



Department for International Trade Open Consultation Response

The UK Global Tariff

Trade Justice Movement - March 2020

About the Trade Justice Movement

The Trade Justice Movement is a UK-wide network of nearly sixty civil society organisations, with millions of individual members, calling for trade rules that work for people and planet. Our members include trade unions, environmental campaigns, NGOs, consumer groups and faith organisations. Together we are calling for trade justice, where the global system of trade ensures sustainable outcomes for ordinary people and the environment. Our network includes organisations with a range of expertise on trade and we welcome this opportunity to contribute to the development of UK trade policy.

A list of current members is [available here](#).

Brexit means that the UK is in a unique position to develop its new independent trade policy in a way that aligns with its other foreign policy objectives. We are concerned that there is not as yet a clear overarching strategy within which to situate the proposals on tariffs. Such a strategy should set out how the UK will align its trade policy with its commitments on sustainable development, environmental and climate objectives. In this submission we make a number of recommendations for a UK Global Tariff regime that could support developing countries to reduce poverty through trade.

For more information please contact laura@tjm.org.uk.

Objectives for trade and the UK Global Tariff

It is encouraging to read that DIT plans to, “Balance strategic trade objectives with maintaining the government’s commitment to developing countries to reduce poverty through trade.”¹ In addition to this goal, the UK is committed to the Sustainable Development Goals (SDGs), the Paris Agreement on Climate Change and other multilateral environmental agreements, ILO core labour conventions and commitments to decent work, and other vital international agreements. These international commitments should be the cornerstone of UK trade policy, including in deciding its Global Tariff.

Tariff rates are just one among many trade measures that matter to developing countries and for ensuring trade is compatible with other foreign policy objectives. The urgent need to respond to climate change, for countries to develop their industrial strategies and to find ways to benefit from higher value operations within value chains means that countries must retain adequate policy flexibility and the genuine right to regulate. Provisions including investment protection, and in particular Investor-to-State Dispute Settlement (ISDS), rules on services, intellectual property and regulatory cooperation will all need to be assessed for the contribution they make to achieving these objectives.

¹ <https://www.gov.uk/government/consultations/the-uk-global-tariff> Accessed 26/02/2020

Tariff measures are also not a particularly helpful way of achieving other objectives. Simple tariff changes in response to changing priorities can negatively affect significant numbers of people without necessarily achieving their objective. For example bans on high carbon production could see the demise of industries and job losses in countries that may lack the resources to respond to these changes. Cambodian garment workers are currently at risk of mass unemployment because their government has failed to address the EU's legitimate concerns about human rights and corruption, leading to potential withdrawal of EU trade preferences.² A better approach would include a mix of diplomacy and financial and technical support as well as measures such as mandatory due diligence requirements for UK importers, which have potential to mobilise key actors and more directly improve the quality of the UK's trade footprint. A broader public consultation on the UK's trade objectives and strategy, which covers these areas and others, would be welcomed.

With this in mind, this submission highlights five key recommendations of importance to developing countries who trade with the UK. These recommendations comment on the three specific proposals on the Global Tariff that DIT highlights in its news story relating to this consultation: to simplify tariffs by rounding them down; to remove tariffs on key inputs to UK production; and to remove tariffs where the UK has limited domestic production. This submission also highlights the need for full transparency in UK trade policy-making and for a guaranteed democratic vote by MPs at all key stages of trade negotiations. Fuller public scrutiny and democratic participation would facilitate a stronger focus on socially, economically and environmentally sustainable trade.

Finally, whilst we welcome the explanations included in the accompanying documents, it is of significant concern that there appears to be no economic, social or environmental assessment of the impact that the proposed tariff changes might have. Whilst the simplifications have the potential to make the system more user-friendly, some of the changes are significant and could therefore have knock-on effects for industries in the UK and other countries. As part of the UK's future approach to trade policy we believe it is now urgent that clear, transparent processes are put in place that include high quality research and impact assessments that are made public, as well as longer timeframes for civil society to engage.

Five recommendations to support developing countries to reduce poverty through trade

1. Do not lower MFN tariffs where this would erode the value of preferences extended to developing countries

Reducing UK MFN tariffs would erode the usefulness of the tariff preference schemes currently enjoyed by many developing countries. Producers in most developing countries currently enjoy low or zero tariffs for many of their exports to the UK, either through the Everything But Arms scheme, the Generalised System of Preferences, or an Economic Partnership Agreement. This gives them a small but vital advantage over exporters from higher-income countries who are obliged to pay tariffs. This issue is relevant to many products, from agricultural produce such as bananas to manufactured goods like clothing and footwear.³

The government is considering, "Removing tariffs on key inputs to production which could reduce costs for UK manufacturers." Many products that are important exports for developing countries are key inputs to UK production. For example, sugar - which is vital for the UK's major food manufacturing industry - is produced both by small producers in developing countries such as Mauritius, and by giant industrial farms in wealthy countries such as the USA. Other imported production inputs, such as electrical components and machine

² <https://fashionunited.uk/news/business/cambodia-90-000-garment-workers-could-lose-jobs-over-proposed-eu-trade-sanctions/2019111446197>
Accessed 04/03/2020

³ <http://documents.worldbank.org/curated/en/466961562786318149/pdf/Effects-of-Trade-Liberalization-on-Textile-and-Apparel-Exports-from-Sub-Saharan-Africa.pdf> Accessed 04/03/2020

parts, represent important value-add sectors for some developing countries such as the Philippines who benefit from trade preferences.⁴ If the UK's MFN tariffs on such products are reduced to zero, developing country exporters will suffer a loss of their current advantage, which is likely to contribute to loss of livelihood and poverty.

A further suggestion is that the UK, "Removes tariffs where the UK has zero or limited domestic production." Many key developing country exports, such as bananas, cut flowers and some textiles and apparel⁵ compete with little or no UK domestic production. If low or zero tariffs were extended for all imports, including those coming from wealthier countries, developing country producers would see the value of their preferential tariff rates eroded. Professor Emily Jones of the University of Oxford notes, "Were the UK to exit the EU without a mechanism in place to safeguard existing preferences, garments and textiles factories in Bangladesh, cane sugar producers in Mauritius, Fiji, and Belize, and smallholder banana farmers in St Lucia could go out of business overnight."⁶

The complexity and diversity of global supply chains makes it impossible to have a single recommendation for tariff rates, as the right way forward will vary according to product.⁷ The government should therefore undertake an *ex ante* impact assessment of each proposed MFN tariff. Tariffs should only be lowered or removed on products where it can be demonstrated that developing country producers will not be disadvantaged from their current position through tariff erosion. The UK should consider raising MFN tariffs where this generates advantages for developing country producers by boosting the value of their tariff preferences.

It should be noted that not all developing countries have arrangements in place to give them low- or zero-tariff trade with the UK after the transition period. In the absence of a continuity agreement to 'roll over' their EPAs, the UK should unilaterally offer duty-free quota-free market access to Kenya, Ghana, Cameroon and Côte d'Ivoire until such a time as satisfactory permanent arrangements are agreed. Without such agreements in place and tariffs therefore newly applied to these countries' exports, industries such as Kenya's cut flower industry - which sells a fifth of its total produce to the UK, and supports the employment of an estimated 2 million people - could be hugely impacted.⁸

2. Avoid problematic tariff escalation

Increasing tariff rates based on the degree of processing or other factors can hold back economic development and diversification in developing countries.

Raw cocoa products face no tariff to enter the EU, whereas cocoa powder faces a tariff of 8%.⁹ Raw tomatoes (a challenging product for many developing countries to have to store and ship) can be imported into the EU with zero tariff, but preserved products such as canned tomatoes or ketchup face tariffs of 10-16%.¹⁰ Similar patterns exist for many other commodities including soybeans, leather and cotton.¹¹

⁴ <http://www.worldstopexports.com/philippines-top-10-exports/> Accessed 27/02/2020

⁵ <https://www.ukft.org/business-advice/industry-reports-and-stats/> Accessed 27/02/2020

⁶ <http://www.ictsd.org/opinion/brexit-opportunity-or-peril-for-trade-with-small-and-poor-developing-economies> Accessed 04/03/2020

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<https://www.fairtrade.org.uk/~media/FairtradeUK/Media%20Centre/News/2018/Delivering%20a%20Fairtrade%20Brexit%20Report%20September%202018.pdf> Accessed 26/02/2020

⁸ <https://www.bbc.co.uk/news/world-africa-47400859> Accessed 04/03/2020

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<https://www.fairtrade.org.uk/~media/FairtradeUK/Media%20Centre/News/2018/Delivering%20a%20Fairtrade%20Brexit%20Report%20September%202018.pdf> Accessed 26/02/2020

¹⁰ https://www.researchgate.net/publication/41193922_Tariff_escalation_and_EU_agricultural_imports_An_assessment_of_selected_products Accessed 26/02/2020

¹¹ https://www.researchgate.net/publication/41193922_Tariff_escalation_and_EU_agricultural_imports_An_assessment_of_selected_products Accessed 26/02/2020

On the whole, processed products enjoy higher value-add with significant potential for poverty alleviation, for example when coffee producers in Uganda were able to invest in processing equipment their household incomes increased by a third.¹² It would therefore often be beneficial for developing countries to build up processing industries rather than export raw products. There are complex reasons why these processing industries are under-developed, but tariff escalation can be an aggravating factor.

3. Leave room to vary tariffs according to social and environmental qualities of production

MFN tariffs should be bound at a level which allows for the possibility of offering a preferential rate to producers operating to high social and environmental standards.

It is far from inevitable that trade will support the reduction of poverty. Where workers in global supply chains are paid below-living wages,¹³ have few rights,¹⁴ or are forced to work far from home in export industries due to (potentially trade related) reduced viability of traditional employment,¹⁵ then an increase in trade for the goods they produce is unlikely to be of much benefit. Similarly, if production involves the clearing of rainforests,¹⁶ severe pollution,¹⁷ or depletion of water resources,¹⁸ this will have harmful effects on well-being in affected countries.

If the government is committed to reducing poverty through trade, it should consider how to use trade policy including (but not limited to) tariffs to both incentivise ethical production, and to block illegal or harmful production. We need to retain the policy space to achieve these goals.

As part of this, it may be important to maintain higher bound MFN tariffs, which could be charged on less ethical producers. More ethical producers could be charged a lower applied tariff. The products to which this should apply and the ideal tariff rates should be established via *ex ante* impact assessments. As discussed in the introduction, close attention would need to be paid to potential unintended consequences of any such policies, to ensure that sanctions cannot be passed down the value chain to ultimately harm workers. Tariff variation should be considered as just one of several available tools, and its use may not be appropriate in some cases.

4. Do not use low UK Global Tariffs to demand low tariffs in return from developing countries

Developing countries should not be expected to reciprocate when offered low or no tariffs from the UK, for instance by granting extensive access to their markets or by lowering their own tariffs.

Existing trade arrangements with many developing countries such as LDCs are already non-reciprocal, with those countries under no obligation to lower their own tariffs in order to get tariff-free access to the UK market. However other developing countries, including those who have Economic Partnership Agreements with the UK, are expected to fully or partially reciprocate by reducing their own tariffs and giving access to their markets for UK producers.

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<https://static1.squarespace.com/static/59242ebc03596e804886c7f4/t/59f30e7ec83025541de44d4b/1509101205935/Brexit+-+let%27s+change+trade+for+good.pdf> Accessed 26/02/2020

¹³ https://www.ethicaltrade.org/sites/default/files/shared_resources/living-wages-in-global-supply-chains.pdf Accessed 05/03/2020

¹⁴ <https://www.tandfonline.com/doi/abs/10.1080/13563467.2016.1273339> Accessed 05/03/2020

¹⁵ <http://www.imedpub.com/articles/effects-of-loss-of-agricultural-land-due-to-largescale-gold-mining-on-agriculture-in-ghana-the-case-of-the-western-region.php?aid=10027> Accessed 05/03/2020

¹⁶ <https://news.mongabay.com/2019/04/brazil-soy-trade-linked-to-widespread-deforestation-carbon-emissions/> Accessed 05/03/2020

¹⁷ <https://www.reuters.com/article/us-pollution-trade-health/pollution-from-international-trade-killed-700000-in-one-year-scientists-idUSKBN1702ME>

Accessed 05/03/2020

¹⁸ <https://www.bbc.co.uk/news/science-environment-39431680> Accessed 05/03/2020

Tariffs are a much more important source of revenue in many developing countries than they are in the UK, for instance Namibia, Jamaica and the Bahamas obtain around a third of total government funding from tariffs.¹⁹ Tariffs are also important in supporting key industries in developing countries, including agriculture which often employs a significant proportion of the population, and manufacturing industries that have potential to boost national value-add.

A wealthy economy like the UK should not- and does not need to extract tariff concessions from countries that struggle with high rates of poverty. The UK's Global Tariff should not be used as leverage in trade discussions with developing countries. The UK should also review existing trade agreements with developing countries, and remove from them any requirements for reciprocity where possible.

5. Rules of Origin should be flexible for developing countries

Additional flexibility should be extended to developing countries when assessing cumulation, to ensure that all developing country imports can qualify for preferential tariffs rather than the UK Global Tariff.

Most countries' exports contain a proportion of inputs from other countries; if this proportion exceeds a certain threshold then Rules of Origin may deem that product to be ineligible for preferential tariffs. This could lead to developing countries, including LDCs who should be benefitting from Everything But Arms tariff-free market access, being forced to pay the UK Global Tariff.

Rules of Origin can be highly complex, presenting both practical and bureaucratic obstacles for developing countries. For example, a World Bank paper explains the conditions required for fish products to receive preferential access to the EU under the GSP:

- “• The vessel must be registered in the beneficiary country or in the EU.
- The vessel must sail under the flag of the beneficiary or of a member state of the EU.
- The vessel must be at least 60 percent owned by nationals [or companies] of the beneficiary country or the EU, and the chairman and a majority of the board members must be nationals.
- The master and the officers must be nationals of the beneficiary country or of an EU member, and at least 75 percent of the crew must be nationals of the beneficiary country or of an EU country.”²⁰

Fishers would therefore lose their preferential tariffs if they needed significant overseas investment to buy their boats, or if many of their crew came from nearby countries. For manufactured products these rules pose even greater obstacles. An African region hoping to develop a garment export industry may wish to use raw cotton from one nearby country, process it into yarn in another, and then into textiles and apparel in a third. With inflexible Rules of Origin this collaboration could make it ineligible for tariff-free access to the UK market, as the final exporting country could not show that a sufficient proportion of the value add had occurred within its own territory.

Developing countries could benefit significantly from more flexible Rules of Origin. These should fully recognise regional and diagonal cumulation, and give more flexibility regarding the proportion of goods that can come from other countries (who may themselves not qualify for preferences). The rules should also minimise the bureaucratic and documentary requirements placed on producers - including complex calculations as to the exact proportions of value-add added in each country²¹ - which can block many from

¹⁹ <https://www.piie.com/research/piie-charts/mainly-poor-countries-use-tariffs-major-source-government-revenue>
Accessed 26/02/2020

²⁰ <https://siteresources.worldbank.org/INTRANETTRADE/Resources/C8.pdf> Accessed 04/03/2020

²¹ <https://siteresources.worldbank.org/INTRANETTRADE/Resources/C8.pdf> Accessed 04/03/2020

being able to access the preferences to which they are entitled. These additional flexibilities would enable countries to develop and diversify their economies, and work together to produce exports without losing their tariff preferences.

The UK's trade policy process: urgent need for trade scrutiny and democracy

The UK has woefully inadequate procedures for negotiating and finalising trade deals. Recent progress to improve this has stalled. New efforts are needed to secure trade scrutiny and democracy through legislation. Through such new legislation, the government must:

- Act transparently: information must be available at all stages of negotiations to inform public debate.
- Conduct an independent and comprehensive Sustainability Impact Assessment, which considers environmental and social goals, and allows for civil society input.
- Give Parliament and the devolved legislatures a say over mandates and negotiation texts and the ability to propose amendments, including safeguarding Stormont's democratic role in implementing the Irish Protocol.
- Ensure MPs get a guaranteed and binding vote on the final deal.
- Include a mechanism for regular review of trade agreements once they are implemented.

In addition, DIT should redraw its objectives for trade policy to more centrally consider the UK's international obligations. Social, economic and environmental justice goals should be paramount in all discussions on trade. DIT should also reconsider how it considers public benefit in the UK. People in the UK should be considered beyond their roles as producers and consumers, to include also their interests and preferences as democratic citizens. The public, civil society and elected representatives should have a strong voice in deciding the UK's approach to trade, to ensure that our wider values and priorities are reflected in trade commitments.