Executive Summary

- If the UK Government is going to pursue a form of Brexit which results in an autonomous trade policy then it should seek to improve on the way Britain trades with developing countries. It should seek to improve upon the unilateral preferences it currently grants LDCs as well as other economically vulnerable developing countries.
- This can be done through a combination of improving country coverage, product coverage, rules of origin and cumulation alongside simplifying administration processes.
- Economic Partnership Agreements have been contentious, the EU is reconsidering their approach and the UN Economic Commission for Africa has called for a pause therefore it makes no sense for the UK to replicate at this time.
- Instead of replicating these flawed EPAs the Government should ensure that improvements to the UK’s unilateral preference scheme are brought forward to ensure they are in place in time for the UK’s withdrawal from the EU.

Introduction to Traidcraft

1. 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.

2. 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 team conducts research and lobbies on trade and investment policy and corporate accountability issues.

Should the UK seek to replicate or modify the unilateral trade preferences it currently grants Least Developed Countries after Brexit?

3. The UK should seek to modify and improve the existing preference regime granted to LDCs immediately after Brexit. 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.

4. 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.¹

5. In effect 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.

¹ For example, Norway, Australia and New Zealand have taken a similar approach in the design of their schemes offering duty free, quota free access to LDCs and non-LDCs using objective developmental criteria such as population size.
6. The benefits of this approach are significant. It removes the challenge of replicating contentious EPAs, covered below, whilst maintaining continuity and allowing UK trade negotiations to focus on priority markets.

7. It applies a coherent approach to trade with existing customs unions, strengthening ties and fostering stability.

8. 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. Extending duty-free, quota-free access in this way would enhance the ability of LDCs to process goods from neighbouring countries.

9. It encourages the creation of regional engines of growth based on the emerging powerhouses which could enable faster development and increases in trade.

10. It responds to proposals put forward by developing countries including those from the African Union through Agenda63 and the African Union’s position on regionalised preference schemes of 2011.2

11. 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’.

**Should the UK seek to replicate or modify the unilateral trade preferences it currently grants other developing countries and after Brexit?**

12. The UK should modify the unilateral preferences it currently grants other developing countries after Brexit. This should be improved in time for day 1 of Brexit. This could be done in a number of ways.

13. It could improve the product coverage of the existing GSP and GSP+ tiers to maximise the benefits for developing countries. For example, the inclusion of products such as bananas, sugar, yams, sweetcorn, fresh oranges and pasta would mean that key export products for countries such as Kenya and Ghana would be included, providing them with a viable alternative to the controversial Economic Partnership Agreements covered in more detail below.

14. 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. For example, 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. There is scope for further additions which will require an assessment of potential tariff reductions to identify and minimise preference erosion impacts.

15. Even where products are currently included and tariff reductions on MFN rates apply there remain examples of exceptionally high tariffs. The standard tariff reduction within GSP is 3.5% but there remain tariffs that are prohibitive even after discounts. For example, the tariffs applied to tuna (20.5%), fruit juices (28.5%) and sardines (21.5%).

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2 https://au.int/en/agenda2063
16. If the UK is intent on retaining some degree of tariff within a standard GSP then it should at least cap the maximum tariff applied at a much lower level, for example, it could apply a 3.5% tariff reduction or cap a tariff at 3.5%, whichever creates the lower tariff for any given product.

17. The UK must also identify and eliminate tariff peaks to ensure products of current and future interest to developing country producers are included.

18. This would serve to eliminate the current situation where unprocessed primary products can be imported with no tariff applied but value added goods are penalised with tariffs applied. Many of these goods are processed agriculture goods which have been proven as an effective springboard for inclusive development. For example, the tables below highlight that cocoa, coffee and cotton all face higher tariffs where products have been processed to add value.

19. Tariff escalation for cocoa

<table>
<thead>
<tr>
<th>Tariff code</th>
<th>Description</th>
<th>Applicable AV duty GSP</th>
<th>Applicable AV duty MFN</th>
</tr>
</thead>
<tbody>
<tr>
<td>18010000</td>
<td>Cocoa beans</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>18040000</td>
<td>Cocoa butter</td>
<td>4.2%</td>
<td>7.7%</td>
</tr>
<tr>
<td>18031000</td>
<td>Cocoa paste</td>
<td>6.1%</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

20. Tariff escalation for cotton

<table>
<thead>
<tr>
<th>Tariff code</th>
<th>Description</th>
<th>Applicable AV duty GSP</th>
<th>Applicable AV duty MFN</th>
</tr>
</thead>
<tbody>
<tr>
<td>52030000</td>
<td>cotton, carded or combed</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>61034200</td>
<td>men’s or boys’ trousers, bib and brace overalls, breeches and shorts of cotton, Knitted or crochet</td>
<td>9.6%</td>
<td>12%</td>
</tr>
</tbody>
</table>

21. Tariff escalation for coffee

<table>
<thead>
<tr>
<th>Tariff code</th>
<th>Description</th>
<th>Applicable AV duty GSP</th>
<th>Applicable AV duty MFN</th>
</tr>
</thead>
<tbody>
<tr>
<td>09011100</td>
<td>coffee (excl. roasted and decaffeinated)</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>09012100</td>
<td>roasted coffee (excl. decaffeinated)</td>
<td>2.6%</td>
<td>7.5%</td>
</tr>
<tr>
<td>09012200</td>
<td>decaffeinated coffee (excl. roasted)</td>
<td>4.8%</td>
<td>8.3%</td>
</tr>
<tr>
<td>09012200</td>
<td>roasted, decaffeinated coffee</td>
<td>3.1%</td>
<td>9%</td>
</tr>
</tbody>
</table>

22. In addition to tariffs the government must address a number of other issues.

23. As outlined above the Government should incorporate full cumulation within and across the entire unilateral preference scheme and any future trade agreements with developing countries 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.

24. At present the EU cumulation rules hinder the ability of developing country producers to import, process then export goods, limiting their ability to increase their share of value addition. One reason for this is that existing cumulation rules are inconsistent across the various EU initiatives, for example, countries in the standard GSP scheme are only able to cumulate within specified regional groupings and cannot cumulate goods from countries party to Economic Partnership Agreements. While the EPAs contain different rules and tariffs from one another. To illustrate this, in 2014 roughly 42% of goods traded between African countries
were in manufactured goods compared to around 15% of African exports outside the continent.  

25. 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.  

26. In addition the UK could consider increasing the de minimis levels. Current EU levels are set so that goods with an intrinsic value of less than €150 are exempt from duties. Other nations such as Australia have a higher level of around €700 with the US due to increase its level to €600. Measures like this are most likely to help SMEs which in turn can support DFID’s economic development strategy and support job creation.  

27. Consistent rules of origin should be applied across sectors to minimise complexity. There are currently different rules and thresholds applied across various sectors which makes it complicated for exporters and importers to navigate. For example, some sectors are based on the weight of inputs, others such as fishing are assessed by the composition of the nationality of ship crews while others are based on the value addition taking place in a specified country. A simplified coherent approach could be adopted.  

28. Where product graduation is considered the government should adopt longer phase out times for products graduating out of the scheme based on improved competitiveness. For example gradually reducing tariff discounts over 5 years.  

29. Likewise a long phase out for countries graduating out of the scheme based on improved competitiveness should also be adopted. For example gradually reducing tariff discounts over 5 years.  

Are Economic Partnership Agreements (EPAs) effective from both a trade and development perspective?  

30. Economic Partnership Agreements have been highly contentious from the beginning and their negotiation has severely tested political relationships with some of our most important trading partners. Gunther Nooke, Angela Merkel’s Commissioner for Africa, stated that they have not met their objective and were neither a partnership nor an agreement. UK parliamentarians have consistently cautioned against them, including the International Development Select Committee.  

31. In some regions they undermine integration, national industrialisation strategies and, in the case of Africa, continental priorities.  

32. EPAs require a level of trade liberalisation, including from the Least Developed Countries (LDCs), which hinders the ability of governments to nurture infant industries and support moves towards higher skilled, value addition processing.  

33. EPAs have been resisted by many developing country governments and criticised by civil society around the world. Progress has been tortuous and 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

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3 David Luke, UNECA, presentation to APPG on Sustainable Development Goals  
5 The International Development Select Committee enquiries in 1998, 2004 and 2007 were critical of the EU’s EPA approach.
customs unions and caused tensions amongst members. For example, The EU has signed standalone EPAs with Ghana and Ivory Coast, despite them being members of the Economic Community of West African States with whom negotiations for a regional EPA are ongoing. This has led to the UN Economic Commission for Africa calling for a standstill on EPAs to allow continental integration to progress.

34. As observed earlier, cumulation rules together with rules of origin can have a significant impact on the ability of producers in developing countries to participate in value addition and processing of goods to retain a greater share of the benefits of trade in their home country. Each EPA contains different cumulation rules and differences in the products protected from liberalisation which can create problems when trying to integrate. In addition cumulation is not allowed to occur from an EPA country into a country eligible for Everything But Arms. This means that LDCs are hindered in their ability to incorporate goods from neighbouring countries into supply chains for processing and further export. For example it may not be possible for a producer in Sierra Leone to claim originating status if incorporating materials from Ghana in a processed good.

35. EPAs contain controversial clauses including rendezvous clauses which impose further negotiations in areas that have been contentious during multilateral negotiations at the WTO. Seeking to force these issues on developing country partners undermines the UK’s commitment to the global rules-based multilateral trading system.

36. EU member states are now questioning the approach which has caused serious political tensions with precisely those countries we should be building alliances with as our trading partners of the future. Replicating contentious deals would close the door on many of the possibilities the Government has to use its new trade policy to ‘do better’ for poorer countries.

How should the UK approach its relationship with countries with whom it currently has an EPA after Brexit

37. With the UK embarking on the process of developing an independent trade policy, the Government has a unique opportunity to adopt world-leading trade for development policies and ‘reset’ our trading relationship with a number of important economies.

38. The Government would be advised to focus on listening and responding to the needs of our trading partners, and ensuring coherence with DFID policies and our commitments to the SDGs. This could include maximising the impact of its non-reciprocal trade preference scheme and developing this from a narrow trade relationship into wider regional trade, development and political co-operation partnerships. An effective and comprehensive 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 Continental Free Trade Area is in place rather than seeking a patchwork of smaller, individual deals which must be unpicked at a later date.

39. Given the risk associated with the replication approach and the questions around the development impact of EPAs, the Government must develop a ‘plan B’ in parallel. For those countries that cannot or do not want to pursue EPAs, there must be a commitment to a clear alternative that maintains existing levels of market access. Failure to do this risks the UK having to impose tariffs on poor countries and disrupting supply to UK consumers.
40. To this end the UK should extend duty-free, quota-free market access to a wider range of developing countries. There are multiple ways this could be done whilst remaining compliant with WTO rules. As outlined above, one option would be to extend the current Everything But Arms preference scheme to LDCs and LDC customs unions.

**In what other ways might the UK seek to support development through trade?**

41. 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 (see above). This could be regional, for example a UK-East Africa partnership or a continental partnership.

42. 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.

43. 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, lack of business advisory services, equipment or weak legal systems and infrastructure must be addressed through carefully targeted aid for trade.

44. 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.

45. 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.

46. 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) preferences.

47. The UK should develop 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.

**In what ways might the UK coordinate its trade policy with other policies (e.g. development assistance) in order to support development?**

48. It is vital for the UK to ensure policy coherence across government. One way this can be achieved is to ensure that impact assessments are conducted for all potential trade negotiations identifying, among other things, the impacts on the Government’s commitment to the Sustainable Development Goals, economic and social impacts on developing countries, action to tackle climate change alongside protection of the environment, human rights, labour rights, consumer rights and regulatory standards.
49. This will help to ensure that the UK’s excellent aid and development programmes are not being undermined by political desires to secure quick trade deals which might only achieve short-term economic objectives, or indeed might actively undermine development outcomes.

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