Traidcraft response to *Preparing for our future UK trade policy* white paper November 2017

**Introduction to Traidcraft**

Traidcraft is a medium size UK plc with a turnover of £11 million. For over 35 years we have imported grocery and homeware products from suppliers in over 30 developing countries. We are headquartered in Gateshead and employ over 100 staff there. We operate on fair trade terms which include provision of advance credit, minimum pricing, development premiums, and long term stable trading partnerships. In 2015/16 the value of our purchases from the developing world was just under £3 million. We have pioneered a number of innovative supply chains, including fair trade palm oil from smallholder farmers in Ghana and fair trade charcoal from Namibia.

Traidcraft also comprises a development charity, Traidcraft Exchange, which provides support to small enterprises and farmers groups in East Africa and South Asia. Our policy and campaigns team conducts research and lobbies on trade and investment policy and corporate accountability issues.

**General comments**

Traidcraft welcomes the prominence given to sustainable development within the white paper and supports the Government’s intention to implement a non-reciprocal preference scheme, our detailed response to this is in a later section.

Traidcraft does not support the Government’s outlined plans seeking to replicate the EU’s flawed Economic Partnership Agreements (EPAs) with African, Caribbean and Pacific developing countries which risks undermining this developmental focus.

The EU’s primary approach to trade with developing countries for the last fifteen years has been to pursue these EPAs. These are reciprocal FTAs and their success has been mixed to say the least. They undermine regional cooperation, national industrialisation strategies and, in the case of Africa, continental priorities. EPAs have been resisted by many developing country governments and criticised by civil society around the world.\(^1\) Progress has been tortuous, fifteen years suggests a distinct lack of enthusiasm from the negotiating partners. This is particularly clear in the East and West African regions where so-called stepping-stone EPAs have inappropriately divided existing customs unions and caused tensions amongst members. EU member states are now questioning this approach which has caused serious political tensions with precisely those countries we should be building alliances as our trading partners of the future.\(^2\) Civil society groups will also feel that replicating contentious deals closes the door on many of the possibilities the Government had to use its new trade policy to ‘do better’ for poorer countries.

It appears as though the Government views replication of the EPAs as a straightforward technical exercise but it should not be assumed that replicating the EPAs is a risk-free approach. The EPAs are likely to be problematic within the WTO. The Enabling Clause requires that developed countries ‘do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries.’ While these agreements are not notified under the enabling clause they clearly breach the spirit of the clause and the WTO intention to protect developing countries. Further, partners who already have functioning EPAs will obviously use the opportunity to try to push for changes, particularly as they are now negotiating with one, as opposed to 28 economies.

If our trading partners do decide that EPAs are in their interests the government should streamline these treaties by removing the problematic areas such as rendezvous and MFN clauses; focussing on

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1. EPAs require a level of trade liberalisation including from the Least Developed Countries (LDCs), that leaves them little room to support
2. Gunther Nooke, Angela Merkel’s representative to Africa recently agreed that EPAs are ‘are not an agreement, and not a partnership’.
the market access chapters. As with all other trade agreements these would need to include review points and be subject to impact assessments, public consultation and full parliamentary scrutiny.

It is clear that should future EPAs prove difficult to agree, or for those countries that cannot or do not want to pursue EPAs there must be a clear alternative. The strategy of having no ‘plan B’ risks the UK having to impose tariffs on poor countries and disrupting supply to UK consumers.

With the UK embarking on the process of developing an independent trade policy, the Government has a unique opportunity to distance Britain from this failed approach and ‘reset’ our trading relationship with a number of important economies.

The Government would be advised to eschew reciprocal trade agreements with developing countries and to focus on maximising the impact of its non-reciprocal trade preference scheme. An effective preference scheme will serve to integrate developing countries into the global trading system and build their capacity to adopt trade agreements at an appropriate time in the future. For example, it would be far more beneficial and efficient for the UK to negotiate a free trade agreement with the whole of the African continent once their own CFTA is in place rather than seeking a patchwork of smaller, individual deals which must be unpicked at a later date.

**What elements should a UK unilateral trade preference scheme include to maximise the development impact?**

There are key elements which a UK unilateral trade preference scheme should include to maximise the development impact. It should:

- Improve on the existing product coverage
- Improve the existing country eligibility
- Incorporate flexible rules of origin
- Simplify administration to increase utilisation

The UK effectively has 2 choices to maximise the development impact of a UK unilateral preference scheme, it can either adapt the existing EU scheme to address flaws or it can create a new bespoke UK scheme. Below we outline elements for inclusion for both options.

**Adapting the existing scheme**

At present the UK operates the EU’s 3 tier scheme with different benefits accruing to countries based on which tier they are eligible for. Each of these tiers could be improved to increase their developmental effectiveness.

**Everything But Arms**

The current Everything But Arms scheme (EBA) could be extended to improve regional cooperation and increase the value addition taking place in developing countries by incorporating all Least Developed Countries (LDCs) and LDC customs unions. LDC customs unions are defined as those where the majority of members are LDCs. This approach would NOT require a WTO waiver as it is clearly justifiable on objective development grounds. Given that this preference reallocation simply provides market access to countries through a different mechanism it is extremely unlikely to cause discontent with other WTO countries. At present this would mean extending EBA eligibility to non-LDC members of the East African Community (EAC), the Central African Economic and Monetary Community (CEMAC) and the West African Community included in UEMOA/ECOWAS. Of the countries in these customs unions only Cape Verde, Ghana, Ivory Coast, Nigeria, Kenya, Cameroon, Congo and Gabon would need to be added. The benefits of this approach are significant.

- It removes the challenge of replicating contentious EPAs whilst maintaining continuity and allowing UK trade negotiations to focus on priority markets.
• It applies a coherent approach to trade with existing customs unions, strengthening ties and fostering stability.
• It enables improved rules of origin and cumulation (discussed later) to be adopted and have a positive developmental effect across whole regions rather than fragments.
• It encourages the creation of regional engines of growth based on the emerging powerhouses which could enable faster development and increases in trade.
• It responds to proposals put forward by developing countries including those from the African Union through Agenda63.
• It supports the ambition laid out in DFID’s Economic Development Strategy to boost developing country capacity to export manufactured and processed goods and DFID’s stated ambition to ‘continue to promote stability through regional trade’.

GSP+
The intermediate tier, GSP+, excludes some products which prohibit significant trading partners from applying for inclusion. Addressing this by identifying and including key products would increase the impact of this tier and encourage more countries to apply for inclusion. For example, the inclusion of products such as bananas, sugar, yams, sweetcorn, fresh oranges and pasta would mean the GSP+ would become a viable option for countries such as Kenya and Ghana.

GSP
The lowest tier, the standard GSP, offers the least beneficial product coverage to developing countries with around one third of products excluded. There is scope for a significant increase in product coverage within this tier. Even where products are included and tariff reductions apply there remain examples of exceptionally high tariffs. For example, the tariffs applied to tuna (20.5%), fruit juices (28.5%) and sardines (21.5%) remain prohibitive, even after discounts.

Products identified as sensitive to the EU have been excluded from the GSP. Given that many of these products are not sensitive for the UK specific context, these products could be included in a revised GSP. This should be done in conjunction with identifying and eliminating tariff peaks to ensure products of current and future interest to developing country producers are included.

Creating a new bespoke UK preference scheme
Many of the factors outlined above could also be included in a bespoke UK preference scheme.

One option available to the Government would be to adopt a simpler approach to the design of its unilateral preference scheme by only having one tier which consisted of extending full duty-free, quota-free market access to a broader range of developing countries based on economic vulnerability criteria. Economic vulnerability criteria is utilised by the EU in the administration of its GSP+ scheme and the United Nations Conference on Trade and Development (UNCTAD) pays special attention to structurally weak, vulnerable and small economies (SWVSEs). These methodologies consider a number of factors to assess vulnerability including the size and diversity of an economy, health and literacy rates, domestic infrastructure and susceptibility to natural disasters. Utilisation of vulnerability criteria enables a wider range of developing countries to be considered for eligibility including LDCs, poor non-LDCs, land-locked developing countries (LLDCS), small island developing states (SIDS) and other structurally weak and vulnerable economies that may otherwise be excluded based on income classification alone.

The UK government could utilise existing vulnerability methodology as the basis for its own bespoke scheme to ensure that the benefits of a preferential market access scheme are directed towards the most vulnerable countries. This could be coupled with a graduation mechanism to ensure that preferences are responsive and continue to be well-targeted.

Whether the UK opts to improve existing measures or develops a bespoke scheme there are further changes that could be implemented to increase the developmental impacts including:
• Incorporating full cumulation to enable goods from one eligible country to be processed in another whilst retaining originating status. This would increase the processing and value addition taking place in developing countries and create new regional production hubs and supply chains.
• Value addition could be further supported by setting the threshold for maximum content of non-originating materials as high as possible for inputs sourced from non-eligible countries but processed in eligible countries for export.
• Consistent rules of origin should be applied across sectors to minimise complexity.
• Revising product graduation to enable longer phase out times for products graduating out of the scheme based on improved competitiveness.
• Allowing a long phase out for countries graduating out of the scheme based on improved competitiveness.

It is clear that the Government must have an improved unilateral preference scheme in place in time for the UK’s withdrawal from the EU. It may be that the options suggested above could be sequenced to enable the Government more time for transition. In this instance the improvements to the current scheme, including extending EBA to LDC customs unions could be done immediately with an entirely revised scheme coming at a later point.

Develop a trade agenda that is inclusive and transparent

We welcome the fact that the Department for International Trade has sought to create opportunities for stakeholder engagement outside of the political realm. The White Paper gives vague indications that the Government will seek to consult but voluntary consultation is not the same as a binding obligation and does not replace the need for a clear, legal guarantee of public and parliamentary scrutiny. Greater levels of scrutiny will lead to better quality trade policies which will garner greater public support. Given the breadth and impact of trade deals, it remains vitally important that MPs and Peers are able to scrutinise and approve them. This should apply to all new deals and arrangements, including any EU deals that the UK might seek to transition into domestic law, as these will form the basis for our future trade policy. The Prime Minister said in her recent speech in Florence that the British electorate chose to strengthen the role of the UK Parliament, and devolved administrations, in deciding our laws3 and recent polling of MPs showed that 86% wanted a role in scrutinising trade deals. This will require significant changes to the current system as the role of UK parliamentarians in the scrutiny and approval of trade deals is currently limited.

Going forwards the following processes need to be in place:
• parliamentary approval of negotiating mandates before beginning formal negotiations.
• risk assessments must be conducted to highlight the possible impacts on priority areas including human rights, gender equality, labour rights, environmental protection, implementation of the SDGs and the economic and social impacts on developing countries and should be repeated throughout negotiations.
• transparency of information and full public consultation must be guaranteed.
• full parliamentary debate and an affirmative vote on agreements before they come into force.

In the trade white paper, the Government indicated it intends to use existing EU trade agreements as the basis for ongoing trade relationships after Brexit. The proposals imply the Government will seek to use statutory instruments to push these revised deals through parliament without scrutiny. Viewing the adoption of these new trade deals as a technical exercise would be a missed opportunity to assert the importance of democratic scrutiny and would be inconsistent with the Prime Minister’s Florence speech. Government ministers have consistently suggested that full transparency weakens their negotiating positions. This is a flawed argument that wrongly likens international trade negotiations to commercial negotiations. However the fact that trade agreements have so much influence over public

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policy it is incumbent upon any government to make public concessions it is proposing to enable full public debate.

If the UK is to adopt a transparent and inclusive trade policy it must legislate to ensure that stakeholders are guaranteed a voice in the development of those policies.

**What complementary measures can the UK offer to maximise the benefits of trade arrangements with developing countries?**

The UK should utilise this opportunity to reset trade with developing countries by establishing comprehensive Trade and Development Partnerships which address trade and development in a holistic way. A unilateral preference scheme would form one key pillar of this with political cooperation, trade related assistance and broader development assistance forming other key pillars. This would require a coherent cross-governmental approach including a key role for the Department for International Development and other departments.

To maximise the effectiveness of preference schemes additional trade related assistance is required to address supply-side constraints which are not addressed simply by improving market access and facilitating trade. Supply-side constraints such as lack of adequate inputs, skilled staff, equipment or weak legal systems and infrastructure must be addressed through carefully targeted aid for trade. While it is inappropriate for aid to be utilised to create opportunities for UK business interests it is entirely appropriate to direct aid towards areas that facilitate trade and facilitate developing country producers to increase regional trade and export opportunities.

If developing country producers are to increase their share of processing and value addition then the capacity and technological shortfalls of local producers must be addressed in conjunction with a broader development pillar.

In addition to supporting improvements to the trading environment and capacity of traders it is also necessary for the government to increase utilisation of available preferences. For example, the USA operates Trade Resource Centres in African countries to facilitate utilisation of the African Growth and Opportunity Act (AGOA). The UK should consider a similar network of resource centres across the developing world to promote awareness, and support utilisation, of UK preferences. Proactive engagement with actors in supply chains including producers, exporters, distributors, importers etc. to explain the new scheme and highlight the opportunities it creates would foster increased trade.

As outlined earlier in this submission, the UK government must also consider the impacts that trading arrangements with other developed countries will have on developing country producers before securing trade deals. This should include, but not be limited to, assessment of the economic, gender, environmental, regulatory, equality, labour and human rights impacts.

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