst, South Africa's total exports to the US would fall by about 2.7% with the biggest losses felt by the food and beverages, transport equipment, and the fruit and vegetable sectors. Yet, in total, a loss of Agoa benefits would lead to a GDP decline of just 0.06%, the paper argued. Agriculture would constitute just a percentage of that.

Nonetheless, whilst the impact as a percentage of total GDP might not be excruciatingly large, it would affect provinces where agricultural exports are a prominent source of income.

The Western Cape is by far the province that benefits most from Agoa trade, according to figures from the National Agricultural Marketing Council (NAMC). Between 2018 and 2022, the Western Cape accounted for 49% of South Africa's overall agricultural exports to the US in terms of value.

Mpumalanga's agricultural sector is AGOA's second-largest beneficiary, accounting for at least 15% of South Africa's total agricultural exports in 2022. Gauteng, Eastern Cape and KwaZulu-Natal round out the five provinces that most benefit from Agoa in terms of agriculture.

Regardless, our overriding message is to keep calm and keep moving in the face of a potential threat to Agoa. We are in the same position as anybody else in the world when it comes to uncertainty in US economic relations, as demonstrated by the "liberation day" tariffs announced by President Trump. Should South Africa lose access to AGOA benefits, doing proactive groundwork should soften the blow.

Potential scenarios

We see three potential scenarios with regard to the future of Agoa. The viability of these scenarios is seriously challenged by the imposition of a 30% "liberation day" tariffs against all South African imports into the US, effective 5 April 2025 and the 25% imposed earlier in respect of automotive vehicles.

1. South Africa loses the preferential treatment that it currently qualifies for under Agoa, and its goods are traded with the US in the same way as those of any other country outside the AGOA agreement. If our goods are not as competitive as those of other suppliers to the US market, then we can expect a decline in the volume of our exports to the US. If they are, it's business as usual, barring the impact of liberation day tariffs.

In practice, the South African producer and US importer may bear a share of the duties' costs, in which case the US consumer will remain in a net neutral position. Alternatively, the consumer could shoulder

a portion too, splitting the burden three ways.

2. The US importer and the South African supplier absorb the duty, and the US consumer continues to benefit from good prices. Both the South African supplier and the US importer will be less profitable but trade will continue, barring the impact of liberation day tariffs. Or the South African producer can choose to shoulder the entire burden in exchange for remaining competitive in the US market, yet at a cost.

3. The full duty and its inflationary effect is passed onto the US consumer. Trade continues, and the South African producer and US importer remain profitable. Yet they will lose a share of the US market. With the imposition of liberation day tariffs, this option seems unviable.

Be prepared

To determine the best option, modelling these different scenarios is advisable. South African suppliers should examine their sectors, understand their tariff risks and talk to their importers to negotiate a deal. Regardless of which scenario plays out, the agricultural sector should diversify and explore other markets – it is always beneficial to grow the market for our goods.

The basket of goods we supply to the US is broad, made up of raw materials, semi-processed goods and processed goods – finished products. Therefore, on value-added goods, this means there is a positive economic impact on South Africa, which is not the case when trading with China to whom we supply primarily raw materials.

Citrus, fruit, vines, nuts, avocados, and beef are among South Africa's main agricultural exports to the US. Those working with these products should understand which tariffs apply to them. Liaising with importers is advisable to ensure supply chain agreements are in place, along with appropriate contractual arrangements that include exit clauses depending on how circumstances unfold.

Exploring other markets

With preferential market access in the US ending, South African suppliers must examine opportunities in similar markets around the world – namely, Canada (which, like the US, is in North America), the European Union (EU) and the United Kingdom (UK). South Africa has economic partnership agreements with the EU as well as with the UK, which both provide a large range of our goods with preferential market access.

On our continent, most of our agricultural and other exports are value-added goods. It is therefore advisable to increase our trade with other African countries to maximise the net positive economic impact.

Here, we can leverage regional agreements such as the SADC Protocol on Trade as well as the Agreement Establishing the African Continental Free Trade Area (AfCFTA), enabling us to trade on preferential terms with other African states.

With Trump destined to ease sanctions on Russia, it could also potentially become a workable market for the export of South African agricultural products. Should the EU follow the US (which seems unlikely in the short term), trade with Russia will be open.

Additionally, with Johannesburg set to host the upcoming G20 Summit in November, we could leverage the Business 20 (B20), the official G20 dialogue forum with the global business community potentially accessing new markets.

The immediate opportunity, whether AGOA stays or goes, is to start building new relationships while still strengthening existing relationships with the US. Forging ties with the Canadian and other markets as they navigate trade wars with US may also be a wise strategy.

Ultimately, agricultural exporters must safeguard their positions. Build relationships with their importers, and deal with the relevant organisational bodies for products in the US and South Africa; take a coordinated approach, so that there are viable alternate scenarios. Diversification and competitiveness are always a vital enabling mechanism.

ABOUT THE AUTHOR

Meluleki Nzimande and Megan Jarvis, Partners at Webber Wentzel.



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