



19 December 2019



## 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 to negotiate its exit and determine its relationship with the EU going forward.

While the referendum indicated a desire by the majority of the UK public to leave the EU, there are divergent opinions on what this will actually look like in practice. The two main leave options put forward by politicians are a 'hard Brexit' or a 'soft Brexit.' A 'hard Brexit' would take Britain out of Europe's single market, whereas a 'soft Brexit' allows the UK to have a closer relationship with the EU (for example, to remain part of the EU customs union). There is also a strong drive from some not to leave the EU at all.<sup>1</sup>

As with the original 2016 vote, Britons continue to remain deeply divided over leaving the European Union. Consequently, the UK Parliament voted against (or failed to ratify) the negotiated withdrawal agreements presented thus far. As a result, the deadline has been extended three times, and is currently set for 31 January 2020.

### 2. What is the current situation in the UK regarding Brexit?

After taking over as Prime Minister in July 2019, Mr. Boris Johnson has renegotiated parts of the existing withdrawal agreement, most notably, the Irish backstop and replaced it with new customs arrangements (the Irish backstop was the biggest point of contention in previous agreements). The revised agreement, which the EU agreed to on 17 October 2019, was put to UK Parliament on 19 October, ahead of the previous 31 October 2019 deadline. The Prime Minister failed in his attempt to bring the new Brexit Withdrawal Agreement for a straight 'yes' or 'no' vote, and was forced to put forward legislation in the form of the EU Withdrawal Agreement Bill.

<sup>1</sup> For the sake of clarity: 'hard Brexit' has also been used to refer to a situation where the UK crashes out of the EU without a withdrawal deal, while a 'soft Brexit' would see the UK leave the EU in an orderly fashion with a deal.) In this document 'hard' and 'soft' Brexit will refer to whether the EU leaves or remains in the EU customs union, while 'deal' or 'no-deal' Brexit will refer to whether the UK leaves with a withdrawal deal or not.

The Withdrawal Bill was put to a vote in Parliament on 22 October.

The Withdrawal Bill is required to ratify the Withdrawal Agreement, as agreed between the United Kingdom and the European Union, and to retain aspects of EU law in UK domestic law. The Bill ensures that the United Kingdom is able to fulfil its international obligations, and leave the European Union with a deal.

The House of Commons voted in favour of the bill 320 -299, thus voting for Johnson's deal to take the UK out of the EU. However, still required would be that the Bill pass through committee stage and third reading in House of Commons, first, second and third reading in House of Lords, consideration of amendments, and Royal Assent. Mr Johnson proposed a timeline in which this entire process would be completed in 3 days (in order to leave the EU on 31 October). The House of Commons rejected the 3-day timeline, thus voting for the Withdrawal Bill, but against the timeline.

The Prime Minister then "paused" the Bill until further notice, thus putting the Bill in an official state of limbo.

On 28 October, the EU agreed to a third extension of the Brexit deadline, this time until 31 January 2020. The UK can however leave before the new deadline, if a deal is approved by Parliament before then.

Given the extension, Prime Minister Boris Johnson lobbied for a general election in the hope to end the political deadlock over Brexit and try to restore the Conservative Party's ruling majority, making a Brexit deal easier to pass. As such, the UK had their third general election in less than five years on 12 December 2019. Boris Johnson and the Conservative party won the election with an overwhelming majority, and the expectation now is that the UK is set to leave the EU. The manner in which, and the date upon which this will happen, is still a matter of uncertainty.

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

There are a number of variables. These include, firstly, what happens between the UK and EU, and secondly, what happens between the UK and South Africa. The first depends on what happens with Brexit, and the second depends on whether or not the Southern African Customs Union (SACU) plus Mozambique (SACUM) group have a roll-over trade agreement in place with the UK if and when the UK leaves the EU customs union.

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

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

As part of the EU customs union, the UK has been a party to all EU trade agreements, and therefore the trade of goods between South Africa and the UK has until now taken place under the conditions set in the Southern African Development Community–European Union Economic Partnership Agreement (SADC–EU EPA).<sup>2</sup> The SADC-EU EPA, which came into force in 2016, 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.

Once the UK leaves the EU, it will no longer be a party to the trade agreements that the EU has with other countries. Therefore, once the UK leaves the EU, South African goods will no longer have duty free or preferential access into the UK market unless a new and separate agreement (a "roll-over" agreement) is entered into between the two countries.<sup>3</sup>

The governments of the SACUM countries have negotiated an agreement with the UK to ensure trade continuity upon the UK's exit from the EU. Negotiations were held between the SACUM countries as a bloc on the one side, and the UK on the other. These negotiations took place over a two-year period and concluded in September 2019. The SACUM–UK Agreement will largely be a replication of the EU–SADC EPA.

**Agreement Reached.** Negotiations for the SACUM–UK Agreement were concluded in September 2019. The South African Cabinet and Parliament have already approved the Agreement, and final ratification steps are imminent. The Agreement also needs to be ratified by each of the other SACUM countries and it is possible that not all ratifications will be in place by 31 January 2020.

**The Bridging Memorandum of Understanding (MOU).** To cover the possibility that the agreement is not ratified by 31 January, the countries have agreed to enter into a bridging MOU, which will allow trade to continue based on the provisions of the SADC-EU EPA. This will apply from the date the UK leaves the EU until the new Agreement is ratified and can enter into force, and takes into account the fact that the UK will no longer be a member of the EU.<sup>4</sup>

<sup>2</sup> This agreement is referred to as the SADC-EU EPA, but it does not cover the entire SADC, only SACU and Mozambique.

<sup>3</sup> (Although most of the goods that the Western Cape exports will be temporarily zero-rated at MFN level in case of a no-deal Brexit).

<sup>4</sup> Continuing the United Kingdom's Trade Relationship with the Southern African Customs Union Members States and Mozambique: United Kingdom Department for International Trade Presentation to Parliament, November 2019.

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

The SACUM–UK Agreement will only commence when the UK leaves the EU customs union.

The agreement sets out that the Agreement will enter into force on the later date of the following:

- (1) On the date on which the SADC-EU EPA ceases to apply to the UK.

Thus 1 February 2020 if there is a no-deal Brexit, or if there is a deal between the UK and the EU, then at the end of the transition period for withdrawal (currently this is the end of 2020); or

- (2) 30 days (or such dates as the parties agree) after all member countries have ratified or approved the Agreement.

In order to ensure continuity of trade, the SACUM countries and the UK have agreed to the possibility of provisionally applying the Agreement prior to entry into force should it be necessary.

If the UK does not leave the EU customs union, then the new SACUM–UK Agreement will never commence, and South Africa will continue to trade with the UK under the SADC-EU EPA.

## 6. What is a 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 if the UK were to remain in the EU customs union (but exit other EU agreements), then it would remain a party to the EU's trade deals with third party countries such as the SADC-EU EPA.

## 7. What are the various Brexit Scenarios that could affect South African exports?

Depending on what happens on 31 January, there are various scenarios for how South African exports to the UK will be affected.

### 7.1. The first scenario is that the UK leaves with a withdrawal deal in place with the EU.

This will happen if Prime Minister Boris Johnson manages to get his withdrawal deal through Parliament. If the UK does leave with a withdrawal deal, there will be an orderly transition period until the end of 2020, during which time the UK will remain a part of the EU customs union. During this transition period, the UK will negotiate its future trade relationship with the EU. Should this be the case, South Africa (and all other third party countries) will continue to trade with the UK as if it were part of the EU for another year. In this case the SACUM–UK Agreement will not come into force immediately after 31 January, but rather will kick in after the transition period, once, and if, the UK leaves the EU customs union.

### 7.2. The second scenario is a no-deal Brexit.

If this happens, then as of 1 February 2020, the UK will no longer be a member of EU customs union and there will be no transitional withdrawal agreement in place. In this case, trade between the EU and UK will happen in accordance with World Trade Organisation (WTO) rules. This will result in widespread disruptions in the short-term. Customs checks will have to be introduced immediately for goods crossing the border, and regulatory standards would for instance no longer be automatically accepted between the EU and UK. (The UK is however enacting most EU standards into UK domestic law to overcome this challenge.)

In the case of a no-deal Brexit on 31 January, the UK would also have to trade on WTO principles with all the other countries with which it has not concluded a bilateral preferential trade continuity agreement by that day.

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.

### 7.3. Under a no-deal Brexit, there are two scenarios for South Africa: SACUM–UK Agreement or no SACUM–UK Agreement.

#### 7.3.1. SACUM–UK Agreement in place

If everything goes according to plan and the SACUM–UK Agreement is in place in time for the 31 January 2020 deadline (i.e. signed and ratified by all parties), or if the bridging MOU is in place, then South African goods are assured of having preferential access to the UK market the day after Brexit if there is a no-deal Brexit.

South African goods entering the UK market will 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.

#### 7.3.2. No SACUM–UK Agreement in place

If the agreement and MOU are not in place in time, then South African goods will also face WTO MFN tariffs upon entry into the UK market in the case of a no-deal Brexit. Given the fact that the Agreement has been signed, and there is an undertaking to have an MOU in place if the Agreement is not ratified in time, this scenario is extremely unlikely. However, there remains a small chance that for some reason neither the Agreement nor the MOU will be in place, in which case WTO tariffs could apply between SA and UK in case of a no-deal Brexit.

Currently UK MFN tariffs are the same as EU MFN tariffs because they form part of a customs union. However, in March 2019, the UK published a list of temporary MFN tariffs that they will impose in case of a no-deal Brexit, which deviates from the current rates.

It just so happens that the top ten exports from the Western Cape to the UK have been zero-rated for a period of up to 12 months. Therefore in case the roll-over agreement is not in place, Western Cape products will not have to face a sudden tariff hike.

One of South Africa's major exports to the UK is however vehicles, and in the case of a no-deal Brexit and no SACUM–UK Agreement there will be significant tariff hikes on vehicles which could have a disastrous impact upon SA vehicle manufacturers. Similarly beef and sugar, both major exports for the SACU region will also face high MFN tariffs. See the temporary tariffs that the UK will implement in case of no deal [here](#).

#### 7.3.3. What else should exporters be aware of in case of a no-deal Brexit?

**Top Western Cape exports could face temporary competition.** In case of a no-deal Brexit, the UK will apply MFN tariffs to all trading partners with which it has not concluded a continuity trade agreement. The temporary MFN tariffs to be applied to products such as wine and fruit (top Western Cape exports) have been set as duty-free and quota-free for a period of “up to 12 months.” It is important to note that duties on these products will be zero for all countries that do not have a trade agreement in place with the UK. This includes countries such as New Zealand, Australia and the United States, who currently pay tariffs for their products.

**Shipping routes disrupted.** Even if Western Cape exports will continue to enter the UK market preferentially under the roll-over agreement, or are not at risk of sudden tariff hikes in case of a no-deal, no SACUM–UK Agreement, there would still be major disruptions to many South African exports. A large amount of South African goods destined for the UK are shipped through Rotterdam or other European ports, and these products will 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.

**SPS Standards.** When the UK leaves the EU, current SPS standards will be maintained. Certain EU law will be retained in UK domestic law. Existing EU biosecurity and public health controls that apply to imports of animals, plants, and their products from third (non-EU) countries will continue to apply via UK law the day after exit.

For plant of animal products that transit through the EU prior to reaching the UK, there will be some procedural changes after the UK has left the EU.

- If there is a no-deal Brexit, the EU will not have to carry out plant health checks on regulated third country goods going to the UK.
- Any plant from a third country that is transited through the EU without a plant health check by an EU member state will be treated as a third country import and will be subject to third country controls, including a physical check.
- If goods do receive full plant health checks in the EU, the UK will consider them EU goods for biosecurity purposes. If they are currently managed under EU plant passport scheme, they will require a phytosanitary certificate to enter the UK and will be subject to documentary and identity checks after the border.
- Plants and plant products entering the UK via the EU would likely enter the UK at a fast-moving roll-on roll-off (RoRo) port where the speed and volume of traffic means that checks cannot take place at the border. All third-country plant health regulated material arriving in the UK via RoRo ports requiring checks will need to be taken to an authorised facility for checks, including Place of First Arrival or alternative inspection posts. If the goods enter at a non-RoRo port the checks will take place at the border, as currently.<sup>5</sup>

For more information on transitional measures related to SPS under the SACUM–UK Agreement please refer to 9.4.

<sup>5</sup> Importing and exporting plants and plant products if there's a no-deal Brexit. UK Government Brexit website

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

Under the SADC-EU EPA, many goods are entirely duty free, while for some South African goods, especially agri-processed goods, there are tariff-rate quotas, meaning goods are duty free up to a certain volume, or quota. 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 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.<sup>6</sup>

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

## 9. 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,<sup>7</sup> 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

### 9.1. 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 certain products in the UK is thus very advantageous to Western Cape exporters, especially for wine and canned fruit.

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.<sup>8</sup> 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

<sup>6</sup> DTI Presentation to Portfolio Committee on Trade and Industry, 29 October 2019.

<sup>7</sup> DTI Presentation to Portfolio Committee on Trade and Industry, 29 October 2019.

<sup>8</sup> DTI Presentation to Portfolio Committee on Trade and Industry, 29 October 2019.

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.

## 9.2. 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.’”<sup>9</sup>

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.<sup>10</sup> The problem is that many final products exported from the UK contain substantial inputs from the EU.

9 Continuing the United Kingdom’s Trade Relationship with the Southern African Customs Union Members States and Mozambique: United Kingdom Department for International Trade Presentation to Parliament, November 2019.

10 Continuing the United Kingdom’s Trade Relationship with the Southern African Customs Union Members States and Mozambique: United Kingdom Department for International Trade Presentation to Parliament, November 2019.

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.<sup>11</sup>

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.<sup>12</sup>

### 9.3. 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.

### 9.4. What are the transitional measures?

#### 9.4.1. Health and safety certificates

Article 118 of the Agreement<sup>13</sup> sets out “Transitional Implementation Arrangements” with specified transitional periods. These includes:

- 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.

#### 9.4.2. 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.<sup>14</sup>

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

### 9.5. 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.

11 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.

12 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.

13 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.

14 Art 118 (15).

## 10. What will the impact be of the UK elections on Brexit?

Boris Johnson and the Conservative party won the 12 December 2019 snap general election with an overwhelming 80-seat majority, the biggest victory by the Conservative party since 1987. This decisive victory is in contrast to the 2017 snap general election, where the Conservative party lost their majority, which resulted in a hung Parliament.

Due to this victory, Prime Minister Boris Johnson now has the numbers in Parliament to end the political deadlock over Brexit. The party's election promise is to put the Prime Minister's revised agreement with the EU through Parliament before Christmas, and leave the EU by the 31 January 2020 deadline. The revised agreement takes the UK out of the single market and any form of customs union. There will be a transition period until the end of 2020 during which the UK will remain part of the EU customs union; during this time the UK's future trading arrangements with the EU will be negotiated.

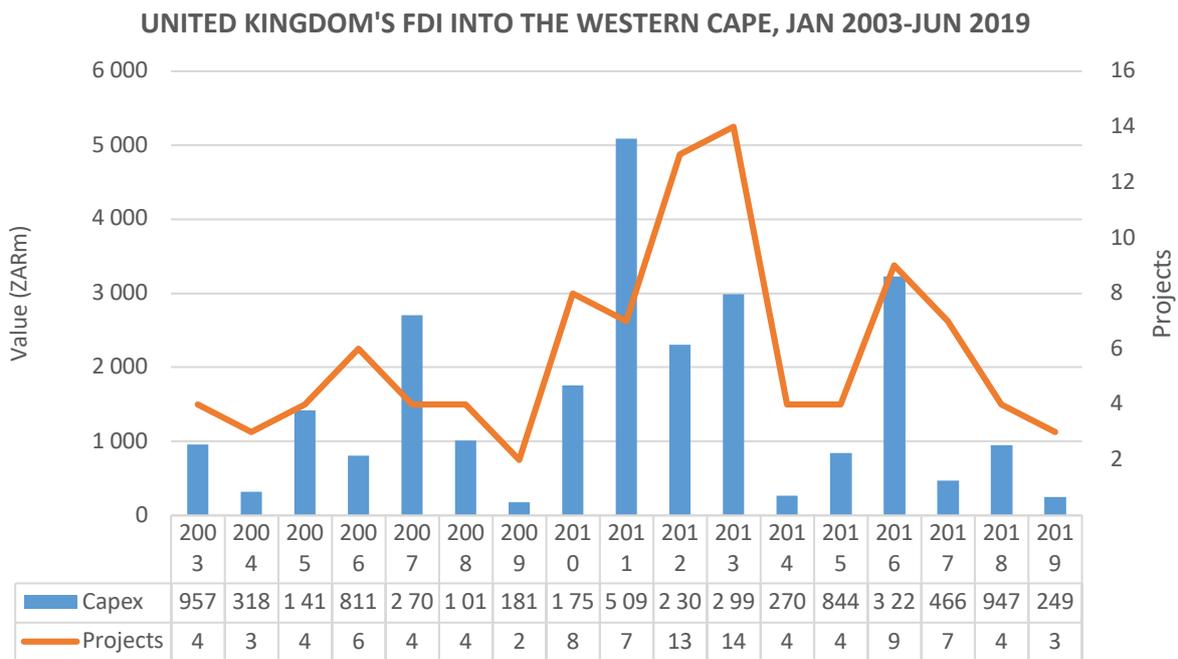
The Prime Minister frequently indicated that the transition period would not be extended beyond 31 December 2020. To ensure this remains the case, he is in the process of adding a clause to the EU Withdrawal Agreement Bill to prevent Parliament extending the period.

The new Parliament could be giving the Withdrawal Agreement Bill its first reading as early as Friday 20 December 2019.

## 11. 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 (2-3 years).

**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 have 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

## 12. 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%

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
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

### 13. 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 British Honorary Consul, Ed Roman, and 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 engagement is being organised for 15 January 2020. The focus will be on the contents and implementation of the new SACUM–UK agreement.

## 14. 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)
- Erica Joubert, Senior Trade Manager for Europe: [erica@wesgro.co.za](mailto:erica@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>

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