Title: Ratification of the EU-SADC Economic Partnership Agreement **IA No: DIT 006** **RPC Reference No: N/A** **Lead department or agency:** Department for International Trade **Other departments or agencies:** Department for International Development	**Impact Assessment (IA)** **Date: 04/07/2018** **Stage: Final** **Source of intervention:** **Type of measure:** **Contact for enquiries:** Trade for Development

Summary: Intervention and Options

RPC Opinion:

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANDCB in 2014 prices)	**One-In, Three-Out**	**Business Impact Target Status**
-£2m, excluding benefits from increased trade	-£2m, excluding benefits from increased trade	Not a regulatory provision		Not a regulatory provision

What is the problem under consideration? Why is government intervention necessary?

On the 10th June 2016, the EU signed an Economic Partnership Agreement (EPA) with 6 countries from the Southern African Development Community (SADC): Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland (now known as Eswatini)[1]. The EPA has been provisionally applied since October 2016, except in the case of Mozambique, where it has been provisionally applied since February 2018. In order for the agreement to enter into force permanently, all EU Member States must ratify the agreement and notify the European Commission of their ratification. Were a Member State government to notify the Commission that they were unable to ratify the agreement this would mean that the agreement could not enter into force and its provisional application would be ended.

In the UK, the Government is required to lay the treaty before Parliament for 21 sitting days during which either the House of Commons of the House of Lords (or both) may pass a motion to object to ratification. If neither House objects, the UK may proceed to ratify the treaty. Parliament must also pass an affirmative statutory instrument designating it as an EU treaty as the agreement has provisions that need to have effect in UK law.

What are the policy objectives and the intended effects?

The policy objectives are to provide practical UK support for the EU's trade and development agenda through ratification and full implementation of the EPA with the SADC EPA States, promoting trade, increasing economic growth and accelerating development. The intended effects include a) removing most tariffs for SADC exports and b) reducing non-tariff barriers that businesses face when trading goods and services and investing abroad. The EPA is a development-focused agreement, including provisions relating to ensuring that trading opportunities can be seized productively, and social and environmental protections to ensure sustainable development.

[1] On the 10th June 2016, the EU signed an Economic Partnership Agreement (EPA) with the SADC EPA States, including Swaziland. The UK Government has since formally recognised the change in country name to Eswatini.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The policy options are to ratify or not to ratify the agreement. The Economic Partnership Agreement has already been negotiated and agreed between the EU, and Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland (now known as Eswatini). Parliament has already scrutinised this agreement; as the UK has already signed the EPA, it is too late to change the text of the agreement. However, either House of Parliament may resolve, within 21 days, that the agreement should not be ratified.

The options are:

1. Ratify the EPA. The analysis assumes that the Government is able to deliver its stated policy intention to ensure continuity in the effect of EU-Third Country Agreements as the UK leaves the EU, and therefore ensures the UK will continue trading with SADC EPA countries on broadly similar terms to this agreement.
2. Do not ratify the agreement: Parliament opposes ratification of the EPA. In this scenario the UK Government would notify the European Commission that the UK is unable to ratify the Agreement. This would mean that the Agreement could not enter into force and its provisional application would be terminated. As a result, exports from partner countries in SADC would face increased tariffs, which we expect would damage particular sectors of their economy.

The UK Government proposes ratifying the SADC EPA as the preferred option.

Will the policy be reviewed? It will not be reviewed. **If applicable, set review date:** N/A

Does implementation go beyond minimum EU requirements?				
Are any of these organisations in scope?	**Micro**	**Small**	**Medium**	**Large**
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** **N/Q**		**Non-traded:** **N/Q**

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible : ______________ Date: 11/07/2018

Summary: Analysis & Evidence Policy Option 1

Description: Ratification of the EU-SADC Economic Partnership Agreement

FULL ECONOMIC ASSESSMENT

Price Base Year 2017	PV Base Year 2017	Time Period Years 15	Net Benefit (Present Value (PV)) (£m)		
			Low: -1.69	**High: -2.32**	**Best Estimate: -2.00**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	1.7	3	-	**1.7**
High	2.4		-	**2.3**
Best Estimate	2.0		-	**2.0**

Description and scale of key monetised costs by 'main affected groups'

UK businesses are not expected to incur costs if they do not utilise the preferences set out in the EPA.

Where a business chooses to trade under EPA preferences they will incur a one-off familiarisation cost associated with reading the guidance or employing a specialist agent, and across all businesses using the agreement these are estimated at between £1.7m and £2.4m.

Other key non-monetised costs by 'main affected groups'

UK businesses may face some increased competition from Southern African firms. These impacts are expected to be negligible as the major goods exports of the SADC EPA States are generally not goods produced by British firms.

The UK Exchequer will receive less income from customs duties as a result of reduced tariffs on imported goods. These are considered a tax measure under the Better Regulation framework and therefore have not been quantified for the purpose of NPV calculations.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	-		-	**-**
High	-		-	**-**
Best Estimate	-		-	**-**

Description and scale of key monetised benefits by 'main affected groups'

UK exports to the SADC EPA States are estimated to increase by £35m by 2035. However, the econometric modelling available does not provide the impact of increased exports on UK GDP, so this cannot be included in the NPV calculation. The Agreement will also lead to an estimated increase in UK imports from SADC EPA countries of £37m: this will improve choice and help keep prices of goods and services lower for consumers. The same modelling predicts that the GDP of SADC EPA States will increase by 0.03%, approximately £71.9m (see Annex B). Overall, the SADC EPA States' exports to the EU will be boosted by 1%, increasing the income of these developing countries.

Other key non-monetised benefits by 'main affected groups'	
The benefits for the UK result from increases in UK real Gross Domestic Product (GDP) from the elimination of tariffs and the elimination of other measures that impede trade. Owing to lack of data and the cost of conducting bespoke research on this, these have not been quantified. The reduction in tariffs will also lead to an increase in revenues for UK importers; however, these are considered a tax measure under the Better Regulation framework and therefore have not been quantified for the purpose of NPV calculations. The EPA provides considerable benefits to developing countries, by increasing their market access to the EU. It provides immediate duty-free quota-free access into the EU goods market for Botswana, Lesotho, Mozambique, Namibia, and Swaziland (now known as Eswatini). South Africa benefits from duty-free access for 98.7% of products. This will benefit developing country producers by improving incomes, and give certainty of market access to exporters.	
Key assumptions/sensitivities/risks **Discount rate (%)**	3.5%
- 2017 is the base year. - The analysis assumes that the Government is able to deliver its stated policy intention to ensure continuity in the effect of EU-Third Country Agreements as the UK leaves the EU, and therefore ensures the UK will continue trading with SADC EPA countries on broadly similar terms to this agreement after EU exit.	

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 0.2	**Benefits: 0**	**Net: -0.2**	Not a regulatory provision

Evidence Base

The structure of this Impact Assessment is as follows:

1. Economic background
2. Problem under consideration
3. Rationale for intervention
4. Policy objective
5. Description of options considered
6. Monetised and non-monetised costs and benefits of each option
7. Impact Tests (including Small and Micro Business Impact Test - SAMBA)
8. Sensitivity analysis & risks

Annex A: estimated one-off costs associated with SADC EPA familiarisation by UK firms

Annex B: The Economic Impact of the EU – SADC EPA Group Economic Partnership Agreement

Annex C: Most-traded product lines between the UK and the SADC EPA States, by value

1. Economic Background

Introduction

1.1 Under the UK's current membership of the EU, decisions on trade policy are taken by the Council of the European Union and European Parliament, and the day to day conduct of EU trade relations, including the negotiation of free trade agreements, is led by the European Commission.

1.2 While we are members of the EU, we will continue to cooperate fully and constructively with our partners. Once we have left, we will remain committed to working collaboratively with the EU to press our shared free trade agenda. We will then also have the opportunity to take forward our interests, priorities and ambitions through a new independent trade policy.

The benefits of international trade

1.3 An open and rules-based international trading environment creates benefits and enables economic integration and security cooperation, encourages predictable behaviour by states and the peaceful settlement of disputes. It can lead states to develop political and economic arrangements at home which favour open markets, the rule of law, participation and accountability.

1.4 Empirical studies generally suggest a positive relationship between trade openness and economic growth. Analysis by the OECD suggests that a 10% increase in openness is associated with a 4% increase in income per head.[2]

1.5 Trade benefits consumers and households directly through lower tariffs on imported final consumption goods and indirectly through the associated productivity gains of domestic and foreign firms. For

[2] OECD (2003), *Sources of Economic Growth in OECD Countries*, https://www.oecd.org/eco/growth/2505752.pdf

example, during 1996 – 2006 import prices for textiles and clothing in the EU fell by 27% and 38% respectively in real terms, in large part as a result of the phasing out of restrictive quotas which had greatly limited access to most developed countries' markets for textiles and clothing. For the same period the import price of consumer electronics fell by around 50%,[3] reflecting the impact of the Information Technology Agreement – a plurilateral agreement signed in 1996 which provided tariff free access for various IT products and which has now expanded to cover around 97% of global trade in these IT products.

The impact of trade on development

1.6 Openness to international trade is typically associated with faster economic growth. Although methodological challenges prevent us from demonstrating causation with certainty, the empirical literature typically finds that open economies, on average, grow faster than closed economies. A joint report by the OECD, ILO, World Bank, and the WTO, for example, highlights evidence that per capita income grew more than three times faster for those developing countries that lowered trade barriers in the 1990s compared to those that did not[4].

1.7 Trade-driven growth has generally benefitted the poor – analysis by the IMF, World Bank and WTO shows that over the period 1993-2008 increases in trade openness are strongly correlated with increases in the real incomes of the lowest quintile of the population[5], including in poor countries.

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[3] J. Francois, M. Manchin, and H. Norberg, 2007, "Passing on of the benefits of trade openness to consumers", European Commission, Directorate General for Trade, p.7.

[4] OECD, ILO, World Bank (2010). 'Seizing the Benefits of Trade for Employment and Growth'. (prepared for G-20 summit meeting, Seoul, 11-12 November 2010), available at: http://www.oecd.org/trade/benefitlib/46353240.pdf

[5] IMF, World Bank & WTO (2017),'Making Trade an Engine of Growth for All', available at: https://www.wto.org/english/news_e/news17_e/wto_imf_report_07042017.pdf

1.8 Trade openness can drive economic development through a variety of channels. Liberal trading conditions reduce the cost of importing productivity-enhancing goods and services[6]. Trade openness facilitates access to foreign exchange earnings, which can finance imports of key inputs to the production process.

1.9 However, gains from trade are not automatic. Liberalisation by itself does not guarantee that the above benefits will accrue to a country. Market and government failures, which tend to be more prevalent in developing countries, can prevent businesses from taking advantage of the opportunities free trade offers. Poor transport infrastructure[7] and slow customs processes, for example, can make tradeable goods from developing countries relatively costly and uncompetitive in world markets. Improvements in governance, infrastructure, labour markets and social policy may be needed if trade liberalisation is to bring economic growth and development benefits.

Economic Partnership Agreements

1.10 The European Union's Economic Partnership Agreements (EPAs) are WTO-compatible trade agreements with African, Caribbean and Pacific (ACP) countries. They are development focused, immediately removing tariffs on exports from developing countries while allowing them to retain tariffs of their own to protect sensitive industries from competition, and including provisions aimed to ensure that trading opportunities can be seized productively.

1.11 There is very little quantitative evidence on the impact of EPAs. The EU commissioned a Sustainability Impact Assessment (SIA) of prospective EPAs, which issued its final report in 2007[8]; this considered the impacts

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[6] *Ibid*, §24

[7] African Development Bank, *African Development Report 2014: Regional Integration for Inclusive Growth* https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ADR14_ENGLISH_web.pdf

[8] PricewaterhouseCoopers, "Sustainability Impact Assessment (SIA) of the EU-ACP Economic Partnership Agreements – key findings, recommendations and lessons learned"

of EPAs qualitatively and produced policy recommendations, but did not estimate the size of potential benefits. An SIA for the SADC EPA modelled the economic impacts for SADC EPA States, but not for the EU (see Annex B).

The Impact of Free Trade Agreements

1.12 The evidence shows that FTAs enhance bilateral trade. Head & Mayer[9] considered the impact across a wide range of studies (with a total of 2,508 estimates obtained from 159 papers) and found that the median impact of a regional trade agreement or FTA on bilateral trade flows to be an increase of 32 per cent. The wider body of evidence suggests a range of impacts from 8% to 32%.

1.13 The impacts will tend to depend on the precise provisions of the FTA, the characteristics of the partners and the existing degree of liberalisation. Several factors affect the scale of trade effects of FTAs including:

- The scale of existing trade flows between country partners within an FTA;
- Specific provisions within the FTA, including how deep and broad its provisions are, how much policy change they inspire and how quickly changes are implemented;
- The responsiveness of aggregate trade flows to reductions in trade costs brought about by the provisions within the FTA;
- The relative importance and direction of trade-related policies falling outside the scope of the FTA; and

(PricewaterhouseCoopers, Paris: May 2007) http://trade.ec.europa.eu/doclib/docs/2007/june/tradoc_134879.pdf

[9] Head & Mayer (2013) 'Gravity Equations - Workhorse, toolkit and cookbook', p33-34, http://www.cepii.fr/pdf_pub/wp/2013/wp2013-27.pdf Looking specifically at structural gravity models, which refers to using country fixed effects or a ratio-type method.

- Broader supply-side characteristics of those signing the FTA (i.e. what goods and services they can produce efficiently, and how quickly they are able to shift resources into sectors for which the FTA increases demand and out of those where it reduces demand for domestic output).

The SADC EPA States

1.14 The SADC EPA States have a population of approximately 92 million and an economy of £251.1 billion (2016), equivalent to approximately 13% of the UK economy. South Africa is the largest economy covered by the EPA and accounts for approximately 87% of the region's economic activity. Botswana is the region's richest country in per capita terms. In the last decade, the region has seen strong growth rates, with Mozambique experiencing the highest rates: an average annual growth rate of 7% in the ten years to 2016.

1.15 The region includes three upper-middle income countries (South Africa, Botswana and Namibia), a lower middle-income country (Swaziland (now known as Eswatini)) and two low-income countries (Lesotho and Mozambique). As measured by the Human Development Index, Botswana is the region's most developed country (ranked 108th globally) and Mozambique is the least developed (ranked 181st).

Table 1.1: SADC EPA States Summary

	GDP (£Billions; 2016)[10]	Average annual growth rate	Population (Million; 2016)	Human Development Index (HDI, 2015) [Rank]

[10] Figures in pound sterling have been converted from US $ at Bank of England annual average spot exchange rate of 0.7414. Available at: https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxAZxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2010&TD=11&TM=May&TY=2025&FNY=Y&CSVF=TT&html.x=66&html.y=26&SeriesCodes=XUAAGBD&UsingCodes=Y&Filter=N&title=XUAAGBD

		(2006-2016)		
UK	**1949.3**	**1.3**	**65.6**	**0.910 [16]**
South Africa	218.6	2.5	55.6	0.666 [119]
Botswana	11.5	4.8	2.2	0.698 [108]
Namibia	8.1	4.2	2.3	0.640 [125]
Mozambique	8.4	7.0	28.8	0.418 [181]
Lesotho	1.7	4.3	1.9	0.497 [160]
Swaziland (now known as Eswatini)	2.8	3.2	1.3	0.541 [148]

Source: HDI – UNDP; others - IMF WEO (2017)

Trade with SADC EPA States

1.16 UK imports and exports to the SADC EPA group averaged £4,102m and £4,788m respectively between 2014 and 2016. UK trade with SADC EPA States is relatively small: between 2014 and 2016, trade with SADC EPA States averaged 0.9% of total UK international exports and 0.7% of UK imports. The main trading partner for UK companies from the SADC EPA States is South Africa, which accounted for 90% of UK exports to the region and 95% of imports.

Figure 1.1: Average Annual UK Import and Exports 2014-2016 (£ millions)

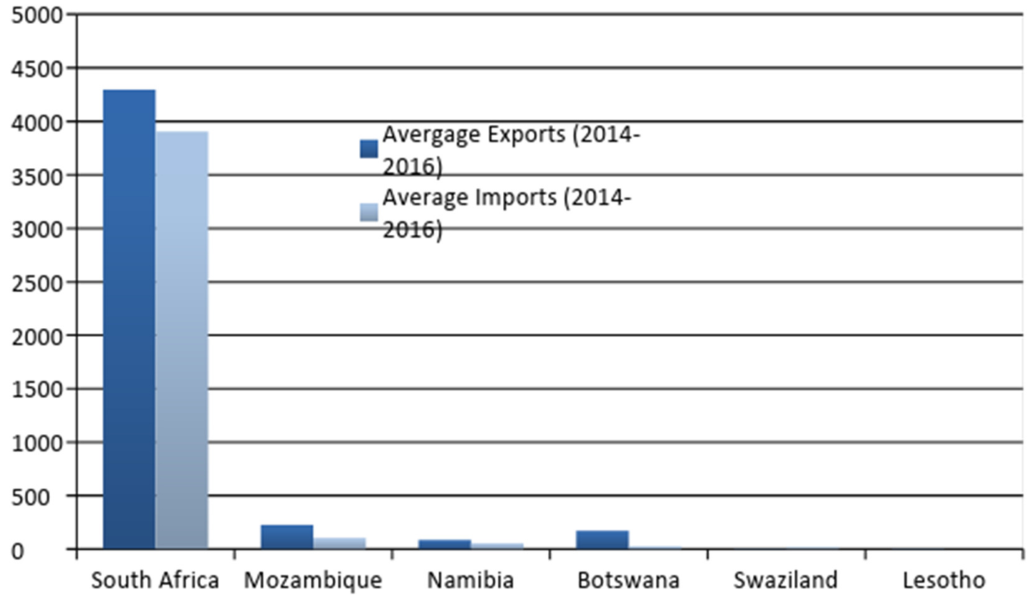
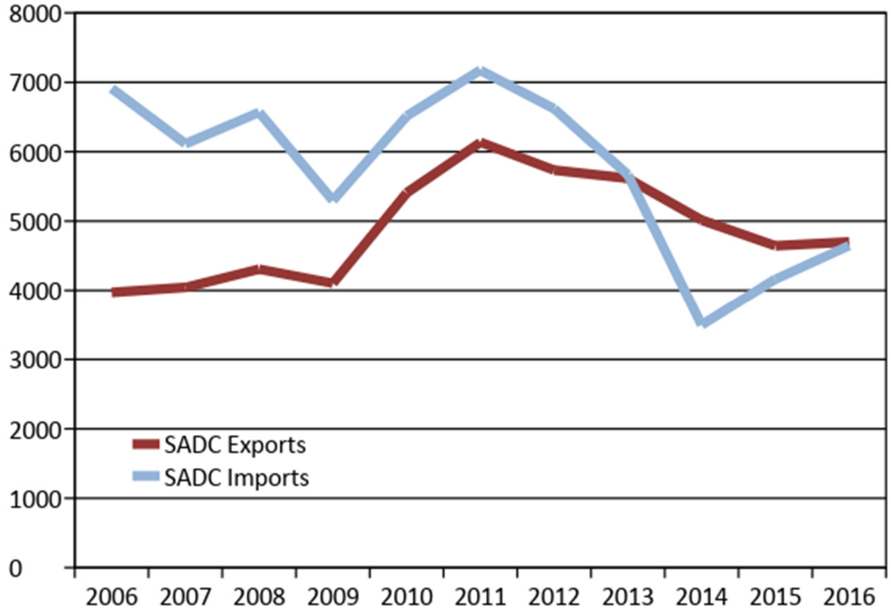


Table 1.2: Average UK Trade with SADC EPA States 2014-2016		
	Imports (£ millions)	**Exports** (£ millions)
SADC EPA	**4102**	**4788**
Botswana	26	171
Lesotho	0	5
Mozambique	104	226
Namibia	53	85
South Africa	3904	4297
Swaziland (now known as Eswatini)	16	4

Source: ONS

1.17 Over the last decade, UK trade with the region has performed poorly relative to UK trade with the rest of the world. As shown in Figure 1.2, over the ten years to 2016, imports to the UK from the SADC EPA States have fallen by 33%, compared to a 39% increase in total UK imports over the same period. UK exports to SADC EPA States have increased by 18%, compared to 40% increase in overall UK exports.

Figure 1.2 UK exports to and imports from the SADC EPA States (£ millions)



Source: ONS

1.18 Over the period 2014-2016, motor cars, petroleum oils, alcohol and medicaments have been the main UK exports to South Africa. These four categories of goods accounted for 27% of exports to South Africa between 2014 and 2016. The two main imports from South Africa are Gold and Platinum, accounting for 67% of imports in the same period (see Annex C, Table C.1).

1.19 Volumes of the main export and import goods traded with the remaining SADC EPA States are much smaller. The only goods exports from the UK that averaged more than $10 million between 2014 and 2016 were diamonds, motor vehicles for the transport of goods, and motor vehicles for the transport of persons (see Annex C, Table C.2). These three categories of goods accounted for 29% of UK goods exports to SADC EPA States (excluding South Africa) between 2014 and 2016. In the same period, unwrought aluminium from Mozambique, diamonds from Botswana and fresh meat from Botswana and Namibia were the main imports from the SADC EPA States excluding South Africa (see Annex C, Table C.3). These three categories of good accounted for 55% of UK imports from the SADC EPA States (excluding South Africa).

2. Problem under consideration

2.1 Trade flows between the EU and the SADC EPA States have historically been restricted by a number of tariff and non-tariff measures. The EU and SADC EPA States sought to reduce the adverse impacts of these barriers with an Economic Partnership Agreement. Furthermore, the EPA allows the parties to deepen their relationship through cooperation on trade and development issues.

2.2 On the 10th June 2016, the EU signed an Economic Partnership Agreement with 6 countries from the Southern African Development Community (SADC): Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland (now known as Eswatini). Angola has an option to join at a later date. The other members of SADC – the Democratic Republic of the Congo, Madagascar, Malawi, Mauritius, Seychelles, Tanzania, Zambia and Zimbabwe – have been negotiating Economic Partnership Agreements with the EU as part of other regional groups.

2.3 The EPA has been provisionally applied with Botswana, Lesotho, Namibia, South Africa, and Swaziland (now known as Eswatini) since October 2016, and with Mozambique since February 2018. All EU Member States must now ratify the agreement and notify the European Commission of their ratification for the agreement to come fully into force. Were a Member State government to notify the European Commission that it was unable to ratify the agreement, the EPA could not be brought fully into force and its provisional application would be terminated.

3. Rationale for Intervention

3.1 The UK Government supports the EU’s ambitious trade and development agenda including the Economic Partnership Agreements in place and under negotiation. UK ratification of the SADC EPA would be a further demonstration of this policy commitment and a positive move by the UK as an EU Member State.

3.2 Economic Partnership Agreements aim to increase trade and reduce trade barriers. It is well established that trade is mutually beneficial, through:

- More consumer choice in the variety and quality of goods and services,
- Lower prices through increased competition and efficiency,
- Higher firm productivity, and
- Higher real wages and living standards for the countries engaged.

3.3 As well as maintaining the removal of tariffs for exports from Botswana, Lesotho, Mozambique, Namibia, and Swaziland (now known as Eswatini) to the EU and on 98.7% of products from South Africa, the agreement also includes provisions aimed to ensure that trading opportunities can be seized productively.

3.4 The SADC EPA is a development-focused agreement. While it is reciprocal, trade liberalisation is strongly asymmetric in favour of the Southern African countries. The EU will open its market more than the SADC EPA States have committed to. It guarantees immediate duty-free quota-free access into the EU goods market for Botswana, Lesotho, Mozambique, Namibia, and Swaziland (now known as Eswatini). South Africa benefits from duty-free access for 98.7% of products, and a range of partially-liberalised tariffs, including increased quotas including for wine, sugar, fisheries products, flowers and canned fruits.

3.5 The SADC EPA States also benefit from a range of safeguard measures (protections from a sudden surge in imports), a ten-year phase-in period for tariff reduction, and the exclusion of certain sensitive products from liberalisation entirely. In addition, the SADC EPA States also benefit from flexible rules of origin: they have greater flexibility to use foreign components while still benefitting from free access to the EU market.

3.6 The EU is providing substantial development assistance to the SADC EPA States to support their implementation of the agreement, and ensure that the opportunities it offers can be fully realised, thereby driving economic growth and development. The SADC EPA contains a chapter on development cooperation, which lists a large number of potential capacity-building efforts. The agreement also contains a chapter on sustainable development which covers social and environmental matters. The SADC EPA sets up joint institutions to monitor and assess the impact of the implementation of EPAs on sustainable development, with a clear role for civil society.

3.7 The EPA includes a bilateral protocol between the EU and South Africa on the protection of geographical indications and on trade in wines and spirits. The EU protects names such as Rooibos, and numerous wine names. In return, South Africa protects more than 250 EU names, including Scotch whisky and stilton cheese.

3.8 The EU commissioned its Sustainability Impact Assessment of the EPA to look only at costs and benefits to the SADC EPA States (see summary in Annex B). However, in line with the Better Regulation framework, this Impact Assessment focuses on the costs and benefits to the UK. These are small relative to the developmental benefit to SADC EPA States.

3.9 It also supports the UK's stance as being 'open for business' and in being an active EU member until the UK departs, while also demonstrating the importance we place on continuing to strengthen the EU's relations with Southern Africa. Ratifying the EPA would also be in line with our existing EU obligations. Until we leave the EU, we retain all the existing rights and obligations of EU membership, which includes the commitment to ratify free trade agreements.

3.10 The UK seeks continuity in its existing trade and investment relations, including continuity of existing EU EPAs, so as to avoid disruption for businesses and consumers as the UK leaves the EU. All our EPA partner governments have said they want to maintain their EPAs after the UK leaves the EU. On leaving the EU, the UK government will also explore options to expand on relationships with developing countries.

3.11 Ratification of the SADC EPA will demonstrate the UK's commitment to this agreement and provide a clear endorsement that its provisions are positive for the UK.

4. Policy Objective

4.1 The UK has always been deeply committed to free and open international trade and investment as drivers of growth, development, prosperity, jobs and consumer choice. Trade has lifted millions out of poverty, and supports peace and promotes security. It is well established that trade is mutually beneficial, through:

- more consumer choice in the variety and quality of goods and services,
- lower prices through increased competition and efficiency,
- higher productivity, and
- higher real wages and living standards for the countries engaged.

4.2 The UK's policy objectives are to provide UK support of the EU's ambitious trade agenda and as part of this support ratification of the SADC Economic Partnership Agreement.

4.3 The advantages of EPAs, which the UK supports as a tool of EU trade policy, are[11]:

Benefitting businesses and communities across Africa, the Caribbean and the Pacific

- Duty- and quota-free access for exports to the EU. Free access to the EU market of half a billion people for all ACP products, providing plenty of scope for economies of scale.
- More integrated regional markets - benefitting ACP exporters by boosting trade between neighbouring ACP countries and regions.

[11] European Commission, "The EU's Economic Partnership Agreements (EPAs) with countries in Africa, the Caribbean and the Pacific (ACP)", http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_151010.pdf

- More flexible, simpler **rules of origin,** so when a producer in one ACP country uses inputs from another, they do not have to pay customs duties when they export their final products to the EU**.**
- No undue competition - ACP countries will only gradually open their markets to EU imports, and producers of the most sensitive 20% of goods will enjoy permanent protection from competition.
- **A context for wider reforms** - EPAs are part of the wider development agenda for ACP countries to strengthen the rule of law, attract local and foreign investment and create the conditions for greater prosperity.
- Help to address broader issues affecting trade, such as technical barriers to trade, labour rights and the environment, poor infrastructure, inefficient customs and border controls, or inadequate standards.
- Safeguards for local economies - ACP countries that sign EPAs must gradually open some 80% of their markets to EU imports, but they can exclude products and apply "safeguard" measures to ensure that EU products do not compete against locally produced goods.
- Respect for national sovereignty - instead of imposing development strategies, EPAs ask countries to determine their own development strategies and the pace and sequence of reforms.

Benefitting consumers and workers in Europe

- **Lower prices, better value** – EPAs remove trade barriers, which in turn produces healthy competition on the EU market and lower prices for consumers.
- **More choice, better quality** – EPAs can help promote export of new products from ACP countries, and new varieties of familiar goods like coffee, cocoa, mangos, or pineapples.
- **Ethical choices** – European consumers will have easier access to products from small-scale, family-run businesses in ACP countries.

- **Jobs** - in the long run, trade will help ACP countries become more prosperous. In turn, that will generate more demand for European products and expertise, which will be good for jobs in Europe.

4.4 The UK's ratification would also provide a practical demonstration to the EU of the UK's commitment to support EU free trade activity whilst still a Member State.

5. Description of Options Considered

The EU-SADC EPA awaits ratification by all EU member states in order to come into force: as of February 2018, seven Member States have already notified the Commission that they have ratified the agreement.[12] There is no scope for the UK government to change the EPA that is already provisionally in force. Consequently, the two options for the UK Government are:

Option 1: Ratify the SADC Economic Partnership Agreement.

5.1. The agreement has been negotiated by the European Commission and has been provisionally applied since 1 October 2016 and is scheduled to become part of EU law. The UK was a strong supporter of the agreement throughout the negotiating process.

5.2. This is the government's preferred option as it aims to increase the export opportunities available to developing countries in Southern Africa, and to the EU, as well as improving consumer welfare and choice for both.

5.3. The UK government is also seeking continuity from trade agreements that the EU currently has in force after the UK's exit from the European Union. The analysis for this option assumes the UK succeeds in this and that it will continue trading with the SADC EPA States on this basis after exit.

5.4. **These factors mean that option 1 is the UK Government's preferred option.**

Option 2: Do not ratify the SADC Economic Partnership Agreement

[12] See: http://www.consilium.europa.eu/en/documents-publications/treaties-agreements/agreement/?id=2016020&DocLanguage=en – the six Member States who have so far notified the Commission that they have ratified the agreement are Croatia, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, and Portugal

5.5. The UK Government could choose to reject ratification of the agreement. If it did so, it would notify the European Commission. The EPA would be rejected and the EPA would no longer be implemented across the EU and the SADC EPA states. SADC EPA States' trading arrangement with the EU would move to WTO, Most Favoured Nation (MFN) rules, except where eligible for EU unilateral preference schemes:

- Lesotho and Mozambique would qualify for duty-free, quota-free access to EU markets under the EU's Everything But Arms scheme;
- Swaziland (now known as Eswatini) would qualify for tariff reductions on approximately two-thirds of tariff lines under the EU's Generalised Scheme of Preferences;
- Namibia and Botswana would not qualify for preferential access and would trade under Most Favoured Nation terms.
- However, continued preferential access for Lesotho, Mozambique, and Swaziland (now known as Eswatini) would only apply into EU markets. The UK would not benefit from any reciprocal preferential access into Southern African markets.
- South Africa previously traded with the EU under a Trade, Development and Cooperation Agreement (TDCA), which provided for asymmetric tariff liberalisation. It is reasonable to assume that, were the EPA rejected, the EU and South Africa would attempt to revive the TDCA (this is the assumption used in the EU's Sustainability Impact Assessment of the EPA).

5.6. This is not the Government's preferred option, as it runs counter to the Government's commitment to trade-driven developmental partnerships, and would have a negative impact on the UK when compared to option 1. Not ratifying this trade agreement would mean the introduction of tariffs for developing country exports that have been removed for ACP exports to the EU since the 1970s.

5.7.

6. Monetised and non-monetised costs and benefits of each option

Approach taken by the Department of International Trade for this Impact Assessment

6.1 Proportionality: The UK Government has not commissioned external economic analysis of the impact of the SADC Economic Partnership Agreement. The trade agreement is 'shallow' (i.e. most of its provisions are on tariffs: it does not mandate changes to UK investment policy or regulations) and some of the tariff preferences it offers already existed under previous agreements (the TDCA with South Africa) and the EU's Generalised System of Preferences. The EU-commissioned Sustainability Impact Assessment (SIA) for the Economic Partnership Agreements as a whole, and the SIA for the SADC EPA, did not include quantified estimates for the impact on the EU economy.Therefore, it was deemed proportionate to rely on internal analysis by DIT economists, making use of publicly-available datasets, for the purposes of this Impact Assessment.

6.2 Baseline: This IA is our assessment of the costs and benefits to UK business of ratifying the EPA. To illustrate these impacts, this IA has compared the impact of ratification (i.e. the SADC EPA States trading with the UK under the terms of the SADC EPA) with a baseline of the EPA being rejected and parties trading in the absence of a preferential agreement (i.e. MFN terms or unilateral preferences). In practice, this agreement has been provisionally applied with 5 SADC countries since

October 2016 (it has been applied with Mozambique only since February 2018), so some benefits and costs have already accrued in the year 2017.

6.3 Key Assumptions

- 2017 is the base year; the first full calendar year in which the agreement was provisionally applied with the majority of the SADC EPA States.
- The exact impacts of FTAs are uncertain, as they depend upon a wide range of behavioural responses by businesses and individuals. To reflect that uncertainty, we alter a small number of assumptions to generate a high, low and central scenario, reflecting a range of potential outcomes.
- In the event that the UK chooses not to ratify the EPA, it would lose access to the associated benefits and trade with SADC EPA States under the trade regime previously in place. This means we would provide Everything But Arms terms for Lesotho and Mozambique, Generalised Scheme of Preferences terms for Swaziland (now known as Eswatini), trade with South Africa under TDCA terms, and with Namibia and Botswana on Most Favoured Nation (MFN) terms.
- This IA, in line with HMT Green Book appraisal advice, only assesses the impacts on the UK population. We have therefore excluded assessments of the benefits that would accrue to the SADC EPA States, such as the benefits of the development cooperation set out in the EPA, and the market access to the EU provided to SADC EPA States. A Net Present Value to the UK is calculated over a 15-year period, with a 3.5% discount rate.
- In line with Better Regulation procedures we have not included costs and benefits from tariff changes in calculating the Expected Annual Net

Direct Cost to Businesses (EANDCB), as these are classed as 'tax measures' and therefore out of scope of the EANDCB.

Option 1 (ratify the agreement):

Overall Impact on the UK Economy

6.4 Benefits to the UK from the agreement will come from bringing down the existing trade barriers that restrict free and efficient trade. This will result in increased export opportunities for UK businesses, creating greater competition and thus lower prices, more innovation, investment in R&D, more jobs and a greater variety of goods and services for consumers.

6.5 Modelling by the EU predicts that the Agreement will increase its exports to SADC EPA States by 0.73% by 2035 (see Annex B). Assuming that UK exports increase in line with all EU exports, this is equivalent to a real-terms increase of £35m (in 2016 prices) by 2035. The modelling does not reveal the precise impact of increased exports on UK GDP, or how the benefits are divided between firms, workers and the wider economy.

6.6 The same modelling predicts that EU imports from the SADC EPA States will be 0.91% higher by 2035 (see Annex B). If UK imports increase in line with all EU imports, this is equivalent to a real-terms increase of £37m (in 2016 prices). The modelling does not calculate the precise impact on consumer welfare, but theory suggests that the added imports will increase welfare through greater choice and downward pressure on prices.

Direct Costs to UK Businesses:Transitional Costs resulting from Reading and Understanding the Agreement

6.7 There will be some transitional costs to businesses that have been trading with the SADC EPA States, as they familiarise themselves with the agreement. This will entail reading and understanding the agreement's terms. For many UK firms there will be almost no change in the administrative tasks that have to undertake, because the European Union was already trading with South Africa under the TDCA which has many similar provisions.

6.8 Published data shows 9,202 UK businesses exporting to South Africa and 3,418 importing from South Africa in 2016[13]. This is 12,620 firms in total, although it is likely to be an over-estimate as some firms will both import and export. We do not have data for the other SADC EPA States, however as South Africa accounts for 93% of the UK's trade with the SADC EPA States, the number of UK businesses who do not trade with South Africa but do trade with other SADC EPA States is likely to be very small. We have assumed that the share of firms trading with South Africa is in line with South Africa's share of SADC EPA States' trade, and from this we estimate that the total number of UK firms trading with the SADC EPA States is between 10,224 and 13,821, with a central estimate of 12,023 (assumes exactly half of importing firms also export).

6.9 Based on this number of firms, we estimate that the transitional costs to UK businesses will be in the range of £1.7m to £2.4m, with a central estimate of £2.0m. Annex A sets out our method for calculating these costs. We expect these costs will be profiled over the first three years of the transition, with 60% being applied in the first year (£1.2m), 25% in the second year(£0.5m), and 15% in the third year (£0.3m).

Direct Costs to UK Businesses: Rules of Origin and other On-going Costs

[13] IDBR overseas trade statistics country data tables 2016. https://www.gov.uk/government/statistics/uk-trade-in-goods-by-business-characteristics-2016.

6.10 To trade under EPA preferences businesses are required to produce a certificate to confirm the origin of the export content meets the rules of origin requirements set out in the EPA.

6.11 Businesses can submit rules of origin forms to HMRC to process free of charge, which can take several days to complete. Alternatively businesses can choose to get an origins certificate from the British Chambers of Commerce which processes the certificate in a shorter period of time for a fee of £46.80.

6.12 The exceptions to the above are exports of a consignment worth less than €6,000 in value: the exporter may make out an origins declaration of their own without needing to obtain a certificate. Similarly, frequent exporters can apply to HMRC's Registered Exporters scheme, which allows them make out origin declarations on shipments of any value[14].

6.13 Recent academic studies (World Bank 2014, Ciuriak & Xiao 2014) estimate the tariff equivalent trade costs associated with rules of origin administration and compliance requirements ranges between 2% to 6%. These estimates vary considerably depending on the methodology, time period, and the countries under consideration. Further research (Keck and Lendle 2012) has shown that utilisation of agreements can be very high, even where there are very small preferential margins, which could not be the case in the presence of high administrative costs.

6.14 As well as being low in aggregate, the costs of obtaining proof of origins are voluntary: businesses can choose whether or not to export their goods under the terms of the EPA, and will only do so when the cost of proving origins is less than the savings from the tariff reduction.

[14] EU-SADC Economic Partnership Agreement, Protocol 1, Article 24, p. 1942
http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153915.pdf

6.15 Other ongoing costs to businesses include the cost of complying with any revisions to the EPA text, and of complying with verifications checks by customs authorities. We expect these to be very small: revisions will be infrequent and any changes will be minor compared to the original text; and verification checks will only be applied to a small percentage of exports.

Indirect costs to UK Businesses

6.16 There will be adjustment costs to EU (including UK) businesses from the increased competition coming from SADC EPA States. This will be both in the UK and wider EU markets. But the market power of firms from SADC EPA States is not expected to be significant relative to UK firms in those product lines where the two compete directly, so we consider it unlikely that UK firms will be significantly affected. These have not been quantified and are assumed to be negligible.

Direct Benefits for UK Businesses

6.17 The benefits of the agreement include the direct savings for UK exporters as a result of reduced tariffs levied in SADC EPA destinations. Businesses that import inputs from SADC EPA States are also likely to benefit from reduced tariffs (tariff benefits are not monetised in this Impact Assessment as they are tax measures, and therefore out of scope).

Indirect Benefits for UK Businesses

6.18 The agreement is expected to increase the level of trade between the UK and the SADC EPA States. We consider that the change in the level of trade is an indirect impact of the trade agreement itself, as it would only result if firms were to change their behaviours following the liberalisation of tariffs and non-tariff barriers.

Total Net Present Value Impacts on Business

6.19 The only monetised impacts on business are the one-off familiarisation costs reading and understanding the text. This means that our central estimate of Net Present Value is a cost of £2m, with a high scenario of £2.32m and a low scenario of £1.69m. These costs should be set against the numerous benefits to business, and the wider economy, set out above. Whilst these are not monetised, we expect the longer-term benefits of this agreement to outweigh the limited, short-term costs.

7. Impact Tests (including Small and Micro Business Impact Test or SAMBA)

Statutory Equalities Duties Impact Test

7.1. The impact of this agreement on protected groups should be positive, as consumers and businesses overall should benefit from this agreement.

Small and Micro Business Impact Test (SAMBA)

7.2. Small and medium firms UK are not exempt from this agreement or any of the specific chapters within the agreement. Firms that use imports from SADC EPA States are likely to benefit, as the cost of existing imports is likely to fall. Some uncompetitive firms may be adversely affected from competition from SADC firms, however the net impact on SMEs is expected to be positive.

7.3. Currently, around 94% of UK businesses that imported and/or exported had less than 50 employees. However, experimental official statistics show that 65% of firms trading with South Africa in 2016 had fewer than 50 employees[15], accounting for 14% by trade value. No data is available for the other EPA countries, but given their proximity to South Africa (and distance from the UK, making it more difficult for small businesses to enter into trading relations with them), we estimate the proportion of small businesses will be similar, and therefore businesses trading with SADC EPA States are less likely to be small businesses than UK businesses on average.

[15] Calculated from HMRC data, excludes firms of unknown size. Source: “UK trade in goods by business characteristics 2016”, available at: https://www.gov.uk/government/statistics/uk-trade-in-goods-by-business-characteristics-2016

Annex A: Estimated one-off costs associated with SADC EPA familiarisation by UK firms

1	UK businesses will need to read the SADC EPA text in order to familiarise themselves with the content. The main text is approximately 70 pages and 22,811 words. The EU has not yet published detailed guidance for businesses, so firms are likely to read the text itself (though this may be an over-estimate, as most will only refer to sections relevant to their business).
2	Evidence shows that the average reading time is 228 words per minute with a range of 30 words either side.[1]
3	Based on the information above, we estimate the following ranges of time it may take a firm to become familiar with the SADC EPA text: a) High Scenario: 1.9 hours b) Central Scenario: 1.7 hours c) Low Scenario: 1.5 hours
4	Average weekly earnings is £472 from the year ending September 2017 and the average number of hours worked per week is 37.5 over the same period. From this we estimate the average hourly pay is £13[2].
5	We uplift this by 20.2% to account for other non-wage labour costs such as national insurance, pensions and other costs that vary with hours worked[3], revising the cost per business to £15.63 (£13 +£2.63).
6	The cost for one business to read the SADC EPA text and guidance is estimated at: a) High Scenario: £29.69 (£15.63 x 1.9 hours) b) Central Scenario: £26.57 (£15.63 x 1.7 hours) c) Low Scenario: £23.45 (£15.63 x 1.5 hours)
7	Businesses may also seek advice from a specialist agent on interpreting the text and implications for their trade. Survey evidence shows that 60% of businesses seek advice from an agent to complete tax affairs. We use this as a proxy for the number of firms that would seek advice on the SADC EPA. The same survey provides an average cost of using an agent of £265.[4]
8	Published data shows that 3,418 companies import from South Africa and 9,202 businesses export[5]. Data is unavailable for companies exporting and importing from other SADC EPA States. Given that South Africa accounts for 95% of UK imports from the region and 90% of exports, we assume that South Africa also accounts for similar shares of businesses. This would suggest there are 10,224 exporting companies and 3,597 companies that import from the SADC EPA States.

	• The upper bound of companies that trade with the SADC EPA States is 13,821 (assumes no overlap between exporting and importing firms). • The lower bound of companies that trade with the SADC EPA States is 10,224 (assumes all importing companies are also exporting). • A central scenario would be 12,023 (assumes half of importing companies are also exporting). • If 60% of these firms seek advice from specialist agents, then this equates to 8,293 in the high scenario, 7,214 in the central, and 6,134 in the low scenario.
9	We assume that all companies that use preferences incur familiarisation costs. 60% will pay an agent, and the remaining 40% will read the text of the agreement (incurring staff time costs): a) High Scenario: £2,361,771 [(5,528 x £29.69) + (8,293 x £265)] b) Central Scenario: £2,039,485 [(4,809 x £26.57) + (7,214 x £265)] c) Low Scenario: £1,721,421 [(4,090 x £23.45) + (6,134 x £265)]
	Sources: [1] http://iovs.arvojournals.org/article.aspx ?articleid=2166061#90715174 [2] Labour market statistics summary data tables (ONS) 2017. Table 15. Average Weekly Earnings (nominal) – Regular Pay (Great Britain, seasonally adjusted). https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/october2017/relateddata [3] Source: Department for Business, Energy and Industry Strategy, “Business Impact Target”, p. 8 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/609201/business-impact-target-guidance-appraisal.pdf [4] Understanding tax administration for businesses, HM Revenue and Customs Research Report 375, July 2015 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443746/HMRC_Report_375_Tax_Administration.pdf [5] IDBR overseas trade statistics country data tables 2016. https://www.gov.uk/government/statistics/uk-trade-in-goods-by-business-characteristics-2016.

Annex B: The Economic Impact of the EU – SADC EPA Group Economic Partnership Agreement

Introduction

In June 2016, the European Commission's Directorate-General for Trade published a Sustainability Impact Assessment (SIA) for the SADC EPA. The SIA assesses the economic effects of tariff changes in the EPA, primarily on SADC-EPA members, in terms of welfare, GDP, trade, production and poverty. This annex summarises the approach and key results.

The analysis was prepared under the overall coordination of Lucian Cernat, Chief Economist in DG TRADE. The main contributors were Thierry Beranger, Gijs Berends and Stephan Nolt. The simulations presented in the report were performed by Antoine Bouët, David Laborde and Fousseini Traoré (CEPR-IFPRI). The full report is available on the European Commission's website[16].

Approach

The impact of tariff reductions up to 2035 is estimated using a dynamic multi-country, multi-sector Computable General Equilibrium (CGE) model. The economic effects of changes in tariffs in the EPA are estimated by comparing the tariff-dismantling schedule in the agreement to the baseline scenario. It is assumed that in the absence of the EPA, for South Africa the Trade, Development and Cooperation Agreement (TDCA) would continue to be applicable, Swaziland (now known as Eswatini) would benefit from the EU's standard GSP and Botswana and Namibia would not be eligible for preferential market access. Mozambique and Lesotho would remain eligible for duty-free, quota-free market access to the EU under the Everything But Arms (EBA) initiative.

The modelling captures only the benefits of tariff changes in the EPA, even though the EPA has other benefits for the SADC EPA States. It is expected, for example, that preferential rules of origin provisions in the EPA will enable countries to take better advantage of the EU market access and to enhance regional integration. However, the SIA does not quantify the impact of these preferential rules of origin, nor infrastructure improvements, trade facilitating measures or the benefits of a more favourable and predictable regulatory environment.

Results

1. Impacts on GDP and Welfare

[16] http://trade.ec.europa.eu/doclib/docs/2016/june/tradoc_154663.pdf

The analysis suggests that the agreement will lead to a small positive impact on GDP. On average, relative to the baseline, the agreement will lead to a 0.03% increase in GDP by 2035 across the EPA group. Given that GDP across all SADC EPA States was €330.4bn in 2015, this is equivalent to an €99.12m increase or £71.9m[17]. Results for individual countries range from 0.01% to 1.18%. The modest impact for some countries reflects the small difference in tariffs between the EPA and the baseline. For instance, Mozambique would benefit from duty free and quota free access even in the absence of the SADC EPA. For countries that would not receive preferential treatment in the absence of the EPA, such as Namibia, the impact is larger. Welfare – the benefits of trade to government, producers and consumers – is expected to be on average 0.03% higher following the changes in tariffs.

Table B.1: Macroeconomic Effects, 2013 (EPA vs. baseline, %)

	GDP	**Welfare**
Mozambique	0.01	0.00
Botswana	0.03	0.02
South Africa	0.01	0.02
Namibia	0.23	0.29
Rest of SACU (i.e. Swaziland (now known as Eswatini) & Lesotho)	1.18	1.46
All SADC EPA States	0.03	0.03

2. Exports

SADC EPA States' exports to the rest of world are expected to increase by 0.13% and imports by 0.14%. The impact on the EU is positive but very small, given the relatively low share of EU trade with the region compared to overall EU trade.

Overall, SADC EPA States' exports to the EU would be 0.91% higher under the EPA. Given that this reflects the preferential access that many SADC EPA States would enjoy even in the absence of the EPA. Swaziland (now known as Eswatini) would still enjoy GSP preferences, but as GSP does not cover sugar this would mean Swaziland (now known as Eswatini) would miss out on preferential access for one of its key exports, sugar. This is the main factor driving the large increase in exports the EPA offers to 'Rest of SACU' (Table B.2).

Table B.2: SADC EPA States' exports to the EU, 2035 (EPA vs. baseline, %)

[17] At the Bank of England annual average spot exchange rate (2015) of 1.3782 https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxIRxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2013&TD=22&TM=May&TY=2018&FNY=&CSVF=TT&C=DMD&Filter=N&html.x=216&html.y=49

	Exports to EU
Mozambique	0.14
Botswana	0.12
South Africa	0.88
Namibia	1.97
Rest of SACU	8.92
All SADC EPA States	0.91

The sectors with the highest expected increases in exports from SADC EPA States are red meat (15.3%) and sugar (13.7%). The analysis finds that decreases in exports tend to be below 0.1% with the exception of wearing apparel (-1.2%), cattle (-0.8%) and electronics (-0.4%).

3. Production by sector

The analysis finds that the effects on production are often not visible at the sectoral level.

4. Imports of SADC EPA States from the EU

EU's exports to the region are estimated to be 0.73% higher as a result of the agreement. Imports into Mozambique from the EU are expected to increase the most, by 3.96%, compared to the baseline.

Table B.3: SADC EPA States' imports from the EU, 2035 (EPA vs. baseline, %)

	Imports from the EU
Mozambique	3.96
Botswana	0.09
South Africa	0.60
Namibia	0.82
Rest of SACU	1.77
All SADC EPA States	0.73

5. Remuneration of production factors

Factors of production are inputs into production processes such as land, labour and capital. The SIA assesses remuneration of these factors – rents, wages and interest – and finds small positive effects. The analysis finds increases in wages for unskilled labour and land rents and, on the whole, decreases in natural resource rents. The strongest effects can be seen for land rents, given that the EPA reduces some key trade barriers concentrated in agriculture.

6. Impact on poverty

The analysis focuses on two countries, South Africa and Namibia, owing to data constraints. Tariff reductions are expected to have a marginal positive impact on poverty reduction. The percentage of the population living on less than 1 USD a day decreases slightly by 0.02 % in South Africa and by 0.03 % in Namibia. The percentage of the population living below 1.25 USD decreases by 0.01% in South Africa and is unaffected in Namibia.

Table B.4: Impact on poverty (% of population below 1USD and 1.25USD per day) in South Africa and Namibia

	South Africa	**Namibia**
1 USD	-0.02	-0.03
1.25 USD	-0.01	0.00

7. Impact on import duties

As a result of the tariff reduction, SADC EPA States will collect less import duties, except Botswana, Lesotho and Swaziland (now known as Eswatini) ("rest of SACU") where the loss in import duties is offset by the increase in economic activity. The decrease in collected import duties for SADC EPA States is on average of 0.59% at the end of the liberalisation period.

Table B.5: Collected import duties, 2035 (% change EPA vs. baseline)

	Change in collected import duties (% vs. baseline)
Mozambique	-1.50
Botswana	0.04
South Africa	-0.59
Namibia	-0.13
Rest of SACU	1.84
All SADC EPA States	-0.59

8. Other impacts

In addition to the impact of tariff reductions, the flexible Rules of Origin that are applied to SADC EPA States will be beneficial for trade. An example is the textile sector, where only "single transformation" is required. This means that origin is conferred by a single set of processing operations leading to clothing, such as spinning, weaving or assembly. Under GSP rules, double transformation is required to confer origin, i.e. a country would need to produce textiles from yarn and then make clothing from the textiles in order for the clothing to benefit from duty-free access to the EU. However, the price and availability of textiles produced in the SADC region is poor compared to textiles imported from Asia. As a result, clothing exports from SADC EPA States to the EU are tiny compared to exports to the USA (which requires only single transformation to qualify for duty-free access under the Africa Growth and Opportunity Act[18]). EU-commissioned analysis from 2006 estimated that exports of non-knit clothing from Lesotho, Namibia and Swaziland (now known as Eswatini) to the EU would approximately double if Rules of Origin relaxation allowed them to utilise their duty-free preferences for clothing[19].

[18] PricewaterhouseCoopers, "Sustainability Impact Assessment (SIA) of the EU-ACP Economic Partnership Agreements, Phase Three: Rules of Origin in the Southern African Development Group" (PricewaterhouseCoopers, Paris: October 2006), p.23 http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_130228.pdf
[19] *Ibid*, p. 39. Knit clothing exports would increase by approximately 80%.

Annex C: Most-traded product lines between the UK and SADC EPA States, by value

Table C.1: Top 10 Exports and Imports between the UK and South Africa (average 2014-2016)

	Top 10 UK Exports to South Africa (Average 2014-2016)		Top 10 UK Imports from South Africa (Average 2014-2016)	
	Good (HS4)	**Average Annual Value ($ Thousands)**	**Good (HS4)**	**Average Annual Value ($ Thousands)**
1	Motor cars and other passenger motor vehicles	267,064	Gold	3,722,044**
2	Petroleum oils and oils obtained from bituminous minerals, other than crude	266,818	Platinum	1,128,912
3	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80%*	208,765	Motor cars and other passenger motor vehicles	230,134
4	Medicaments	146,934	Motor vehicles for the transport of goods	187,912
5	Turbojets, turbopropellers and other gas turbines	81,672	Grapes, fresh or dried	163,283
6	Waste and scrap of primary cells, primary batteries and electric accumulators	78,405	Citrus fruit, fresh or dried	155,718
7	Petroleum oils and oils obtained from bituminous minerals, crude	70,955	Wine of fresh grapes, including fortified wines	150,729
8	Printed books, brochures, leaflets and similar printed matter, whether or not in single sheets	69,647	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases	133,562

9	Parts and accessories of motor vehicles	61,067	Waste and scrap of precious metal or of metal clad with precious metal	133,323
10	Parts of aircraft and spacecraft	56,259	Precious-metal ores and concentrates	112,760

* approximately 95% of this category is accounted for by whisky

** mostly monetarised gold, held in vaults in the UK but foreign-owned

Source: UN COMTRADE/WITS

Table C.2: Top 10 UK Exports to SADC EPA excluding South Africa (average 2014-2016)

	Goods (HS 4)	Average Annual Value ($ Thousands)	Main Trading partner(s)
1	Diamonds	15,973	Botswana
2	Motor vehicles for the transport of goods	15,904	Namibia/ Mozambique
3	Motor cars and other passenger motor vehicles	12,266	Namibia/ Mozambique
4	Tractors	8,199	Namibia/ Mozambique
5	Telephone sets, including telephones for cellular networks or for other wireless networks	6,553	Namibia/ Mozambique/ Botswana
6	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% vol	5,096	Namibia/ Mozambique/ Swaziland (now known as Eswatini)
7	Machinery for sorting, screening, separating, washing, crushing, grinding, mixing or kneading earth, stone, ores or other mineral substances	4,606	Botswana/ Namibia/ Mozambique
8	Unused postage, revenue or similar	4,532	Botswana/ Mozambique
9	Diagnostic or laboratory reagents	4,366	Mozambique
10	Electric generating sets and rotary converters	3,132	Mozambique

Source: UN COMTRADE/WITS

Table C.3: Top 10 UK Imports from SADC EPA States excluding South Africa (average 2014-2016)

	Goods (HS 4)	Average Annual Value ($, Thousands)	Main Trading partner(s)
1	Unwrought aluminium	65,368	Mozambique
2	Diamonds	47,421	Botswana
3	Meat of bovine animals, fresh or chilled	39,783	Botswana/ Namibia
4	Cane or beet sugar and chemically pure sucrose	22,030	Mozambique/ Swaziland (now known as Eswatini)
5	Grapes, fresh or dried	17,968	Namibia
6	Meat of bovine animals, frozen	14,225	Botswana/ Namibia
7	Coal (briquettes, ovoids or similar)	13,462	Mozambique
8	Unmanufactured tobacco	9,163	Mozambique
9	Wood charcoal	8,336	Namibia
10	Fruit, nuts and other edible parts of plants, prepared or preserved	7,073	Swaziland (now known as Eswatini)

Source: UN COMTRADE/WITS