



31 January 2020



## BREXIT FAQs for Western Cape Exporters

### 1. What is Brexit?

Brexit is the term coined for the withdrawal of the United Kingdom (UK) from the European Union (EU). The UK government held a referendum in June 2016 on whether the UK should leave the EU or remain a member, and with a slim 51.9% to 48.1% margin, the UK public elected to leave the EU. Public support for a British exit from the EU was underpinned, amongst other things, by opinions about immigration, economic discontent in the Eurozone, questions of sovereignty and high expenditure to the EU budget.

Even though the referendum was mainly advisory in nature, rather than bound by law, it allowed the UK Parliament to evoke EU Treaty Article 50 in March 2017, which permits a member nation to leave the EU. This allowed the UK two years (plus a few extensions) to negotiate its exit and determine its relationship with the EU going forward.

The date of the UK's official withdrawal from the EU is 31 January 2020.

### 2. Is Brexit happening, and when is it happening?

Yes. The UK leaves the EU on 31 January 2020, but there is a transition period until 31 December 2020 during which time the UK will remain part of the EU Customs Union and Single Market.

Prime Minister Boris Johnson's withdrawal agreement was given the go-ahead by the UK Parliament in January 2020 with the passing of the EU Withdrawal Agreement Act, which ratifies the withdrawal agreement and retains aspects of EU law in UK domestic law. The Withdrawal Agreement includes a transition period, until the end of December 2020. According to the Withdrawal Agreement, the transition period can be extended once for a period of up to one or two years, if both sides agree to this before 1 July 2020. (Although the UK's Withdrawal Act prevents an extension.) During the transition period, the UK will continue to apply EU law but it will no longer be represented in the EU institutions.

### 3. What does Brexit mean for South African exports?

Brexit means that the United Kingdom will no longer trade under the cap of the EU, thus it will not be a party to the EU's trade agreements or the EU's administrative systems and rules for trade. Rather, the UK will regain jurisdiction over trade matters, and will trade under its own trade agreements, rules, and administrative systems.

Therefore, once the transition period has come to an end South Africa will no longer trade with the UK under the SADC –EU Economic Partnership Agreement<sup>1</sup> (EPA), but rather under a new trade agreement.

The new trade agreement has already been concluded, and is called the Southern African Customs Union + Mozambique (SACUM) – UK EPA. The new agreement replicates the terms of the SADC –EU EPA. South African goods entering the UK market will therefore continue to enjoy the same preferential access to the UK as under the current dispensation under the SADC-EU EPA. As will UK goods entering SA. The new agreement has advantages in some cases, for example tariff rate quota size. The details of the SACUM–UK Agreement are discussed below.

<sup>1</sup> Southern African Development Community – European Union Economic Partnership Agreement. (Even though this agreement is referred to as the SADC-EU EPA, it does not cover the entire SADC, only SACU and Mozambique.)

## 4. What is the Economic Partnership Agreement between the Southern African Customs Union and Mozambique – United Kingdom?

The SACUM–UK EPA is a roll-over, or a near replication of the SADC-EU EPA with the UK.

The SADC-EU EPA provides duty free and preferential access for a large amount of Southern African goods into the EU market, and thus also into the UK market. If the UK were to leave the EU without a new agreement to replicate the SADC-EU EPA, South African goods would no longer have qualified for duty free or preferential access into the UK market.

Negotiations between the SACUM countries and the UK concluded in September 2019 and the new agreement will kick in as soon as the SADC-EU EPA no longer applies to the UK.

## 5. When will trade under the new SACUM–UK Agreement commence?

The SACUM–UK Agreement will enter into force on the date on which the SADC-EU EPA ceases to apply to the UK.

This will be at the end of the transition period, which is currently set for 31 December 2020. Therefore, unless there is an extension, the new Agreement would kick in on 1 January 2021.

## 6. What is a customs union and what difference will it make if the UK leaves the EU Customs Union?

In very simple terms, a customs union is established when neighbouring countries agree to eliminate tariffs and other trade restrictions between themselves, and together apply a common external tariff to imports from third countries. Countries that are part of a customs union have to negotiate trade agreements related to goods together as one. (It is for this reason that South Africa negotiates as part of SACU.) Therefore as long as the UK remains part of the EU Customs Union during the transition period, the SADC-EU EPA will continue to apply.

At the moment the UK's import tariffs are set at EU level. Once the UK leaves the EU Customs Union, it will be able to decide its own tariffs. Although the UK's "normal" tariffs (referred to as MFN/ Most Favoured Nation\* tariffs) do not apply to South African goods due to the SADC-EU EPA/ SACUM –UK EPA, a change in tariffs on imports may impact the competitiveness of goods coming from other countries that do not have a trade agreement with the UK, e.g. Australia, New Zealand and the United States of America.

*\*WTO principles include the Most-Favoured-Nation (MFN) rule, which says that a country has to extend the same tariff rate to all WTO members alike. There are, however, certain exceptions to the MFN rule, such as having entered into a trade agreement with a country, or unilaterally providing preferential market access to specific developing countries (e.g. GSP and AGOA). Therefore when a country sets its tariffs at the WTO, it sets an MFN rate for each product, which is the rate that applies to all countries that are members of the WTO but that don't have a trade agreement in place with that country. (Countries that are not party to the WTO face much higher rates, called bound rates). The rates that are applied preferentially (or duty free) between countries that are party to a trade agreement are set out in the trade agreement.*

## 7. How are South African imports to the UK currently treated under the SADC–EU EPA?

Under the SADC-EU EPA, many South African goods enter the EU entirely duty free, while for some goods, especially agri-processed goods, there are tariff-rate quotas, meaning goods are duty free up to a certain volume, or quota, after which duties are charged for the goods. Depending on the product, quotas are either filled on a first-come-first-served basis by SARS, or allocated upon application to the Department of Agriculture based upon a set of criteria.

Under the SADC-EU EPA, all the SACU plus Mozambique countries enjoy duty-free, quota-free treatment for their exports, while South Africa, due to the size of its economy, receives less favourable treatment. Some agricultural exports receive no preference; 13 are subject to TRQs; some preferences on fruit exports are seasonal; some fish exports are subject to a longer tariff phase down; and aluminium receives no preference.

Under the SADC-EU EPA, the EU (including UK) face TRQs for export to SACU on 8 agricultural products, some enjoy no preferences, while others enjoy a margin of preference.

Detailed information on the SADC-EU EPA can be found [here](#).

## 8. How does the new SACUM–UK Agreement differ from the SADC–EU EPA?

The terms of the new SACUM –UK Agreement almost entirely replicate the SADC –EU EPA, covering rules for trade in goods, preferential tariff rates on all sides, trade remedies, technical standards for health, safety for agricultural and industrial products, and dispute settlement.

There were however five matters, according to the Department of Trade and Industry, that needed particular attention and resolution:

1. Tariff-rate quotas
2. Sourcing of inputs from the rest of the EU into UK production for export (cumulation)
3. Treatment of bilateral safeguard measures
4. Other transitional arrangements
5. Built-in Agenda

### 8.1. How do the tariff-rate quotas differ?

When Brexit was announced, Western Cape exporters in particular had been concerned about how the quota size would be divided under a new UK deal. This was of concern because a large amount of Western Cape goods exported under the EU EPA are agricultural products and go to the UK.

Additional quota size obtained for products in the UK is thus advantageous to Western Cape exporters.

Where South Africa has tariff-rate quotas in place with the EU, a new, additional quota has been agreed. For example, in addition to the current quota to the EU (which remains unaffected by this Agreement), South Africa has a new tariff-rate quota for:

- About 70 million litres of wine
- 18 000 tons of canned pear, apricot and peaches
- About 70 000 tons of refined and unrefined sugar

The new UK TRQs for SA were calculated based on historical trade. On average TRQs for SA goods will increase by 38% annually, while sugar and wine volumes will increase by 49% and 62% respectively. The below table sets out UK TRQs (plus agreed annual increases) for South African goods compared to current TRQs under the SADC-EU EPA.

TRQ Product	2018 EU-SADC TRQ volume	SA TRQ Volume into UK		Annual Increase of UK TRQ volume
		2019	2020	
Strawberries, frozen	392,5 ton	127	129,5	2,5 ton
Canned pears, apricots, peaches or mixtures	57 156 ton	18181	18181	
Canned tropical fruit	3 080 ton	999	1018	19 ton
Frozen orange juice	1 087 ton	350	356,5	6,5 ton
Apple juice	3 712 ton	1 218	1 255	Until 2026- 37 ton and thereafter 22,5 ton

UK TRQs on SA Imports				
Wines	111 376 700 litres	70 169 740	70 826 320	656 580 litres
Skimmed milk powder	500 ton	159	159	
Butter	500 ton	159	159	
Cane sugar	150 000 ton	71 365	71 365	
White crystalline powder	500 ton	159	159	
Jams, jellies, and marmalades of citrus fruit	100 ton	32	32	
Active yeast	350	111	111	
Ethanol	80 000 ton	25 448	25 448	

Source: DTI Presentation to Portfolio Committee on Trade and Industry, 29 October 2019.

Product description	New UK quota volume for imports from SA	Agreed annual increase in UK quota volume for imports from SA
Wine in containers of less than or equal to 2 litres	49 118 818 litres	459 606 litres
Wine in any volume of container	21 050 922 litres	196 974 litres

Source: United Kingdom Department for International Trade Presentation to Parliament, November 2019.

SACU TRQs on UK imports			
TRQ Product	2018 EU – SADC EPA TRQ Volume (ton)	UK TRQ volumes into SACU	
		2019	2020
Pig fat	200	20	20
Pork	1500	150	150
Barley	10 000	1 003	1 003
Wheat	300 000	30 090	30 090
Cereal based food preparations	2 300	796	796
Butter	500	94	94
Cheese	7 700	1 363	1 363
Ice cream	150	24	24

Source: DTI Presentation to Portfolio Committee on Trade and Industry, 29 October 2019.

## 8.2. How will cumulation work?

A major challenge with Brexit and not knowing what the future trade agreement between the UK and EU will look like, was agreeing on how to deal with goods containing inputs from the EU, or undergoing significant processing in the EU.

“In trade agreements, Rules of Origin are used to determine the economic nationality of a good. To qualify for preferential tariff rates, a good must “originate” in the territory of one of the parties to the agreement. Trade agreements may also allow materials originating and/or processed in a country other than the exporting party to count towards meeting the specific origin requirements for preferential treatment, a process known as ‘cumulation.’”

As a member of the EU, all UK content is considered to have EU ‘nationality’ and UK exports are designated as ‘EU origin.’ Once the UK leaves the EU this will no longer be the case, rather exports from the UK will have a UK ‘nationality’ or origin. The problem is that many final products exported from the UK contain substantial inputs from the EU.

The UK asked for the right of component products made in the EU, and used in final British products, to qualify for preferential access to South Africa. To which SA agreed, subject to the same facility being available for SA exports to Britain that uses components from any of the EU countries as well as from any of the other SACUM countries.

The new SACUM–UK Agreement therefore includes a provision that allows the UK and SACUM to fully cumulate with EU inputs for production to export to each other, meet the Rules of Origin requirements and obtain the preferential tariff. This provision is applicable for 3 years pending the outcome of a new trade arrangement between the UK and EU, with an option to extend. This provision ensures continuity of highly integrated value chains across EU-SA-UK, in particular the automotive value chain.

## 8.3. How will the current bilateral safeguard measures against poultry be treated?

The SACU countries currently have a bilateral safeguard in place against poultry from the EU (including the UK), which allows the application of duties on EU poultry imports. This safeguard sets a duty higher than the tariff preference rate, implemented to protect the domestic poultry industry from injury due to imports. The new SACUM–UK Agreement includes a provision to enable the continued application of the measure to poultry imports from the UK for the duration of the measure being implemented against the EU.

## 8.4. What are the transitional measures?

### 8.4.1. Health and safety certificates

Article 118 of the SACUM-UK Agreement sets out “Transitional Implementation Arrangements” with specified transitional periods. These include:

- The UK’s SPS (sanitary and phytosanitary) requirements that apply immediately before leaving the EU will be retained in the UK, to the extent possible, at the point of the UK’s exit.
- The UK will continue to accept existing EU model health certificates and plant protection certificates accepted by the EU for a period of 12 months from the date on which the UK leaves the EU, with an option to extend for a further 6 months.
- The UK will continue to accept establishments listed on the European Union list of establishments from which imports of specific products of animal origin are permitted prior to the date on which the UK leaves the EU for a period of 6 months from the date on which the UK leaves the EU, with an option to extend for a further 6 months.
- The UK will take into account evidence relating to, and the outcome of, any decisions of the European Union made prior to the date on which the UK leaves the EU on SPS measures applicable to, or market access for, products originating in the SACUM states.
- The UK and SACUM countries agree to develop a framework to address, amongst other issues, SPS import requirements, within 6 months from the date of entry into force of the Agreement, including pending applications with the EU for approvals for products.
- The requirements in UK legislation relating to TBT (technical barriers to trade) that apply immediately before the UK leaves the EU, will continue to apply in substance, to the extent possible, at the point of the UK’s exit.

## 8.4.2. Origin declarations and movement certificates: EUR.1

The parties have agreed that origin declarations and movement certificates EUR.1, issued under the SADC-EU EPA prior to the date of entry into force of the SACUM–UK Agreement, will continue to be accepted for the purpose of applying preferential treatment under the SACUM–UK Agreement for the duration of the certificate’s validity.

Other administrative customs requirements under the SADC-EU EPA will continue for a period of 12 months.

## 8.5. What is the built-in agenda?

The parties have agreed to a built-in agenda, which is reflected in the SACUM–UK Agreement, to address outstanding trade and trade-related issues which could not be resolved in the negotiations.

These include, among others:

- Increase in duty-free quota-free market access or TRQ volumes into the UK;
- Regional cumulation to allow cumulation between South Africa and the other SACUM countries;
- Treatment of vehicles with engine capacity of 1000cc and less;
- Export taxes
- Enhanced cooperation on standards and conformity assessment procedures (TBTs)
- GIs: continuation of discussions on wine manufacturing practices and an electronic certification system.

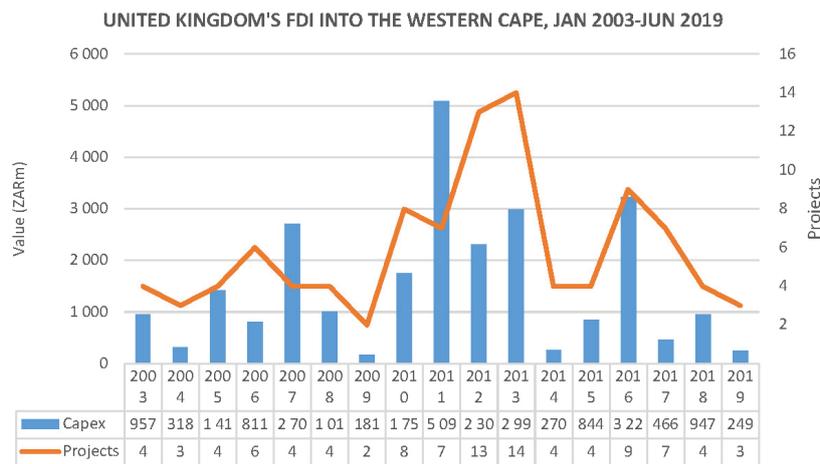
## 9. What about shipping routes?

Even if Western Cape exports will continue to enter the UK market preferentially under the SACUM–UK Agreement, there may still be major disruptions to many South African exports after the transition period, depending on the trade deal struck between the UK and EU. A large amount of South African goods destined for the UK are shipped through Rotterdam or other European ports, and these products could get caught up in border disruptions en route to the UK. Similarly, many South African exports destined for mainland Europe are transported through the UK. Whether or not there will be significant disruptions to established shipping/ air cargo routes will depend on the EU- UK negotiations and the UK’s new customs systems.

## 10. Why is Brexit relevant to the Western Cape?

The UK is the Western Cape’s biggest source of foreign direct investment (FDI), its main tourist market and the 2nd biggest export destination. The Western Cape’s economy is therefore closely tied to that of the UK. Should Brexit affect the UK economy, the impact on the Western Cape economy could be substantial, at least in the short- to mid-term.

Investment: Between January 2003 and June 2019 a total of 100 FDI projects were recorded from the United Kingdom to the Western Cape, the biggest source for FDI into the Western Cape. These projects represent a total capital investment of ZAR25.55bn which is an average investment of ZAR256.1m per project. During the period, a total of 6,738 jobs were created.



Source: FDI Intelligence, 2019

**Tourism:** The United Kingdom is the largest source market for tourists into the Western Cape. United Kingdom arrivals into the Western Cape reached 250 429 tourists in 2018. A 3.4% decrease was seen in tourist arrivals from 2017 to 2018, however the figures improved significantly in the first quarter of 2019 increasing by 32.6% when compared to the same period in 2018. The Western Cape accounted for 16.2% of all international tourist arrivals to South Africa.

**Trade:** The Western Cape’s exported goods to the United Kingdom were valued at ZAR9.65bn in 2018, while imported goods were valued at ZAR5.29bn in 2018. The United Kingdom is the Western Cape’s 2nd largest export destination and 12th largest source market in 2018. Between 2014 and 2018 exports increased by 1.3% while imports decreased by 8.6%. Over the period, the Western Cape has demonstrated a largely positive trade balance, except for the year 2011.

WESTERN CAPE'S TRADE WITH THE UNITED KINGDOM, 2011-2018



Source: Quantec, 2019

## 11. What are our biggest exports to the UK and imports from the UK?

Wine was the leading export product category to the United Kingdom from the Western Cape in 2018, valued at ZAR1.88bn, followed by grapes (ZAR1.57bn) and citrus fruit (ZAR1.37bn)

TOP 10 WESTERN CAPE EXPORTS TO THE UNITED KINGDOM, 2018				TOP 10 WESTERN CAPE IMPORTS FROM THE UNITED KINGDOM, 2018			
RANK	PRODUCT	VALUE 2018 (ZARbn)	% GROWTH 2014-2018	RANK	PRODUCT	VALUE 2018 (ZARbn)	% GROWTH 2014-2018
1	Wine	1.88	-0.45%	1	Undenatured ethyl alcohol	1.57	-10.41%
2	Grapes,	1.57	8.66%	2	Refined petroleum oils and oils obtained from bituminous minerals	0.90	13.52%
3	Citrus fruit	1.37	5.26%	3	Printed books, brochures, leaflets and similar printed matter	0.21	-10.36%
4	Apples, pears and quinces	1.21	-3.59%	4	Medicaments	0.10	26.19%
5	Fresh strawberries, raspberries, blackberries, back, white or red currants, gooseberries and other edible fruits	0.76	23.41%	5	Other plates, sheets, film, foil and strip, of plastics	0.07	19.26%
6	Apricots, cherries, peaches	0.46	3.32%	6	Discs, tapes, solid-state non-volatile storage devices	0.06	52.78%
7	Beauty or make-up preparations	0.25	4.71%	7	Cinematographic cameras and projectors	0.06	2.37%
8	Fruit, dried	0.21	24.06%	8	Flours, meals and pellets, of meat or meat offal	0.06	21.58%
9	Fruit, nuts and other edible parts of plants	0.14	-5.58%	9	Orthopaedic appliances	0.05	26.27%
10	Fish	0.13	704.27%	10	Parts suitable for use solely or principally with the machinery of pulley tackle and hoists	0.05	89.73%
<b>TOTAL EXPORTS</b>		<b>9.65</b>	<b>1.29%</b>	<b>TOTAL IMPORTS</b>		<b>5.29</b>	<b>-8.62%</b>

Source: Quantec, 2019

\*Growth is calculated in US dollars

## 12. What have the Western Cape Government and Wesgro done since 2016 to prepare for Brexit?

The Western Cape Government, City of Cape Town and Wesgro assisted Western Cape business since 2016 in preparation for Brexit by focussing on three strategic goals:

1. To maintain and expand the Western Cape's market share with the UK,
2. To establish effective partnerships with the relevant UK and EU shareholders,
3. To ensure buy-in of all stakeholders in the industry.

Actions to support these goals included:

- In October 2016, Wesgro held a seminar to discuss the potential implications of Brexit for the Western Cape. The meeting was attended by the previous British Consul General, Ed Roman, and the then Western Cape MEC for Economic Opportunities, Alan Winde. The audience included industry stakeholders concerned with the potential implications of Brexit on current and future Western Cape exports to the United Kingdom.
- One of the outcomes of the seminar was for Wesgro to develop a 6-month Brexit Action Plan that would culminate in a Brexit mission to the UK in April 2017. The mission was well-received and we had the opportunity to meet with senior UK government officials who briefed us on developments at that time.
- In February 2018, the UK's Department for International Trade (DIT) and Wesgro signed a Memorandum of Understanding (MoU) aimed to enhance the trade and investment relationship between the United Kingdom and the Western Cape, and secure positive trade and investment outcomes post-Brexit.
- In October 2018 Wesgro hosted a roundtable discussion with a representative of the UK Prosperity Fund. It was a discussion with exporters, represented by export councils, and other interested industry stakeholders doing business with the UK. During the roundtable, industry was given the opportunity to provide input to the Prosperity Fund about export challenges and opportunities in order to inform the UK's trade and development programme in Southern Africa.
- Post-Brexit Readiness Seminar hosted by Wesgro in March 2019, attended by the previous Minister of Trade and Industry, Rob Davies, and High Commissioner Nigel Casey. At the March event, Min Davies provided an update of the ongoing negotiations of the rollover of the EU Economic Partnership Agreement with the UK, followed by a technical question-and-answer session with the trade negotiation team from dti and the Department of Agriculture, Forestry and Fisheries.
- August 2019 - A Brexit Seminar with the Export Councils was held. A survey was conducted prior to the seminar and responses included concerns around borders and about tariffs in the case of a no-deal Brexit. Many of the fears raised around tariffs have been addressed through the conclusion of the SACUM-UK Agreement and bridging MOU.
- September 2019 – UK Trade Commissioner for Africa and MEC Maynier hosted a discussion with exporters about Brexit and beyond and how the UK Trade Department and can work with the Western Cape to further increase trade and investment between the UK and Western Cape.
- Another industry workshop was held on 15 January 2020, together with the DTI and UK Department for International Trade, with a focus on the contents and implementation of the new SACUM-UK agreement.

## 13. What does Wesgro's Trade Promotion Unit do?

Wesgro is official tourism, trade and investment promotion agency for Cape Town and the Western Cape. Wesgro's Trade Promotion unit focusses on increasing the rand value of exports into global markets and the number of jobs resulting from export orders, as well as the facilitation of outward investment by Western Cape companies into the rest of Africa. The trade unit's business facilitation and trade promotion activities include:

- Accessing finance
- B2B meetings and forging strategic collaboration and facilitation
- Inward buying and outward selling missions
- Advocacy and specialised advisory services
- Access to strategic networks
- Marketing of value-added goods and services
- Export training

If you have questions about Brexit or are interested in finding out more about exporting from the Western Cape, please contact:

Wesgro (General: +27 (0) 21 487 8600 or [www.wesgro.co.za](http://www.wesgro.co.za))

- Denan Kuni, Head of International Trade and Development: [denan@wesgro.co.za](mailto:denan@wesgro.co.za)
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#### Department of Economic Development and Tourism Western Cape Government:

(General: +27 (0) 21 483 9226 or <https://www.westerncape.gov.za/dept/edat>)

- Riana Meyer, Deputy Director Economic Sector Support Department of Economic Development and Tourism: [Riana.Meyer@westerncape.gov.za](mailto:Riana.Meyer@westerncape.gov.za)

#### Other Key Stakeholders

- Department of Trade and Industry – [exporthelpdesk@thedti.gov.za](mailto:exporthelpdesk@thedti.gov.za) or 0861 843 384
- Export Councils: a list of South African export councils can be found on <https://www.wesgro.co.za/trade/services>
- SARS - more information about exporting under South Africa's international trade agreements can be found at <https://www.sars.gov.za/Legal/International-Treaties-Agreements/Trade-Agreements/Pages/default.aspx>

#### Sources:

- *DTI Presentation to Portfolio Committee on Trade and Industry, 29 October 2019.*
- *Statement by the Minister of Trade and Industry on the Conclusion of an Agreement with the UK addressing the trading relationship in the event of a no-deal Brexit, 17 September 2019.*
- *Continuing the United Kingdom's Trade Relationship with the Southern African Customs Union Member States and Mozambique: United Kingdom Department for International Trade Presentation to Parliament, November 2019.*
- *Economic Partnership Agreement between the Southern African Customs Union Member States and Mozambique, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part. November 2019.*

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