Since 1910

SACU

SOUTHERN AFRICAN CUSTOMS UNION

FACTSHEET: UNDERSTANDING THE SACU REVENUE SHARING ARRANGEMENT

This publication aims to provide an overview of the SACU Revenue Sharing Formula.

ABOUT SACU

The Southern African Customs Union (SACU) is the oldest Customs Union in the world, having been established in 1910 between the then Union of South Africa (current Republic of South Africa) and the then British High Commission Territories of Basutoland (now the Kingdom of Lesotho), Bechuanaland (now the Republic of Botswana) and the Kingdom of Eswatini (then the Kingdom of Swaziland). Namibia (then the South-West Africa) – then a colony of South Africa – was a de facto member of SACU at the time.

The political changes following the independence of Botswana, Eswatini and Lesotho in the 1960s necessitated a re-negotiation of the SACU 1910 Agreement. This culminated in the conclusion of the Agreement between Botswana, Eswatini, Lesotho and South Africa in 1969. Further political and economic dispensations in the early 1990s, including Namibia's independence in 1990, and the end of apartheid in South Africa in 1994, warranted a complete renegotiation of the 1969 Agreement. The renegotiations culminated in a new Agreement in 2002, which sets out a broad framework for enhanced integration amongst the SACU Member States.

The SACU Agreement, 2002 (amended 2013), ushered in clear mandates, objectives, transparent and democratic institutions, and collective decision-making by the Member States. The following are the key provisions of the SACU Agreement, 2002:

(a) free movement of goods between the Member States;
(b) common external tariff on imports from third parties;
(c) sharing of revenue from customs and excise duties; and
(d) harmonised customs and excise policies.

VISION

An economic community with equitable and sustainable development, dedicated to the welfare of its people for a common future.

MISSION

(a) To serve as an engine for regional integration and development, industrial and economic diversification, the expansion of intra-regional trade and investment, and global competitiveness;

(b) To build economic policy coherence, harmonisation and convergence to meet the development needs of the region;

(c) To promote sustainable economic growth and development for employment creation and poverty reduction;

(d) To serve as a building block of an ever-closer community amongst the peoples of Southern Africa;

(e) To develop common policies and strategies for areas such as Trade Facilitation' effective customs controls and competition; and

(f) To develop effective, transparent and democratic institutions and processes.

UNDERSTANDING THE SACU REVENUE SHARING ARRANGEMENT FROM A CUSTOMS UNION PERSPECTIVE

1. What is a Customs Union?	(a) Is a trading arrangement between a group of countries that allows for free movement of goods amongst themselves without levying taxes on imports. The Member States agree on common uniform set of taxes on imports (import tariff) coming from outside these countries, known as Common External Tariff (CET); (b) The taxes on the imports can either be classified as customs or excise duties; (c) The CET means that all members of the customs union apply the same customs duty rates on goods entering the common customs territory of the Customs Union Members; and (d) The Customs Union Members then collect the customs duties at the first point of entry into the customs common area and remit them into a single common revenue account of the Union.
2. How does SACU Operate?	(a) When SACU was established as a Customs Union in 1910 with four (4) Members; union of South Africa, Bechuanaland, Basutoland and Swaziland, SACU agreed: i. On a revenue sharing arrangement; ii. On a common external tariff; iii. To collect both customs and excise duties and pool these together and remit (all) to a Common Revenue Pool (CRP) account; and iv. To re-distribute the revenue to the individual Member States hence the Revenue Sharing Formula (RSF).

3. Why is a Revenue Sharing Formula important in SACU?	(a) Once a Customs Union is established and the pooled revenue from imports are collected into a single common account, the Member States should agree on how the revenue will be utilised or shared; (b) It is important to have a RSF that ensures equitable, transparent and acceptable allocation of the revenue collected; and (c) The RSF should consider the advantages and disadvantages of being in a Customs Union, economic size, level of economic development and be aligned to the objectives of the Customs Union.
4. Management of the Common Revenue Pool in SACU	A CRP Account was established and is held by the Republic of South Africa. South Africa is the current Manager of the Pool.
5. What are Customs Duties?	It is a tax levied on imports by a Customs Authority of a country.
6. What are Excise Duties?	It is an indirect tax on the sale or use of specific products goods such as alcohol, tobacco, fuel and non-essential or luxury items (e.g. electronic equipment and cosmetics).

HOW IS THE SACU REVENUE SHARING FORMULA STRUCTURED?

The SACU Revenue Sharing Formula has three (3) components:

1. Customs Component	Consist of the customs duties. Allocated based on each country's share of total intra-SACU imports. This recognises that in a Customs Union most imports to the rest of the Member States will mainly come from the developed Members of the Union. The higher the intra-SACU imports the higher the revenue shares from this component. Botswana at 33 percent and Namibia at 26 percent have higher percentage share of the intra-SACU imports.
2. Excise Component	Constitute 85 percent of the excise duties collected, is distributed based on each country's share of total SACU Gross Domestic Product (GDP). This recognises the level of economic development which is a proxy for determining the level of consumption of the excisable products. The bigger the economy the higher is the excise revenue share (South Africa account for about 90 percent of the total SACU GDP).
3. Development Component	Currently fixed at 15 percent of the excise duties collected. Distributed according to the inverse of each country's GDP per capita. The deviation in GDP per capita from the SACU average is reduced by a factor ten (10) to reduce disparity in the distribution of shares for the Development Component. Distribution weighted in favour of the less developed Members of the Customs Union.

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