



**tralac** | trade law centre

# Export taxes in the South African context

by Ron Sandrey

WORKING PAPER

tralac Working Paper  
No. D14WP01/2014  
May 2014



Please consider the environment before printing this publication

[www.tralac.org](http://www.tralac.org) | [info@tralac.org](mailto:info@tralac.org) | Twitter [@tradelawcentre](https://twitter.com/tradelawcentre) | Copyright © tralac, 2014.

*Readers are encouraged to quote and reproduce this material for educational, non-profit purposes, provided the source is acknowledged. All views and opinions expressed remain solely those of the authors and do not purport to reflect the views of tralac*

Copyright © tralac, 2014.

Readers are encouraged to quote and reproduce this material for educational, non-profit purposes, provided the source is acknowledged. All views and opinions expressed remain solely those of the authors and do not purport to reflect the views of tralac

This publication should be cited as: Sandrey, R. 2014.

*Export taxes in the South African context.*

Stellenbosch: tralac.

tralac gratefully acknowledges the financial support of the Danish International Development Assistance (Danida) for the publication of this Working Paper



**[www.tralac.org](http://www.tralac.org) | [info@tralac.org](mailto:info@tralac.org) | Twitter [@tradelawcentre](https://twitter.com/tradelawcentre)**

*Readers are encouraged to quote and reproduce this material for educational, non-profit purposes, provided the source is acknowledged. All views and opinions expressed remain solely those of the authors and do not purport to reflect the views of tralac.*

## Summary and key points

Export taxes are increasingly becoming a focus of attention in South African trade policy, and the objective of this paper is to review the trade and economic issues associated with these taxes. While they are similar to import tariffs in their effects, export taxes remain very much the ‘poor cousins’ of import tariffs in trade policy circles. While attention is paid to them in many bilateral and regional agreements, the multilateral World Trade Organisation (WTO) has little to say about them other than an awakening to their importance when it comes to negotiating a new member’s accession to the world body.

The economic issues associated with export taxes include food security and restraints on exports in times of higher international prices that may lead to domestic shortages, export diversification through lowering domestic prices of raw materials vis-à-vis (usually) developed countries but more often China, improving terms of trade, enhancing revenue collection in sectors where international capital mobility makes other forms of taxation problematical, and stabilising export prices. As discussed in the paper, some of these arguments hold up but often do so under restrictive assumptions that focus on relative market power. The revenue collection aspect may be the most compelling.

Export taxes, while not common, are nonetheless somewhat pervasive in developing countries in particular. If one disregards the Organisation of the Petroleum Exporting Countries (OPEC)<sup>1</sup> oil cartel and Norway as levying an export tax, then, according to the World Bank, few countries rely on export taxes as a significant source of income. The exception is Russia: nearly half of its total tax revenues derive from energy taxes and from Belarus and Kazakhstan for 15% and 13% respectively of their total revenues from, again mostly but not exclusively, minerals and energy. Economies in a somewhat similar export profile and development status to South Africa such as Indonesia, Ethiopia, Malaysia and Egypt all collect significantly more of their taxation revenue from export taxes than the minuscule contribution these taxes make to South Africa’s coffers. Details on export taxes in Indonesia, Mexico, Brazil, Vietnam and Argentina are discussed.

South Africa currently levies an export tax on unpolished diamonds in an attempt to develop local skills and promote the domestic industry, and it is considering a recent department of trade and industry report that recommends that consideration be given to an export tax on iron ore and steel.

---

<sup>1</sup> OPEC was founded in 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. They were later joined by Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), Gabon (1975) and Angola (2007). From 1992 until 2007, Ecuador suspended its membership, while Gabon terminated its membership in 1995 and Indonesia suspended its membership in 2009.

South Africa has some of the prerequisite market power in the global iron ore trade but not enough to ensure an outcome entirely beneficial to its export trade. The salutary example of South Africa's competitor India is discussed, as India recently increased its export tax in this sector to 30% and has seen its global market shares plummet. The more interesting sector for South Africa is the ferrochrome and ferrochrome ore trade, as here South Africa does have significant market shares. South Africa has had about a 45% market share over the last three years in global exports, while China has imported around 70% to 85% of this global trade in recent years. Advocates argue that a tax on chromite ore exports will shift the relative economics back to empower South African producers of processed ferrochrome. This sets the stage for an interesting battle between South Africa and China, and one set against the background of South Africa's recent admission to the BRICS<sup>2</sup> club. If such an export tax is invoked, South Africa needs to be conscious that it at best provides a window of opportunity for the domestic sector to improve its technological efficiency and that it is not a long- or even medium-term solution.

## 1. Introduction and background

Trade distortions and negotiations around these trade distortions focus heavily on the issue of import taxes. The issues are well known, as along with better access for the exporters there are two issues that are crucially important for developing countries. These issues feature in merchandise goods negotiations on import tariffs, whether they are unilateral, bilateral or multilateral. The first of these are tariff and other border revenues, the second the complex issue of employment. The latter is important for Africa in particular, where neither alternative employment nor welfare nets are available to those losing their jobs, while the former, which is of little interest to most developed countries, can be very important for many developing countries.

As much of the emphasis on trade negotiations is on import tariff rates some explanation about these rates is appropriate. The important tariff rate is that applied at the national border on imports, and this is appropriately referred to as the **applied** rate. There are, however, many rates lower than these applied rates levied on imports from partners where concessions have been granted in previous negotiations. These are called **preferential** tariffs. Finally, there are tariffs in 'WTO speak', and here the concept of a '**bound**' tariff is introduced. The bound rate is a rate which WTO countries agree not to exceed in the applied rates, and often these bound rates are above (and sometimes significantly above) the applied rate. This in turn explains both the concept of 'water in the tariff' meaning that

---

<sup>2</sup> Brazil, Russia, India, China (and now also South Africa).

there is this gap between bound and applied rates and, as WTO negotiators operate on bound and not applied rates, why a WTO agreement may or may not reduce the applied tariff rates at a border. Given that export taxes do not play a role in the WTO they have no equivalent to the bound rate yet; however, they may do so in the future.

Finally, within these tariffs are **ad valorem** tariffs that are assessed as a percentage of the value of an import. There are also **specific** tariffs that are levied on a per unit basis and do not vary with the price of a good as is the case with ad valorem tariffs. An export tax can be either of these.

Overshadowed by these import taxes is the mirror image of export taxes. An export tax can be considered a mirror image of an import tax in that it has a mirror effect by raising prices in the export market but lowering them in the home market, thus creating similar distortions. It may or may not be levied in a non-preferential manner, but a trading partner can be exempt under preferential agreements. It attracts less attention because, as Ruta and Venables (2012) point out, the focus of the WTO is on trade policy towards imports, not exports, and while import tariffs cannot be set at a rate higher than the ‘bound’ rate, exports face no such restrictions. Article XI of the General Agreement on Tariffs and Trade (GATT) specifies that exports should not be subject to quantitative restriction (with some exceptions) but places no restriction on the levels of export taxes that can be used. Some new WTO members have, however, accepted restrictions on export taxes as part of their accession protocol (e.g. China, Mongolia, Saudi Arabia, Ukraine and Vietnam). This is not to be confused with export subsidies, where, similarly, there is an asymmetry in the WTO treatment of export subsidies on agricultural and manufacturing products. While subsidies to the latter are prohibited by the Subsidy and Countervailing Measures (SCM) Agreement, the Agreement on Agriculture envisages reduction commitments (but not the elimination) of export subsidies to agricultural products. Meanwhile, in the third major commodity category trade policy in natural resources has largely been policy by exporters, not policy by importers, as in general many natural resources are free of import duties.

Export taxes have become a somewhat controversial issue in the WTO, and an interesting departure from the multilateral efforts to reduce global barriers to trade. A number of importing countries, for example Japan, argue that their food supplies could be disrupted if exporting countries restrict or tax exports and they propose disciplines on export restrictions. Others, such as Switzerland, go further and want them eliminated completely, but with the standard WTO flexibility for developing countries. Most participants seem to agree that some disciplines are needed to ensure that supplies are available for importing countries. Issues that have been raised in the WTO context include (a) the **symmetry between imports and exports**, where some countries argue (while others disagree) that the

disciplines in this subject should be seen as part of balancing measures on the imports with those on exports; (b) the need to **support domestic processing, where** developing countries argue that taxes or restrictions on raw material exports are sometimes needed in order to promote domestic processing industries, particularly when importing developed countries charge higher tariffs on processed products than on raw materials ('tariff escalation'); and (c) certain countries state that, for national security reasons, some restrictions are needed to prevent exports of hazardous and other prohibited products. This last point seems to be more generally accepted.

Crosby (2008) in discussing export taxes at the WTO outlines that although general WTO rules do not discipline members' application of export taxes, members could agree (and several recently acceded countries, including China, have agreed) to legally binding commitments. Some members have proposed the establishment of a new multilateral WTO Agreement on Export Taxes as part of the Doha Development Agenda, but with little traction. Although there is some talk of challenging export taxes as de facto export prohibitions or as indirect subsidies, export taxes remain one of the last significant aspects of multilateral trade policy that lie beyond the scope of current rules. For all the wisdom and foresight framed into GATT and the WTO agreements, the drafters appear to have either missed the issue of export taxes, underestimated future concerns, or perhaps intentionally reserved this area to the Contracting Parties as 'policy space'.

## 2. The economics of export taxes

An export tax is simply a tax imposed by a country on a specific export commodity, although there are variations on this. This in turn means that the economic effect is the mirror image of a decrease in preferential import tariffs whereby preferential trade agreements create both trade creation and trade diversion. Trade creation is new trade from a Free Trade Agreement (FTA) partner which would not have existed otherwise, and, generally speaking, that is a good thing. But often much of this may just be trade diversion away from other, non-preference partners, and that may be bad – bad in the sense that it has resulted from an artificial advantage under the FTA in that one is not buying from the world's lowest cost supplier. Similarly, with an export tax there will be a negative trade creation because imports overall decrease as the price increases; and there will also be trade diversion in the import market away from the country imposing the export tax. This then reverts back to relative market power as the final result. A 'big country' with a dominant market share will be able to increase overall prices and thus benefit from a terms-of-trade effect, whereas a 'small' country will likely lose market share.

Piermartini (2004) points out how efficiency losses stem from distortions caused by the export tax and how they affect both producers and consumers. Production distortions result from too little being produced in the exporting country and too much being produced in the importing country. While a tax on exports discourages efficient local producers in the exporting country, it conversely sees foreign producers in the importing country producing domestically when they originally could have purchased more cheaply abroad. Overall, consumer distortions result. This means that too much of the taxed good is being consumed domestically in the exporting country because of the reduced domestic price, while, conversely, foreign consumers consume too little as the import price increases. While these generalisations hold true across the two economies, there will, as always, be winners and losers within each country as substitution effects and other factors come into play.

Other arguments for export taxes include food security and a form of subsidy to domestic consumers as the domestic price is lowered below the international market price. A similar domestic argument can also operate as an indirect subsidy to domestic manufacturing by lowering the domestic price of inputs (the Chinese argument in 1988 when Pakistan imposed an export tax on raw cotton). The most important economic argument, however, is probably the simple one of providing domestic revenues. This is likely to be most effective when the sector concerned is earning super profits as occurs in some mining sectors in times of high international prices and when a country has trouble in challenging a multinational entity to pay taxes in the host country or alter the royalty conditions. The terms-of-trade justification is also a powerful argument for export taxes in a sector where an exporter has a dominant market share. By restricting its exports, a country that supplies a significant share of the world market in a commodity can raise the world price of that commodity to its advantage.<sup>3</sup> And the use of export taxes introduces an interesting environmental question, namely whether export taxes can help to preserve valuable resources and reduce pollution.

Piermartini (2004) asks the following questions about an export tax<sup>4</sup>:

Does an export tax improve a country's terms of trade? (Yes it can, but only under restrictive large country assumptions and then possibly not over an extended time period as substitution effects kick in.)

Does it reduce the volatility of domestic price of commodities and stabilise income? (Maybe, but an export tax is a second-best policy option for income stabilisation; its success will depend

---

<sup>3</sup> The classic example here is the OPEC oil cartel which maintains global oil prices significantly above where they would be otherwise.

<sup>4</sup> The answers in brackets are partly from Piermartini and partly from tralac.

on appropriate design, the government's pursuing a long-term sustainable spending programme, and the country's enjoying adequate political and institutional flexibility.)

Does it reduce inflationary pressures? (Maybe, but there are complex interactions at play here. An export tax as a control for inflationary pressures depends on the structure of the product market, and in the long term they might yield opposite consequences to those intended.)

Does it favour export diversification? (This is a variation of the infant industry argument, and Piermartini concludes that the evidence and theoretical arguments seem to suggest that export taxes on raw commodities may not be a suitable measure to achieve sustained development – distributional effects, imperfections in internal and international markets and the possibility of negative environmental consequences all suggest caution.)

Is it an appropriate response to tariff escalation? (Yes, in principle an export tax on unprocessed goods can work to compensate for the supposed disadvantage created by developed country tariff escalation, but it is largely a second-best argument and as with export diversification relies on some restrictive assumptions.)

Does it ease government revenue collection? (Yes, export taxes can be more readily applied and are more transparent. They may, however, contribute to revenue instability unless some sound policies to prevent this are put in place.)

Does it increase the income of the poor? (Possibly, but again this is only likely to happen under a series of somewhat restrictive conditions and assumptions.)

These general conclusions to the same or similar economic arguments are reached by Ruta and Venables (2012) in their World Bank study on natural resources trade practices and policies. Bouet and Laborde (2010) similarly examine the economic arguments associated with export taxes and go further by mathematically representing the effects and presenting computer simulations to mimic the real-world outcomes in agricultural products when export taxes are introduced. They outline the standard economic arguments in support of export taxes, namely that (i) export taxes can raise the world price of exports and therefore improve terms of trade; (ii) export taxes can reduce the domestic price of the taxed commodity and benefit final consumers of this commodity; (iii) export taxes can reduce the domestic price of the taxed commodity and benefit intermediate consumption of this commodity; (iv) export taxes increase public revenue which is beneficial in a country where fiscal



receipts on a domestic base are small; and (v) export taxes are a means of redistributing income from domestic producers to domestic consumers and the public sector.

The above-mentioned paper examines one crucial aspect of export taxes in that they are typically 'beggar-thy-neighbour' policies that deteriorate terms of trade and real incomes of trading partners. This then leads to the consideration of retaliation by partners whose terms of trade have been negatively affected by initial export taxes. They demonstrate that these trading partners can react by either reducing import tariffs or augmenting export taxes depending on the status of either net importer or exporter of the commodity. They point out that the 2006-2008 food crisis clearly illustrates the point about retaliation and counter-retaliation of either reduced import duties or augmented export taxes. They offer some policy conclusions: (i) first, this process implies the implementation of noncooperative policy equilibrium which worsens world welfare and calls for an international cooperation; (ii) while large countries can implement 'beggar-thy-neighbour' policies which increase national welfare at the expense of trading partners, small countries do not have this policy option and changes in their own policy neither improves their welfare nor hurts their partners' situation; (iii) there is a key asymmetry between net exporters and net importers of an agricultural commodity in a situation of food crisis as net exporters can benefit from increase in world prices while net-importers are hurt and have no capacity to retaliate efficiently.

### **3. Some examples of the use of export taxes globally**

During the recent global food crisis some developing countries imposed export taxes and restrictions on their exports of agricultural products such as rice, and there are examples of where these restrictions have remained. Bouet and Laborde's work (2010) contains an annex table listing the implementation of export restrictions of 25 countries during the food crisis of 2006-2008.

Another recent example is the four types of export restraints (including export taxes and export quotas) that China imposed on the export of some raw materials, mainly minerals of which China is the leading global producer. The United States (US) took on a WTO case against China on the grounds that these measures cause higher prices in the world market and give Chinese domestic industries an unfair advantage.<sup>5</sup> This is despite China agreeing to eliminate all export taxes as a condition of its WTO membership, and a WTO panel found that China did violate these conditions and requested that China resisted from imposing them. China argued that at least some of these

---

<sup>5</sup> See [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds394\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds394_e.htm).

measures were designed to conserve natural resources that had a finite supply and/or reduced Chinese pollution.

The decision against China was made rather on the conditions of its accession than on WTO principles. The WTO regulation dealing with export restrictions is relatively limited, offering ample 'policy space' for domestic policy considerations, and does not specifically ban export taxes and the like. Members do agree, however, that some disciplines may be needed to ensure that supplies are available for importing countries, and, as a start, suggest having them converted into some tariff-equivalent type of number.

World Bank data showing the percentage of total tax revenues collected as taxes on exports as at 2011 from a selection of countries that relate to some extent to South Africa is shown in Table 1. The top three by a significant margin are the Russian Federation, Belarus and Kazakhstan, all with energy exports, while Indonesia and Ethiopia (and Cambodia, not shown) are the only others above Morocco's 1.57% (also not shown) and Malaysia's 1.54%. South Africa ranked in 25th place on the full list, with a percentage reported as 0.008 (rounded to 0.01 in the table).

Russia, the stand-out in Table 1, is a major producer and exporter of oil and natural gas, and its economy largely depends on energy exports. Its economic growth continues to be driven by energy exports, given its high oil and gas production and the elevated prices for those commodities. Oil and gas revenues accounted for 52% of federal budget revenues and over 70% of total exports in 2012.<sup>6</sup> Russia is not a member of OPEC, an export cartel of oil producing nations. In Belarus goods manufactured for export are exempt from excise tax but export duty is applied to timber, oil, minerals, and food stuffs exported from Belarus to countries other than Russia, Kazakhstan, Kyrgyzstan and Tajikistan (the Eurasian Economic Community).<sup>7</sup> For Kazakhstan, export duties on crude oil at a rate of US\$40 per tonne are applicable, while the other export tax categories are aluminium at 15%; wool, fine or coarse animal hair at 10%; hides and skins at 20%; some articles of iron or steel used for railway track construction at 20%; and copper waste and scrap at 15%.<sup>8</sup>

---

<sup>6</sup> See <http://www.eia.gov/countries/cab.cfm?fips=rs>.

<sup>7</sup> See <http://www.belarus.by/en/invest/investment-climate/taxation>.

<sup>8</sup> See [http://madb.europa.eu/madb/barriers\\_details.htm;jsessionid=4481A7D8CD38EED3BB8FCBAE183291EB?barrier\\_id=095274&version=5](http://madb.europa.eu/madb/barriers_details.htm;jsessionid=4481A7D8CD38EED3BB8FCBAE183291EB?barrier_id=095274&version=5).

**Table 1: Taxes on exports (% of tax revenue)**

Country	1990	2000	2005	2009	2010	2011
Russian Federation			37.63	40.99	41.84	44.61
Belarus			3.74	21.30	5.95	15.98
Kazakhstan		0.05	0.53	9.44	14.22	13.06
Indonesia			0.02	2.83	2.82	3.30
Ethiopia	2.81			14.53	3.90	3.23
Malaysia		2.12	2.59	1.08	1.65	1.54
Egypt.	0.02		0.00	0.28	0.48	0.15
Ghana	12.37		3.06	0.36	1.54	0.06
Norway				0.02	0.02	0.02
India	0.06	0.20	0.05	0.01	0.02	0.02
<b>South Africa</b>			<b>0.00</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
Botswana	0.02			0.00	0.01	0.01
Australia			0.01	0.00	0.01	0.00

Source: World Bank

The WTO reported in its 2009 Trade Policy Review of South Africa<sup>9</sup> that it levies an export tax on unpolished diamonds. Export levies were also imposed on some agricultural goods to finance activities such as advertising and research and development. A number of products remain subject to export controls (including prohibitions) but, like import controls, these controls are maintained on grounds of safety, security, and the environment.

While data for Russia with its energy export taxes is included in Table 1, similar data for OPEC countries is not. Their ‘export tax’ to total revenues percentages would be significant. *The Economist* recently reporting on OPEC<sup>10</sup> outlined how oil stocks in industrial countries were at their lowest in five years, and that this was beneficial for the oil-exporting OPEC cartel. But the longer-term future for OPEC, which produces about a third of the world’s daily consumption, is another matter. When demand is weak, its members can curb production to prevent the price plummeting. But when demand is healthy, its ability to curb new producers is limited as there are plenty of new producers. This situation is accentuated by increasing US production of crude oil and its substitute gas which is reducing US imports as well as boosting exports of fuels other than exports of the largely banned crude oil. That in turn frees crude from other places to be exported to Europe and Asia. For the oil

<sup>9</sup> See [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp322\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp322_e.htm).

<sup>10</sup> Economist, Feb 22nd 2014 print edition

exporters, the conditions that that have propped up the prices in recent years are likely to change, and in particular supplies from Iraq, Iran and Libya are set to increase. This would exert downward pressures on prices and would leave OPEC with some interesting decisions. Its natural response may be to cut production, but its record of enforcing quotas is at best patchy. Asking Saudi Arabia and the Persian Gulf producers to cut production unilaterally would cede market share to their hated rivals, Iran and Iraq, while increasing production would lower the price. OPEC's best hope is considered to be continued American protectionism. Any easing of the restrictions on the export of liquefied natural gas (LNG) or crude will exert more downward pressure on the oil price, and while this may be a good thing globally it would not sit well with American consumers who crave cheaper petrol for cars and propane for heating.

### WTO reports

The following summary is a short discussion gleaned from recent (2013) WTO Trade Policy Reviews of countries that are to some extent similar to South Africa. They are Indonesia, Mexico, Brazil, Vietnam and Argentina. **Indonesia**<sup>11</sup> has introduced new export taxes on leather and wood (2%-25%); crude palm oil (0%-40%); raw cocoa (0%15%); and mineral ore products (20%). The main objective of these measures is to encourage value-added processing within Indonesia. Secondary considerations are to secure domestic supply and to safeguard the environment. According to the authorities, this policy seems to have been successful in achieving its objectives. It was noted, for example, that the export tax on raw cocoa had succeeded in attracting more than US\$200 million in Foreign Direct Investment (FDI).

The types of export taxes and duties applied by **Mexico**<sup>12</sup> remain the same as those indicated at the time of the previous review. Mexico imposes an export tax on a small range of rather eclectic and somewhat esoteric goods. The revenues are insignificant, and the objective is to maintain supply in the domestic market. These goods include shells and claws and other parts of turtles; bitumen and related products; human organs and similar parts; exotic animal skins; and historical and archaeological items and antiques.

**Brazilian** law provides for the application of an export tax of 30%, which may be decreased or increased to up to 150% in order to address foreign exchange or trade policy objectives.<sup>13</sup> In practice, the export tax is zero-rated, except on raw hides and skins, cigarettes, and arms and ammunition.

<sup>11</sup> See WTO (2013: WT/TPR/S/278 2013).

<sup>12</sup> See WTO (2013: WT/TPR/S/195 2013).

<sup>13</sup> See WTO (2013: WT/TPR/S/283 2013).

During the review period, the rates applied on these products remained unchanged at 150% for cigarettes and arms to most South and Central American countries and the Caribbean, and 9% on hides and skins.

**Vietnam**<sup>14</sup> levies export duties on certain products, mostly metals, raw hides and skins, and wood products, in accordance with the Law on Export and Import Duties, in effect since 2006. The taxes are applied on a Most Favoured Nation (MFN) basis, but the export tax regime has undergone numerous changes since 2006. For example, export duties have been increased on crude oil (from 4% to 10%), some wood products, and precious stones. Coverage has been expanded to, *inter alia*, notably minerals, agar wood, metal ores and concentrates, coal, rubber, diamonds, gold, and silver. Other items such as cashew nuts, packaging materials, parquet flooring, doors and frames, and ingots and semi-finished products of iron or non-alloy steel are no longer subject to export duty or are temporarily zero-rated. Vietnam levies royalties on natural resources, such as basic metals and minerals, timber, water, crude oil, and natural gas used in domestic production or exported.

**Argentina**<sup>15</sup> uses export duties as price policy tools to soften the impact of exchange rate fluctuations on domestic prices, especially those of essentials forming part of the family basket, and as a fiscal measure depending on the situation of the public finances. The country regards export duties as a valid development tool that enables developing countries to cease being mere suppliers of raw materials. But when applying export taxes, Argentina must consider the consequences of any significant changes in the international prices of agricultural products. Argentina imposes taxes on all but a few exports, including significant taxes on key hydrocarbon and agricultural commodity exports, in order to generate revenue and encourage development of domestic value-added production.<sup>16</sup> The WTO reported that in 2012, rates varied between 5% and 100%, whereas in 2006 the maximum rate was 45%. The 5% rate is the general rate and applies to 97.5% of the tariff universe. The other rates applied are from 10% to 100%, depending on the goods. The 100% rate, which did not exist in 2006, applies to natural gas. During 2011, export taxes as a percentage of total tax revenues were valued at 20.5% and as a percentage of the total value of merchandise exports they were valued at 15.7%. This is extremely high and we note that this does not reconcile with the World Bank data from Table 1.

---

<sup>14</sup> See WTO (2013: WT/TPR/S/287 2013).

<sup>15</sup> See WTO (2013: 97, WT/TPR/S/277 2013).

<sup>16</sup> See <http://www.ustr.gov/about-us/press-office/speeches/transcripts/2013/march/us-statement-argentina-tp-r>.

The WTO (2009)<sup>17</sup> reports that at that time Mozambique imposed an export tax of between 18% and 22% of the f.o.b. customs value on raw cashews. Although no other specific export tax appeared to be applied, certain items, which are almost entirely exported, are subject to charges, e.g. cotton, fishery products, forestry products, and mining products.

## Export taxes and South Africa

There has been a renewed interest in South Africa in the use of export taxes. Thomashausen (2011) provides a background and outlines that since 2009 export taxation for **ferrochrome and ferrochrome ore** has been sought by South African ferrochrome producers as they seek help to protect and enhance the beneficiation of ferrochrome ore and exports of ferrochrome. They want both a quota on chromite ore exports and a duty of \$100 per ton of ore to be payable on chromite ore exported.

World demand for ferrochrome is driven by China, the largest producer, as stainless steel demand is expected to rise because its domestic demand greatly outpaces its local supply. South African producers are claiming that a chrome export tax will increase prices of chrome ore, and this will in turn reduce its capacity in China's domestic ferrochrome industry and enable South African producers to regain their advantage in ferrochrome production. This may or may not provide a window of opportunity, and within that window South African technology must, as always, improve to maintain a competitive advantage. Similarly, South African chrome ore exports may be offset by an increased supply from other sources such as Kazakhstan. In imposing a constraint to the market it is a prerequisite to have at least some degree of market power to capture the benefits. While South Africa is a major supplier of product HS 2610 (chromium ores and concentrates), it is not the only supplier. Over the last three years the International Trade Centre (ITC) trade data base shows that South Africa has about a 45% market share, with Turkey and Kazakhstan second and third suppliers. Similarly, over the last few years China has generally imported between 70% and 85 % of these exports. Thus, there is a power struggle between South Africa and China.

South Africa currently has an export tax on unpolished **diamonds** of 5% of the total value. The aim of the Diamond Export Levy is to

1. promote the development of the local economy by encouraging the local diamond industry to process (cut, polish, etc.) diamond(s) locally

---

<sup>17</sup> See WTO Trade Policy Review Mechanism (TPRM) for Mozambique (2009: WT/TPR/S/209). <https://docs.wto.org>.

2. develop skills
3. create employment.

The third area where an export tax is being mooted is on **iron ore** and steel. A report by an interdepartmental task team led by the Department of Trade and Industry has recommendations that include 'the introduction of export taxes on iron ore and steel, where appropriate'<sup>18</sup>. South Africa is the seventh largest producer of iron ore and has also traditionally been the fourth largest exporter worldwide. It does not have the market power here that it has in the chrome sector, as Australia in particular has greater iron ore reserves and production, as well as geographical dominance with better access to China. India also has a geographical advantage over South Africa in terms of exporting to China, and Brazil is likewise a strong exporter as its ore has a more desirable lower phosphorous content.

Over the last few years, China has dominated the global imports of iron ore with around two-thirds of the total, while Australia, followed by Brazil and South Africa dominate as global exporters. India raised its tax on iron ore exports to 30% in 2012 and has seen its position slipping from the third largest exporter of iron ore in 2010 to eighth in 2012 according to ITC trade data. Chinese import data provides a salutary lesson on the dangers of imposing an export tax. In 2008, India had a 22.7% share of the Chinese imports of HS 2601 (iron ores and concentrates) by value. During 2013, this reduced to a mere 1.4%. South Africa's share remained between 5.2% and 5.8% over the last three years while in the top place Australia climbed above a 50% share in 2013, from 35.9% in 2008.

## Policy space

Policy space is always an issue to consider, and we have seen this where there are no WTO obligations to consider. There are, however, some regional and bilateral agreements that may be relevant. Thomashausen (2011) outlines how South Africa must consider any responsibilities or obligations it may have in this area. The 2002 SACU Agreement Article 25(1) recognises the right to impose export restrictions such as export taxes, provided agreement on these measures is reached by the Southern African Customs Union (SACU) Council of Ministers. Similarly, Article 1 of the SADC Protocol on Trade of August 1996 provides that "Export Duties" means any duties or charges of equivalent effect imposed on, or in connection with, the exportation of goods from any Member State

---

<sup>18</sup> <http://mg.co.za/article/2012-12-06-government-may-impose-export-tax-on-iron-ore-steel>, and Mineweb 6 Dec 2012 at <http://www.mineweb.com/mineweb/content/en/mineweb-fast-news?oid=165673&sn=Detail> and 6 Dec 2012 at <http://www.fin24.com/Economy/Cabinet-OKs-iron-ore-steel-report-20121206>

to a consignee in another Member State'. Article 5 of the Protocol states that 'Member States shall not apply any export duties on goods for export to other Member States' and 'This Article shall not prevent any Member State from applying export duties necessary to prevent erosion of any prohibitions or restrictions which apply to exports outside the Community, provided that no less favourable treatment is granted to Member States than to third countries'.

South Africa also has a Trade, Development and Cooperation Agreement (TDCA) with the European Union (EU), and this agreement contains provisions relating to export taxes in Article 19(3) that states: 'No new customs duties on imports or exports or charges having equivalent effect shall be introduced, nor shall those already applied be increased, in the trade between the Community and South Africa from the date of entry into force of this Agreement'. South Africa would seem to be constrained from introducing export taxes regionally to the EU countries. China is, however, the target of likely export taxes, and while South Africa does not have binding constraints with China it would seem incongruous to be specifically targeting new friends in the BRICS.



## References

Bouet, A. and Laborde, D. 2010. *The economics of export taxation: a theoretical and CGE-approach contribution*. IFPRI Discussion Paper 00994, June.

<http://www.ifpri.org/sites/default/files/publications/ifpridp00994.pdf>

Crosby, D. 2008. WTO legal status and evolving practice of export taxes. *Bridges*, 12(5), November.

<http://ictsd.org/i/news/bridges/32741/>

Karapinar, B. Undated *Export restrictions on natural resources: policy options and opportunities for Africa*. Bern: World Trade Institute, University of Bern.

[http://www.wti.org/fileadmin/user\\_upload/nccr-trade.ch/news/TRAPCA%20Paper%20\(Submitted1711\)\\_BK.pdf](http://www.wti.org/fileadmin/user_upload/nccr-trade.ch/news/TRAPCA%20Paper%20(Submitted1711)_BK.pdf)

Piermartini, R. 2004. *The role of export taxes in the field of primary commodities*. Geneva: World Trade Organisation.

Ruta, M. and Venables, A.J. 2012. *International trade in natural resources: practice and policy*. WTO Staff Working Paper ERSD-2012-07, March.

[http://www.wto.org/english/res\\_e/reser\\_e/ersd201207\\_e.pdf](http://www.wto.org/english/res_e/reser_e/ersd201207_e.pdf)

Thomashaussen, A. 2011. *Export taxes as a means to protect South Africa's minerals beneficiation strategy*. Based on a paper presented at the Eighth International Workshop on Commercial Law, August 2011 at Nedbank in Sandton, South Africa: (2011) 23 SA Merc LJ 407–419.

[http://www.academia.edu/1554637/Export\\_Taxes\\_South\\_Africa](http://www.academia.edu/1554637/Export_Taxes_South_Africa)

WTO Trade Policy Review Mechanism (TPRM) for Mozambique (2009), WT/TPR/S/209).

<https://docs.wto.org>.

WTO. 2013. *Trade Policy Reviews, 2013*. Geneva: World Trade Organisation.

[http://www.wto.org/english/tratop\\_e/tpr\\_e/tp\\_rep\\_e.htm#bycountry](http://www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm#bycountry)

---