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Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Economic Partnership Agreement (EPA) between the Southern African Customs Union (SACU) and Mozambique (together SACUM) - United Kingdom (UK)

**Presentation to Select Committee on
Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and
Labour**

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Background and Context

- In June 2016 the UK voted to leave the EU (“Brexit”).
- On 29 March 2017 UK invoked EU Treaty Article 50 giving 2 years to negotiate its exit and to set a course for a future relationship with the EU.
- UK was set to leave the EU on 31 October 2019.
- Previously negotiated terms of the UK’s exit as set in the Withdrawal Agreement (WA) was rejected by UK Parliament in March 2019.
- The re-negotiated WA has not been agreed by the UK Parliament, and the UK Government was obliged to request the EU to grant an extension of the deadline.
- The EU provided a new deadline of 31 January 2020.
- Subsequently, the UK Parliament has agreed to general elections in December 2019 that will in part decide on whether the UK will remain or leave the EU.

Background and Context

- The UK remains deeply divided on whether to remain in the EU or to leave and then, on what terms.
- Uncertainty on these matters has been pervasive.
- It has also created uncertainty on the the UK's preferential trade relations with third countries, including with South Africa, SACU and SACUM.
- If the new WA is finally accepted, the UK will remain part of the EU customs area until the end of 2020 while new trading arrangements are negotiated with the EU.
- While this will preserve our current trade arrangements, the longer term implications will remain unclear until UK and EU arrangements are settled.
- It is against this uncertain background that the new SACUM-UK EPA should be considered.
- It is an insurance for continuation of preferential trade between the SACUM countries and the UK if the UK was to leave the EU without agreement.

Economic Partnership Agreement with EU

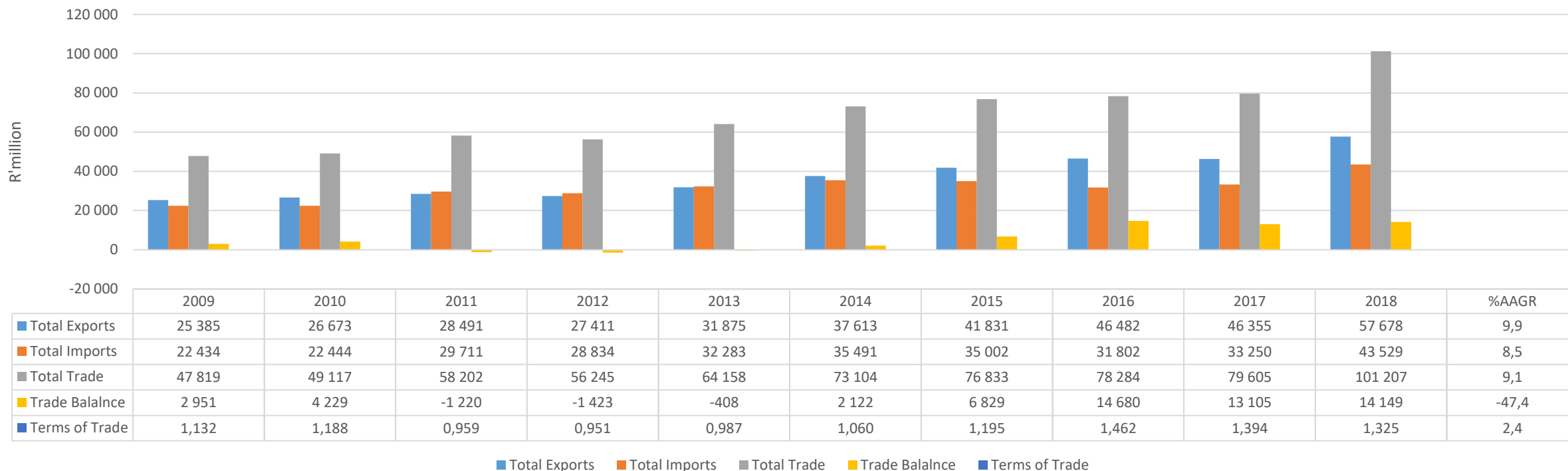
- The EPA between the EU and the Southern African Development Community (SADC) EPA Group entered into force on 10 October 2016.
- South Africa is part of the SADC EPA Group along with Botswana, Eswatini, Lesotho, Namibia and Mozambique.
- Under EPA the EU has fully or partially removed custom duties for South African exports (except aluminum and some agricultural products).
- EPA specifies rules of origin (that is, the level and definition of local content) to be met for the products to obtain preferential access is set out in the EPA.
- EPA provides for trade remedies to deal with unfair trade.
- Allows for safeguards to increase import duties after following due process when import surges cause disturbances or injury in the domestic market.

UK relation to EU-SADC EPA

- Currently the UK, as part of the EU, trades with SADC EPA States under the EU-SADC EPA.
- If and when the UK exits the EU customs union arrangements, it will no longer be a Party to the EU-SADC EPA.
- In this case, SADC EPA States-UK trade would be on non-preferential and WTO most favoured nation (MFN) tariff levels that are higher in many cases.
- To avoid such a disruption to trade, SACU, Mozambique and UK agreed to work towards “rolling-over” the trade effects of the EU-SADC EPA into a new bilateral trade agreement between them.

SA-UK Trade figures

SA - UK Bilateral Trade Relations



- South Africa and the United Kingdom have extensive trade and economic relations which continue to grow.

SA-UK Trade figures (cont.)

- Total trade (excluding some gold exports from SA) between SA and the UK increased from R56.3 billion in 2012 to R101.2 billion in 2018, an increase of 79.8%.
- Exports from SA to the UK increased from R27.4 billion in 2012 to R57.7 billion in 2018.
- Imports from the UK into SA increased from R22.4 billion in 2009 to R43.5 billion in 2018.
- Top UK imports from South Africa were gold incl. gold plated with platinum and semi-manufactured; platinum incl. palladium and semi-manufactured; motor cars and other motor vehicles; fresh fruits including: citrus, grapes, apples, pears, berries, peaches, avos; and wine.
- About 44% of UK world imports of platinum from SA, 22% of citrus, 20% of grapes, 18% of apricots and peaches, 17% of apples and pears; 5% of vehicles, 4% of wine.

Background – “Rollover” Agreement

- Ministerial discussion on 19 March 2017 in Johannesburg agreed that the EU-SADC EPA be “rolled-over” into a standalone Agreement between the Southern African Customs Union (SACU), Mozambique and the UK.
- Broad Terms of Reference were agreed:
 - Ensure continuity after UK exits from the EU through new trade agreement that mirrors to extent possible the terms of the SADC-EU EPA;
 - This would be a technical exercise rather than a renegotiation of existing terms;
 - Changes would be limited to those necessary to ensure operability (for example on Tariff Rate Quota (TRQ) volumes).

SACU and Mozambique – UK EPA

- SACUM (Botswana, Eswatini, Lesotho, Mozambique, Namibia and South Africa) have engaged with UK over a two-year period.
- On 7 September 2019 the negotiations for a new trade agreement between SACUM and UK were concluded.
- The SACUM-UK EPA will replace the current legal framework for trade under the EU-SADC EPA, if the UK leaves the EU on 31 October 2019, or on a later date if the UK and EU agree to an extension or if the Withdrawal Agreement between the UK and EU comes into force.

Key Features of the SACUM-UK EPA

- The terms of the SADC-EU EPA have been largely transposed into the new SACUM-UK EPA, *mutatis mutandi*, 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.
- However, five important matters required particular attention and resolution:
 - Tariff-rate quotas
 - Sourcing of inputs from the rest of the EU into UK production for export
 - Treatment of bilateral safeguard measures
 - Other Transitional Arrangements
 - Built-in Agenda

Tariff Rate Quotas (TRQs)

- All SACU and Mozambique, except South Africa, receive Duty Free Quota Free (DFQF) treatment for their exports under the EU-SADC EPA.
- A TRQ establishes a tariff preference for a specific volume of imports.
- SA obtains less favorable 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 aluminum receives no preference.
- Under the EU-SADC EPA, the EU (including UK) face TRQs for export to SACU on eight agricultural products; there is no preference on some products; others were given a margin of preference.

Tariff Rate Quotas (TRQs)

- New UK TRQs for SA and SACU TRQs for the UK were calculated on basis of historical trade.
- Annual growth rates for TRQs were also negotiated.
- UK TRQ average growth rates will be 16%, while average SA growth rates will be 38%, with growth of sugar and wine volumes 49% and 62% respectively.
- TRQ volumes into the EU under SADC–EU EPA are unchanged even if UK exits the EU.

SACU TRQs on UK Products

TRQ Product	2018 EU-SADC EPA TRQ Volume (tons)	UK TRQ Volumes into SACU	
		2019	2020
Pig fat	200	20	20
Pork	1 500	150	150
Barley	10 000	1 003	1 003
Wheat	300 000	30 090	30090
Cereal based food preparations	2 300	796	796
Butter	500	94	94
Cheese	7 700	1363	1363
Ice cream	150	24	24

UK TRQs on SA Products

TRQ Product	2018 EU-SADC EPA TRQ Volume	Annual Increase of UK TRQ volume	SA TRQ Volumes into UK	
			2019	2020
Strawberries, frozen	392,5 ton	2,5 ton	127	129,5
Canned pears, apricots, peaches or mixtures	57 156 ton	-	18181	18181
Canned tropical fruit	3 080 ton	19 ton	999	1018
Frozen oranges juice	1 078 ton	6,5 ton	350	356,5
Apple juice	3 712 ton	Until 2026 – 37 ton and thereafter 22,5 ton	1218	1255
Wines	111 376 700 Litres	656 580 Litres	70 169 740	70 826 320
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

Cumulation [EU Materials & Processing]

- Negotiated a new provision that would allow 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.
- Ensures continuity of highly integrated value chains across EU-SA-UK, notably automotives.
- Provision applicable for 3 years pending the outcome of a new trade arrangement between the UK and EU.
- Period can be extended or revised if deemed necessary by SACUM and the UK.

Treatment of Bilateral Safeguards

- SACU currently has a bilateral safeguard measure against poultry imports from the EU that includes duties against UK poultry imports.
- The duty is higher than the tariff preference rate and is implemented, following due process, to protect the domestic industry from injury due to significantly increased imports.
- Negotiated a provision to enable the continued application of the measure to poultry imports from the UK for the current duration of the measure against the EU.

Transitional Arrangements

- SACUM-UK EPA contains transitional arrangements to carry over measures and actions from EU-SADC EPA.
- Guarantees continued recognition of establishment listings and health model certificates currently recognised or issued by EU for a period of 6 and 12 months respectively.
- Similarly the UK should provide sufficient time for SACUM exporters to adjust to new technical regulations for industrial products if those deviate from EU regulations post-Brexit.

Transitional Arrangements (cont.)

- Transitional Arrangements also deal with Customs matters:
 - Continued recognition of Certificates of Origin issued under the SADC-EU EPA for the remaining validity period.
 - Other administrative customs requirements under the EU-SADC EPA will continue for a period of twelve (12) months.

Built-in Agenda

- A Built-in Agenda was agreed to address areas of interest in future that could not be resolved during negotiations for the rollover EPA.
- For SA, areas of interest are :
 - DFQF market access or increase of TRQ volumes into UK;
 - Regional cumulation, to allow BELN and Mozambique to cumulate with SA products (especially basic agricultural product inputs);
 - treatment of vehicles with engine capacity of 1000cc and less;
 - Export taxes;
 - Enhanced cooperation on TBT, i.e. standards, conformity assessment procedures, etc.
- GIs → Continue discussions on wine manufacturing practices
 - Electronic certification system

Way forward

- The status and timing for entry into force of SACUM-UK EPA will depend on the developments in the UK and in their engagement with the EU.
- Should there be a Withdrawal Agreement, the SADC-EU EPA will continue to apply to the UK for a transitional implementation period ending December 2020.
- If and when the UK leaves the EU customs union, the SACUM–UK EPA would be required to avoid a disruption of trade under the less preferential WTO MFN tariff levels.
- Currently, the UK still scheduled to leave the EU on 31 October 2019 and the Withdrawal Agreement not yet approved by UK Parliament.

Way Forward (cont.)

- National ratification processes in SACU and Mozambique are underway.
- The UK can provisionally apply the SACUM-UK EPA pending parliamentary ratification if other Parties have also ratified or provisionally applied the Agreement.
- If parliamentary procedures are not completed by 31 October, SACUM and UK also concluded a Memorandum of Understanding that would extend the EU-SADC EPA arrangements on an interim basis until the procedures for entry into force are completed.
- The MoU is a best endeavour undertaking without legal recourse.
- With all these understandings, we recommend the SACUM-UK EPA to the Parliamentary Select Committee on Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour towards ratification.