Post-Brexit Trade

Options for continued and improved market access arrangements for developing countries

TRAIDCRAFT
Fighting poverty through trade

Contents

Acknowledgements

This paper was written by Matt Grady from Traidcraft. Much of this report relies on the prior work of Jane Kennan and Christopher Stevens and incorporates data previously compiled and used by ODI.

About Traidcraft

Traidcraft Exchange is the UK's only development charity specialising in making trade work for the poor. In collaboration with local partners we work to create opportunities for poor people to harness the benefits of trade, helping them to develop sustainable livelihoods.

Traidcraft also aims to use the experience of its sister fair trade company, Traidcraft plc, to improve wider trade practices.

Traidcraft's Policy Unit conducts research and advocacy work to improve trade rules and the practice of companies.

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Introduction

The outcome of the referendum on Britain's membership of the European Union (EU) and the prospective departure of the UK from the EU has created significant uncertainty.

There are a number of substantial challenges for the government to address. Priority tasks include: the need to create the capacity to handle legally complex and politically sensitive negotiations with the EU on the terms of the UK withdrawal; the need to establish the UK's default trading positions and define its new World Trade Organisation (WTO) commitments; and the need to establish a new trading relationship with the EU whilst maintaining functioning political relationships with EU countries and fostering goodwill amongst the wider international community.

The uncertainty around Brexit is not only a challenge for the UK but also for trading partners in developing countries. The UK is a significant export destination for some developing countries with imports valuing £34 billion each year from 116 of the world's poorest countries via EU agreements. As a member of the EU Customs Union the UK applies the EU tariff schedule to imports entering the UK. This includes the application of preferential terms to developing countries.

As the UK withdrawal from the EU looms, these countries face multiple challenges including the potential for an increase in tariffs for goods imported into the UK, reduced demand for their produce and increased bureaucracy to comply with the regulatory requirements of multiple markets. The immediate challenge is for the UK to resolve its relationship with the EU before turning its attention to the wider world. Developing countries are concerned that their needs may be overlooked and if nothing is done to stabilise relationships and put effective transitional market access arrangements in place, they could be left facing a reimposition of tariffs. This paper will focus on the options for overcoming this market access challenge. Simply copying the EU's most generous 'Everything But Arms' preference scheme would leave 67 countries facing higher tariffs, whilst trying to adopt, even on a transitional basis, the EU's existing Free Trade Agreements (FTAs), including the Economic Partnership Agreements (EPAs) has a multitude of legal and political risks, particularly now it is clear that the UK will leave the EU Customs Union and that substantive new negotiations, such as would be required for essentially new FTAs, are not possible until the UK has left. For those FTAs that continue to be contested and where there is little value for UK exporters at present the risks are significant.

For a government keen to promote a new vision of free trade that also is fairer and supports development, neither re-imposing tariffs on poorer countries, nor replicating parts of the EU trade regime are very satisfactory. A preferable alternative would be for the government to seize the opportunity afforded by leaving the EU to create, at least as a stepping stone, a gold standard market access scheme providing non-reciprocal, tariff-free access to imports from a defined group of economically vulnerable countries. This would offer certainty and continuity to producers who rely on exports to the UK for their livelihoods. It would not require extensive negotiations or ratification processes and would allow the UK to normalise its trade relationships with developing countries in the immediate post-Brexit period. While this option would require some investment of resources to develop and administer, it would be an opportunity for the UK to lead the world in placing sustainable development as a core pillar in international trade policy. The UK is already recognised as a world leader in international aid. By adopting a modern, fit for purpose approach to trade the UK could also reshape global trade with developing countries.[1]

As the UK finalises its withdrawal from the EU it has a unique opportunity to redefine its identity as an international trading nation. The decisions made now will resonate for generations to come, with the impacts being felt not only in the UK but also in developing countries and around the world.

Options for UK-EU relations

The government has signalled its intention to trigger Article 50[2] of the Lisbon Treaty and initiate the process of leaving the EU. The outcome of the Article 50 negotiations and any subsequent negotiations on the UK's new relationship with the EU will determine the extent of the government's policy autonomy with regards to trade with third countries. The government has indicated that it is not seeking to replicate any of the existing arrangements the EU holds with other countries[3] and the Prime Minister, Theresa May, has further indicated that the UK intends to withdraw from the EU Customs Union and wishes to remain free to conclude trade deals with third countries and set its own tariffs.[4]

1 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/587374/DFID-Economic-Development-Strategy-2017.pdf
2 http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-European-union-and-comments/title-6-final-provisions/137-article-50.html
3 https://www.gov.uk/government/speeches/pm-speech-to-the-lord-mayors-banquet-14-november-2016
4 https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-pm-speech

The current situation

Tariff schedules outline the tariff concessions and commitments of each WTO member.

MFN = Most Favoured Nation. WTO rules commit members to apply the same terms to all members. Many EU and UK tariffs are zero MFN meaning no duties are applied.

At present the UK is a member of both the EU and the EU Customs Union. This means that the UK applies the EU's tariff schedule and participates in all relevant trade initiatives.

There are three main types of duties payable on imports. Ad valorem duties are typically a percentage based duty calculated on the value of goods imported, for example 5% added to the value of the goods. Specific duties are applied irrespective of value of goods, typically based on a volume basis, for example, bananas attract a tariff of £96 per 1000 kg using the EU MFN tariff schedule[5]. Additionally some tariff lines have a compound duty applied which includes both an ad valorem element and a specific element combined.

Table 1 Value of UK imports from preference eligible developing countries by type of tariff

Type of tariff	Value of UK imports (£mn)	Share
Zero MFN	17,828	52.3%
Ad valorem tariffs	14,448	42.4%
Compound duties (e.g. 5% +€100/kg)	337	1%
Specific duties only (e.g. €100/kg)	1,354	4%
Special codes (no tariff information)	97	0.3%
Total import value	**34,064**	**100%**

Adapted from Kennan and Stevens (2016)

Most trade takes place under the terms outlined in individual schedules of tariffs lodged by members of the WTO[6]. Among other things, each schedule indicates the tariffs that member countries will apply to imports entering their country. WTO rules ensure that upper limits on tariff rates offered by one member country to another must also be offered to all other WTO members under the Most Favoured Nation Principle (MFN). Exceptions to this rule are possible under Article XXIV[7] where two or more nations are party to a Free Trade Agreement covering substantially all trade or under the Enabling Clause[8], where special measures are introduced to benefit developing countries.

As a result of concerns from developing countries that globalised free trade was not benefiting all countries equally, and their share of global trade was reducing, the WTO introduced the Enabling Clause as a permanent mechanism to allow developed countries to offer preferential, non-reciprocal terms to developing countries[9] as a generalised system of preferences. The Enabling Clause means that developed countries can bypass MFN commitments and offer lower or zero tariff rates to developing countries without offering them to other WTO members. It also enables these rates to be offered without developing countries reciprocating.

A wide range of leading economies including the USA, Japan, Australia, New Zealand and Norway have created their own generalised system of preferences schemes. The EU version, the Generalised Scheme of Preferences or GSP, operates as a 3 tier scheme.

Table 2 Value of UK imports from preference eligible developing countries by regime

Trade regime	Total annual UK imports from 116 developing countries (2013-15 average)
Zero tariff applied via Most Favoured Nation	£17.9 billion
All GSP	**£10.6 billion**
Standard GSP	*£6.8 billion*
GSP+	*£1.1 billion*
EBA	*£2.7 billion*
Free Trade Agreements	£4.3 billion
Economic Partnership Agreements	£1.2 billion
Total	**£34 billion**

Adapted from Kennan and Stevens (2016)

The standard GSP reduces or completely removes tariffs on approximately two thirds of tariff lines for imports entering the UK from low income and lower-middle income countries. GSP+ expands on the standard GSP and gives further reductions to imports from states that have implemented 27 international standards incorporating human rights, labour standards and environmental protection. Additional economic vulnerability criteria are applied to assess product graduation and the eligibility of individual countries.

5 https://www.gov.uk/trade-tariff/commodities/0803901000
6 https://www.wto.org/english/tratop_e/schedules_e/goods_schedules_e.htm
7 https://www.wto.org/english/res_e/booksp_e/analytic_index_e/gatt1994_09_e.htm
8 https://www.wto.org/english/docs_e/legal_e/enabling1979_e.htm
9 https://ecampus.wto.org/admin/files/Course_179/Module_538/ModuleDocuments/eWTO-M9-R1-E.pdf

The Everything But Arms (EBA) initiative removes all tariffs and quotas on all goods except armaments from the least developed countries (LDCs). This provides the most generous product coverage for a limited number of countries.

Trade between developing countries and the UK takes place under these initiatives and reciprocal FTAs, including EPAs. In total there are 116 developing countries eligible for some form of preferential access to the UK with a combined average annual value of imports into the UK of €43billion or £34billion between 2013 and 2015[10]. Just under half of this trade, 47%, benefits from the partial or full waiving of tariffs with a zero tariff MFN rate applying to the remaining 53%. This means that an estimated £1 billion of ad valorem import duties, which would otherwise be applied on imports entering the UK, are waived. The eligible countries are shown in Annex 1.

What is at risk?

The government has committed to the Sustainable Development Goals (SDGs) and has long championed the benefits of trade as a driver of better living standards worldwide. The UK is a significant export destination for products from some of the world's poorest countries, many of whom have high levels of dependence on trading with the UK. The preferential market access offered to imports from the poorest developing countries helps their products remain competitive and stimulates demand. Exporting to the UK supports decent livelihoods and working conditions, which are central to the SDGs.[11] Even the smallest change in terms of trade will significantly increase the costs of products from developing countries. This will reduce the competitiveness of these products, reduce demand and impact on workers and producers in developing countries. If Brexit results in reduced demand or increased costs of trading this is likely to push farmers into poverty and increase pressure on labour rights and wages. The Department for International Development's recently released Economic Development Strategy underlines exactly how precarious this situation is, highlighting that health and education are at stake alongside stability and security.

In the period following the EU referendum result Traidcraft commissioned research to examine the potential impacts for developing countries. This research analysed 7,065 discreet goods (with separate HS tariff codes) to identify those of greatest significance when imported into the UK from developing countries.

The analysis throughout this report is based on a dataset containing 43,450 country/product combinations. It includes figures for the value of UK and EU28 imports by product in 2013–15 extracted from Eurostat's COMEXT database. These were used to calculate average annual import values and the UK share of total EU imports for 116 developing countries expected to be eligible for better-than-most favoured nation (MFN) treatment in the EU in 2017. These figures were then converted to GBP using the average Euro to GBP exchange rate for the 3 year period which was £1=1.2656 EUR. The countries that have been analysed are listed in Annex 1.

The analysis has focused on the 32,684 records that relate to goods which face a positive tariff under the EU's MFN. An additional 10,707 records for which the EU's MFN rate is zero were also considered.

The total value of imports from the countries included in the dataset was then aggregated for each of the 5,340 discrete trade codes imported from them by the UK for which the MFN tariff is not zero[12].

Tables 3 to 5 show the most important product groups which face the imposition of duties based on the tariff codes analysed. Clothing and textiles are the most significant sectors accounting for around 37% of the total value of imports with diverse product groups accounting for the remainder including fresh produce, and high tech industrial goods. Many of the most significant products for developing country producers are also important everyday UK consumer items.

10 Data from comext database, http://epp.eurostat.ec.europa.eu/newxtweb, converted at average exchange rate for period of £1=1.2656EUR
11 https://sustainabledevelopment.un.org/post2015/transformingourworld Goals 8, 10 and 17
12 Adapted from Kennan and Stevens (2016)

Table 3 Imports of goods at risk of tariff imposition aggregated to HS chapter level

HS chapter	Description	Value of imports from preference eligible countries (avg. 2013-15, £000)	%age of total
	Total UK imports of non-zero MFN goods from countries in dataset	**16,139,336**	
61-64	articles of apparel and clothing accessories, footwear and textiles	6,068,317	37.6%
07,08,10	edible vegetables, fruit and nuts; cereals	1,984,471	12.2%
84	nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,068,857	6.6%
87	vehicles other than railway or tramway rolling-stock, and parts and accessories	857,981	5.3%
85	electrical machinery & equipment & parts thereof; sound recorders & reproducers, television image & sound recorders & reproducers, & parts & accessories	752,533	4.7%
16	preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	499,008	3.1%
71,73	natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, articles of iron or steel	444,775	2.8%
39	plastics and articles thereof	327,356	2.0%
03	fish and crustaceans, molluscs and other aquatic invertebrates	316,439	2.0%
17	sugars and sugar confectionery	299,212	1.9%
42	articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	267,619	1.7%
15	animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	234,347	1.5%
29	organic chemicals	212,220	1.3%
90	optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	163,179	1.0%
	67 other chapters	*2,311,761*	*14.3%*

Adapted from Kennan and Stevens (2016)

Table 4 Most affected HS subheads in HS chapter 8

HS chapter	Description	Value of imports from preference eligible countries (avg. 2013-15, £000)	Share
	UK imports in chapter of non-zero MFN goods from countries in dataset	**1,425,359**	
0803	bananas, incl. plantains, fresh or dried	491,719	34.5%
0806	grapes, fresh or dried	275,265	19.3%
0805	citrus fruit, fresh or dried	180,973	12.7%
0804	dates, figs, pineapples, avocados, guavas, mangoes and mangosteens, fresh or dried	133,289	9.4%
0808	apples, pears and quinces, fresh	115,623	8.1%
0810	fresh strawberries, raspberries, blackberries, back, white or red currants, gooseberries and other edible fruits (excl. nuts, bananas, dates, figs, pineapples, avocados, guavas, mangoes, mangosteens, papaws 'papayas', citrus fruit, grapes, melons, apples, pears, quinces, apricots, cherries, peaches, plums and sloes)	97,744	6.9%
	7 other subheads	*130,746*	*9.2%*

Adapted from Kennan and Stevens (2016)

Table 5 Most affected HS subheads in HS chapter 84

HS chapter	Description	Value of imports from preference eligible countries (avg. 2013-15, £000)	Share
	UK imports in chapter of non-zero MFN goods from countries in dataset	**1,068,857**	
8411	turbojets, turbopropellers and other gas turbines	377,056	35.3%
8408	compression-ignition internal combustion piston engine 'diesel or semi-diesel engine'	123,597	11.6%
8421	centrifuges, incl. centrifugal dryers (excl. those for isotope separation); filtering or purifying machinery and apparatus, for liquids or gases; parts thereof	118,243	11.1%
8409	parts suitable for use solely or principally with internal combustion piston engine of heading 8407 or 8408	84,702	7.9%
8481	taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, incl. pressure-reducing valves and thermostatically controlled valves;	70,552	6.6%
8483	transmission shafts, incl. camshafts and crankshafts, and cranks; bearing housings and plain shaft bearings for machines; gears and gearing; ball or roller screws, gear boxes and other speed changers, incl. torque converters; flywheels and pulleys, incl. pulley blocks, clutches and shaft couplings, incl. universal joints; parts thereof	69,452	6.5%
	68 other subheads	*225,255*	*21.1%*

Adapted from Kennan and Stevens (2016)

In addition to sector data, some country specific examples highlight the significance of the UK as an export market.

Table 6 below shows that the value of goods imported from Kenya is approximately £275 million per year. For the tariff lines concerned, the UK accounts for around 30% of Kenya's total exports to the EU. The table also shows that around 60% of goods imported benefit from preferential tariffs via the EU-EAC EPA and outlines the tariff that would otherwise apply. The remaining goods have no tariffs applied as a result of MFN rates.

Table 6 Top UK imports from Kenya currently eligible for better-than-MFN access

Code	Description	Average 2013-15 (£ 000)	Share of total imports value	MFN (a) tariff Ad val.
Total value of imports		**274,552**	**100%**	
Of which: zero MFN or confidential trade		*114,435*	*41.7%*	
07082000	fresh or chilled beans 'vigna spp., phaseolus spp.'	44,694	16.3%	10.4%
06031100	fresh cut roses & buds, suitable for bouquets or for ornamental purposes	41,887	15.3%	8.5%
07099990	fresh or chilled vegetables n.e.s.	10,731	3.9%	12.8%
84111280	turbojets of a thrust > 132 kn	9,891	3.6%	2.7%
07041000	fresh or chilled cauliflowers & headed broccoli	8,183	3%	9.6%
06031200	fresh cut carnations and buds, of a kind suitable for bouquets or for ornamental purposes	6,418	2.3%	8.5%
06039000	dried, dyed, bleached, impregnated or otherwise prepared cut flowers & buds, of a kind suitable for bouquets or for ornamental purposes	4,666	1.7%	10%
07081000	fresh or chilled peas 'pisum sativum', shelled or unshelled	4,637	1.7%	8%
07096099	fresh or chilled fruits of genus capsicum or pimenta	2,605	0.9%	6.4%
07093000	fresh or chilled aubergines 'eggplants'	2,257	0.8%	12.8%
541 Combined additional tariff lines		24,148	8.8%	

Source: Derived from data from Eurostat COMEXT and UNCTAD TRAINS databases. Adapted from Kennan & Stevens (2016)
(a) Additional specific duties may also apply

In many of the top 10 product lines imported from Kenya under better than MFN status the UK accounts for a very high percentage of total imports of that product into the EU, especially for fruits, vegetables and flowers. The UK accounts for 97% of EU imports of Kenyan fresh cauliflowers and broccoli and 81% of other fresh vegetables.

The average potential ad valorem tariff for these products is 9% which could make these products uncompetitive and mean higher prices for UK consumers.

Table 7 shows the value of goods imported from Swaziland is approximately £12 million per year which is around 10% the total value of EU imports of these goods from Swaziland. It also shows that 99% of goods imported from Swaziland benefit from the waiving of tariffs via the EU-SADC EPA and outlines the tariff that would otherwise apply.

As in the case of Kenya, many of the top UK imports from Swaziland represent a high proportion of overall EU imports, especially in fruit produce.

Table 7 Top UK imports from Swaziland currently eligible for better-than-MFN access

Code	Description	Average 2013-15 (£ 000)	Share of total imports value	MFN (a) tariff Ad val.
Total value of imports		**12,944**	**100%**	
Of which: zero MFN or confidential trade		*127*	*1%*	
17011410	raw cane sugar for refining, in solid form, not containing added flavouring or colouring matter (excl. cane sugar of 1701 13)	2,543	19.6%	–
20083090	citrus fruit, prepared or preserved, not containing added spirit or added sugar	2,141	16.5%	18.4%
08051020	fresh sweet oranges	1,581	12.2%	10.4%
08054000	fresh or dried grapefruit	920	7.1%	1.5%
20079997	jams, fruit jellies, marmalades, fruit purée and pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter	875	6.8%	24%
20083071	grapefruit segments, prepared or preserved, containing added sugar but no added spirit, in immediate packings of a net content of <= 1 kg	643	5.0%	15.2%
17019910	white sugar, containing in dry state>= 99,5% sucrose (excl. flavoured or coloured)	557	4.3%	–
20082090	pineapples, prepared or preserved, not containing added spirit or added sugar	496	3.8%	18.4%
20089798	mixtures of fruit or other edible parts of plants, prepared or preserved, not containing added spirit or added sugar, in immediate packings of a net content of < 4,5 kg, n.e.s. (excl. mixtures of nuts, tropical fruit of a type specified in additional note 7 to chapter 20, groundnuts and other seeds and preparations of the mã¼sli type based on unroasted cereal flakes of subheading 1904.20.10)	410	3.2%	18.4%
20094930	pineapple juice, unfermented, brix value > 20 but <= 67 at 20°c, value of > 30 euro per 100 kg, containing added sugar (excl. containing spirit)	359	2.8%	15.2%
Combined additional lines		2,702	18%	

Source: Derived from data from Eurostat COMEXT and UNCTAD TRAINS databases. Adapted from Kennan & Stevens (2016)
(a) Additional specific duties may also apply

Table 8 shows that 77% of goods imported from Uganda benefit from the waiving of tariffs via the Everything But Arms scheme. The remaining goods are in sectors which are zero-rated already and therefore do not attract a tariff.

Table 8 Top UK imports from Uganda currently eligible for better-than-MFN access

Code	Description	Average 2013-15 (£ 000)	Share of total import value	MFN (a) tariff Ad val.
Total value of imports		**16,104**	**100%**	
Of which: zero MFN or confidential trade		*3,732*	*23.2%*	
24012035	partly or wholly stemmed or stripped light air-cured tobacco, otherwise unmanufactured	2,965	18.4%	
07096099	fresh or chilled fruits of genus capsicum or pimenta (excl. for industrial manufacture of capsicin or capsicum oleoresin dyes, for industrial manufacture of essential oils or resinoids, and sweet peppers)	1,904	11.8%	6.4%
06031100	fresh cut roses and buds, of a kind suitable for bouquets or for ornamental purposes	1,291	8.0%	8.5%
08031010	plantains, fresh	1,251	7.8%	16%
07099990	fresh or chilled vegetables n.e.s.	864	5.4%	12.8%
08039090	bananas, dried (excl. plantains)	582	3.6%	16%
84111280	turbojets of a thrust > 132 kn	489	3.0%	2.7%
09051000	vanilla, neither crushed nor ground	489	3.0%	6%
24012085	partly or wholly stemmed or stripped flue-cured tobacco, otherwise unmanufactured	461	2.9%	
07093000	fresh or chilled aubergines ‘eggplants’	228	1.4%	12.8%
07149090	jerusalem artichokes and similar roots and tubers with high inulin content, fresh, chilled, frozen or dried, even sliced or in the form of pellets, and sago pith (excl. manioc, arrowroot, salep, sweet potatoes, yams, taro and yautia)	216	1.3%	3%
07139000	dried, shelled leguminous vegetables, whether or not skinned or split (excl. peas, chickpeas, beans, lentils, broad beans, horse beans and pigeon peas)	205	1.3%	3.2%

Source: Derived from data from Eurostat COMEXT and UNCTAD TRAINS databases. Adapted from Kennan & Stevens (2016)
(a) Additional specific duties may also apply

The table below shows that 99% of imports from Belize rely on tariffs being waived via the EU-CARIFORUM EPA.

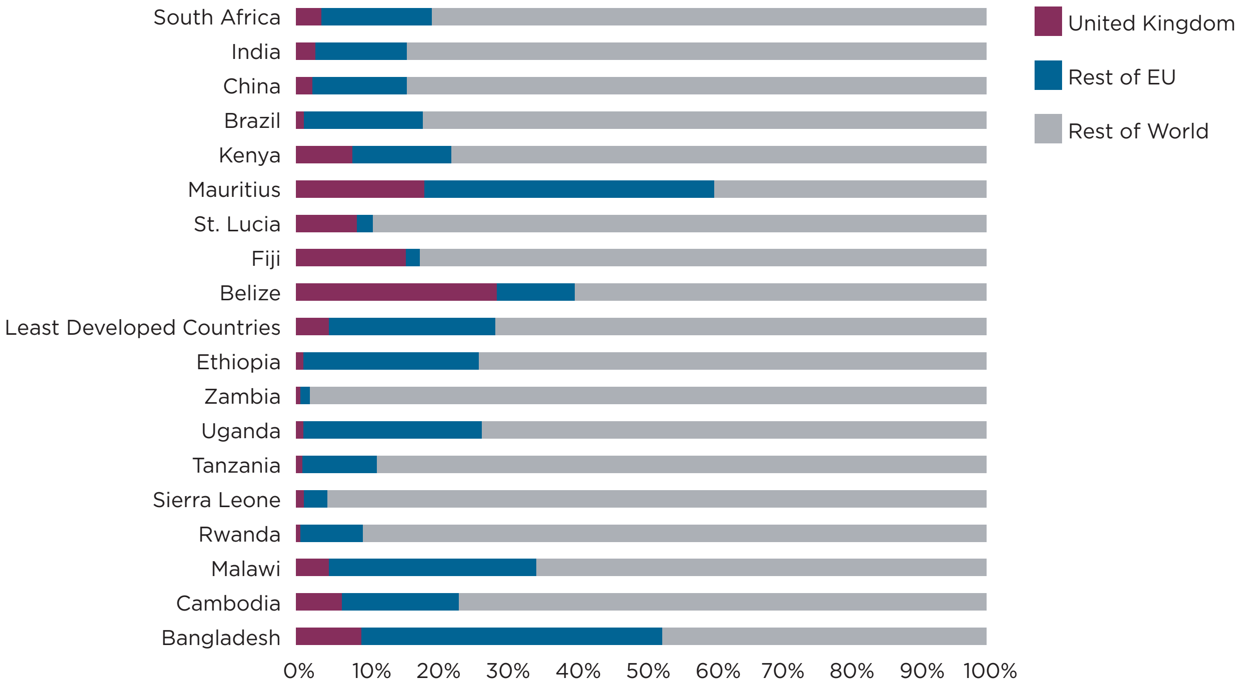
Table 9 Top UK imports from Belize currently eligible for better-than-MFN access

Code	Description	Average 2013-15 (£000)	Share of total import value	MFN tariff Non ad valorem
Total value of imports		**70,592**	**100%**	
Of which: zero MFN or confidential trade		*1,101*	*1.6%*	
08039010	bananas, fresh (excl. plantains)	34,430	48.8%	£104.3/1000 kg net
17011410	raw cane sugar for refining, in solid form, not containing added flavouring or colouring matter (excl. cane sugar of 1701 13)	25,657	36.3%	£26.8/100 kg
17011490	raw cane sugar, in solid form, not containing added flavouring or colouring matter (excl. for refining, and cane sugar of 1701 13)	5,446	7.7%	£33.1/100 kg

Source: Derived from data from Eurostat COMEXT and UNCTAD TRAINS databases. Adapted from Kennan & Stevens (2016)

Research from the ODI further emphasises that for many developing countries the UK represents a high share of overall exports with Belize, Mauritius and Fiji showing significant reliance on the UK in figure 1.

Figure 1: Selected developing country exports by destination (2014)



Source: https://www.odi.org/sites/odi.org.uk/files/resource-documents/10685.pdf

Table 10 shows the value of UK imports from countries where the UK accounts for a particularly high share of the EU total for those product lines. It also highlights the percentage of tariff lines which will be subjected to additional duties once the UK leaves the EU.

Table 10 Countries with high dependency on UK

Country	Regime	UK value of imports	UK share of EU imports	% of non MFN zero
St Lucia	EPA	7,175,329	80.8%	62.3%
Belize	EPA	70,591,466	65.6%	67.2%
Fiji	EPA	45,300,488	63.7%	80.7%
Costa Rica	FTA	1,282,526,939	48.3%	64.9%
Vanuatu	EBA	2,882,083	47%	70%
Botswana	EPA	760,125,719	42.6%	44.3%
Seychelles	EPA	86,741,102	40.6%	72.9%
Guyana	EPA	62,268,189	38.5%	49.2%
Gambia	EBA	3,790,732	32.5%	60%
Equatorial Guinea	EBA	847,289,399	32.4%	71.6%

It is clear that the aggregate value of imports from developing countries of £34 billion is significant. It's also clear, when looked at on a country by country basis, that a high proportion of trade between developing countries and the UK relies on preferences. As outlined above, the government has indicated that it intends to leave the EU Customs Union, as part of its withdrawal from the EU. One of the first tasks facing the government will be to provide notification of its new tariff schedules to other WTO members. Giving evidence to the International Trade Select Committee, Liam Fox the International Trade Secretary confirmed the UK's intention to pursue 'technical rectification' in the first instance, this means that the UK will replicate[13] as much of the existing EU tariff book as possible and that developing countries will face the imposition of tariffs as UK participation in EU preference schemes will automatically lapse. This would clearly damage the prospects of developing country producers and would be at odds with the government's stated free trade ideals. The government must prepare now to ensure that this doesn't happen. The government has indicated in its recently released white paper on the UK withdrawal from the EU that they will seek to

13 http://parliamentlive.tv/Event/Index/74327135-f66f-4f77-a9e8-228e31a7b9e4

‘..ensure continued preferential arrangements for developing countries’ but as yet there has been no indication how this will be achieved[14].

Options for future UK trade policy

There are 4 likely routes the government could take to ensure that developing countries do not face new trade barriers as a result of Brexit.

1. Replicate or continue existing EU treaties

The government is considering the ‘transitional adoption’ of all of the EU treaties the UK is currently party to so that they would continue to trade with contracting parties under the existing terms. On the surface this seems like the simplest and easiest option but further inspection shows that there are significant challenges to pursuing this approach.

First, the UK would face political challenges. It could not simply continue to apply the reciprocal elements of the existing agreements without the agreement of other contracting parties. As initial discussions with South Africa have demonstrated, it would be unrealistic to expect that contracting parties would not seek to alter elements of these agreements and such negotiations cannot officially start until Brexit day 1. Simply adding the UK as a ‘party’ to EU agreements is very problematic now that it is clear the UK plans to leave the EU Customs Union.

Replicating existing EU agreements carries a further political risk due to the fact that some of them – notably the EU’s EPAs with regions in Africa - continue to be controversial. Some developing countries have resisted these agreements (negotiations have now been going on for over fourteen years) and agreement was only secured under threat of tariff imposition and the loss of existing preferences available under the Cotonou agreement[15]. Under WTO rules governing FTAs, the EPAs require reciprocal trade liberalisation of ‘substantially all trade’, compelling even the least developed countries to open their markets to EU goods. Whilst targeted and phased liberalisation of certain sectors is often part of a sound industrialisation strategy, this can be done unilaterally outside of any FTA. Opening over eighty per cent of an economy to just one very developed trading partner however runs the risk of undermining domestic industry.

The EPA negotiation process has also undermined regional integration by offering different arrangements to countries within existing customs unions, leading to fragmentation and regional tension[16]. They also contain rendezvous clauses specifying obligations to revisit more controversial trade-related provisions including investment liberalisation. The government may find it is too politically problematic to replicate EPAs given the levels of public mobilisation against them.

The EU has just under forty FTAs in place, however just two of these (South Korea and Switzerland) account for more that eighty per cent of the trade in value terms[17]. Given the risks, it would seem wise for the UK to carefully consider which of these the UK would like to transitionally adopt and for which countries and regions other trade policy options should be considered. There is an opportunity for the UK to show real leadership here. Given the new trade powers the UK government will assume upon Brexit, it would be a significant missed opportunity for the government to simply copy existing arrangements for developing countries rather than seek to improve upon the EU’s approach to trade.

2. New Free Trade Agreements

The government is considering the negotiation of a series of new FTAs. This has significant resource implications for UK negotiators and poses challenges for developing countries.

The UK is likely to prioritise FTA negotiations with markets deemed to be of most value to the UK; the US, Canada, Australia, New Zealand and the emerging markets of China and India. If this is prioritised at the expense of putting measures in place for developing countries they could face a decade or longer in limbo.

Alternatively the UK may attempt to conclude rapid negotiations with developing countries in the immediate post-Brexit period. Rushed negotiations to meet UK timelines are unlikely to result in high quality agreements that will promote genuine partnerships and meet the needs of developing countries. Any future FTA negotiations must include civil society consultation, robust impact assessments and be conducted in a transparent manner. This would not be possible if negotiations were conducted rapidly. Even if it were feasible to conduct rapid talks upon Brexit it is questionable whether FTAs between developing and developed countries would be appropriate without changes to Article XXIV of the WTO GATT to allow for a greater degree of asymmetry. In addition developing countries have other priorities, for example, continent-wide regional integration and cooperation are high

14 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589191/The_United_Kingdoms_exit_from_and_ partnership_with_the_EU_Web.pdf
15 http://ec.europa.eu/europeaid/regions/african-caribbean-and-pacific-acp-region/cotonou-agreement_en
16 http://www.traidcraft.co.uk/media/588c24fc-4d53-4ec1-94fd-d0bdd1d20a9d
17 http://parliamentlive.tv/Event/Index/74327135-f66f-4f77-a9e8-228e31a7b9e4

on the agenda for sub-Saharan African states[18] and premature negotiation with the UK would interfere with that process.

3. Uniform low tariffs

The government could decide to unilaterally adopt low or zero tariffs and offer these to all trading partners. While this could be an easy option from technical and legal perspectives it may be politically unappealing for the government as they would cede all negotiating power while this reduction in tariffs may not be reciprocated by other developed economies.

This option would also be problematic for developing countries as it would result in significant preference erosion (the margin of preference is the difference between the tariffs they pay and that which other countries pay). As has been outlined earlier this preferential access improves the competitiveness of imports from developing countries relative to other countries, enabling them to secure a higher share of global trade.

4. Non-reciprocal options

If the time required to negotiate strong pro-development future partnerships would create a period of significant trade disruption and uniform low tariffs would weaken the government's negotiating hand then an alternative route would be to consider non-reciprocal options. Getting such a 'floor' in place would also ensure that future moves towards more comprehensive deals were based on genuine mutuality of interest.

One simple option is for the government to unilaterally apply the terms of existing EU FTAs and EPAs with developing countries on a non-reciprocal basis, offering to continue to apply reduced or zero tariffs without expecting contracting parties to reciprocate. Although in theory this would contravene WTO rules as no explicit FTA would be in place, in practice the UK could seek a waiver or risk a challenge. If a dispute were to occur the UK could adopt at least two possible defences. First they could argue that unilaterally applying the existing reduced or zero tariffs to countries currently receiving them via EPAs, FTAs and EU preference schemes would constitute a continuation of obligations. Alternatively the UK could argue that a primary purpose of the WTO to is to facilitate the removal of trade barriers and therefore it would be within the spirit of the WTO project to continue to maintain existing preferences for the developing countries receiving them rather than raising tariffs which WTO member states presumably wouldn't want.

It would be straightforward to replicate the EU's Everything But Arms preference scheme for the least developed countries. While this would ensure continuity for LDCs it would not do so for non LDC countries currently covered by the GSP and GSP+ or FTAs and EPAs. Given the uncertainty around the ability of the UK to continue to offer FTA terms, this could result in imports from the remaining sixty seven countries facing additional duties of around £645 million. As outlined above, a high proportion of goods imported from these countries, for example, Kenya and Belize, currently rely on the waiving of these duties to remain competitive.

Bespoke preference scheme

An alternative option available to the government would be to create a bespoke Generalised System of Preferences scheme which would enable imports from economically vulnerable countries to enter the UK on a duty-free, quota-free basis. This option would be the least problematic to implement. As outlined above, WTO rules permit it through the Enabling Clause and the government could introduce this unilaterally.

Even though tariffs have been reduced globally, preference schemes remain valuable to help stimulate demand for developing country goods. A recent paper by the E15 initiative concluded that trade preferences remain an important tool to address challenges facing developing country exports[19]. This is echoed by an ICTSD paper which outlined the role of preference schemes in contributing to an increase in developing country exports and the value of preferences to attract investment[20].

The developmental impact of existing preference schemes could be significantly improved by incorporating small changes to the way they operate. For a bespoke UK preference scheme to have the greatest impact the government should build on the most effective elements from existing schemes and use these as the template to set the gold standard in preferential market access.

Unlike simply attempting to replicate existing EU initiatives this would be an opportunity for the government to develop a 'best in class' development friendly trade policy. It could do this by incorporating improved rules of origin, extending complete duty-free, quota-free preferences to a wider group of countries to ensure that both the goods currently traded and

18 https://www.au.int/en/agenda2063
19 http://e15initiative.org/wp-content/uploads/2015/09/E15-Finance-Elliott-final.pdf
20 http://www.ictsd.org/downloads/2012/10/a-review-of-trade-preference-schemes-for-the-worlde28099s-poorest-countries.pdf

those offering greater developmental potential were included. The development of comprehensive economic vulnerability criteria to establish eligibility for preferences would enable the UK to lead the world in moving beyond blunt income-only based classifications. The UK could also significantly improve on past preference schemes by incorporating the market access arrangements as a 'trade pillar' within a wider 'trade and development partnership' which could be regionally focused. This would enable bespoke development support to be channeled to a particular region in response to trade needs. For example an 'Africa trade and development partnership' would encompass trade and development support as well as political collaboration, but the trade pillar would simply reference the UK's new GSP or extended EBA scheme.

As outlined previously, almost all developed economies operate some form of generalised system of preferences. Table 11 summarises some of the key programmes.

Table 11 Summary of Key Preferential Access Programmes

Country/ Program	Product Coverage (%)	Excluded Products	Recipients
Canada	99	Dairy, eggs, poultry	LDCs
EU Everything but Arms	99	Arms	LDCs
EU GSP	66	Primarily agricultural products	Low Income Countries, Low middle-income countries
US - AGOA	99	Sugar, dairy, confectionary, peanuts, tobacco, meat	Sub-Saharan African countries
US (GSP for LDCs)	83	Sensitive agricultural products, textiles, apparel, footwear	LDCs
Japan	98	Rice, sugar, fish, leather products	LDCs
South Korea	90	Mostly agriculture, some manufacturing	LDCs

Source: Elliot (2015), Trade Preferences for the Least Developed Countries: Opportunities Not Panaceas, & Laird (2012), A Review of Trade Preference Schemes for the World's Poorest Countries. Adapted in Crawfurd, Mitchell and Anderson (2017), Beyond Brexit: Four Steps To Make Britain A Global Leader On Trade For Development. Additional information Kennan and Stevens (2016)

Table 11 is by no means exhaustive, for example Norway operates a scheme providing reduced or zero duties to 90 developing countries[21] including LDCs and non-LDCs. New Zealand offers preferential access to 141 developing countries[22] considering countries to be eligible if they are LDCs or their GNI per capita is no greater than 70% of New Zealand's. The USA also operates the Caribbean Basin Initiative providing duty-free access for most goods from countries in Central America and the Caribbean[23]. Both the US AGOA scheme and Canada's 'Caribcan' preference scheme have recently had their WTO waivers extended for up to ten years. It's clear that there is scope for flexibility in defining developing countries and therefore freedom to designate eligibility for inclusion in GSP schemes as long as criteria are objective. There are a number of further ways the UK could improve on existing schemes.

Extend product coverage

As outlined earlier, the preferential market access offered by the EU includes a wide variance of product coverage depending on the applicable regime.

Even though the EU's GSP scheme covers approximately 66% of product lines, only around 28% of goods, by value, imported into the UK from developing countries receive duty-free access for products with a higher than zero MFN tariff. This increases to around 88% for the GSP+ scheme, however some country case studies highlight that there are significant coverage gaps.

The GSP+ regime does not cover:

- any of Belize's main exports to the UK: bananas, and two categories of sugar;
- two of Ghana's exports: bananas and yams;
- three of Jamaica's exports: sugar, sweet oranges and rum;
- two of Mauritius's main exports, both of them sugar items;
- four of Swaziland's most important exports to the UK; three of these are sugar, but sweet oranges are also excluded[24].

Developing countries attempting to increase their processing capacity currently face tariff escalation in higher value products. For example, unroasted green coffee beans do not attract a tariff but roasted coffee beans attract an ad valorem tariff of 2.6% under the GSP scheme while unroasted decaffeinated coffee attracts a tariff of 4.8% under the GSP scheme. The tariffs are even higher when the EU's MFN tariffs are applied with 7.5% duty applied to roasted coffee and 8.3% for unroasted decaffeinated coffee.

21 http://www.toll.no/en/corporate/import/free-trade/gsp---generalized-system-of-preference/

22 http://ptadb.wto.org/docs/New%20Zealand_GSP/2012/New%20Zealand%20GSP%20guide%202012%20En.pdf

23 https://ustr.gov/issue-areas/trade-development/preference-programs/caribbean-basin-initiative-cbi

24 Kennan and Stevens (2016) Data to support the creation of a UK trade policy towards developing countries

Tables 12 to 14 below highlight some examples of tariff escalation where processed goods face a higher tariff than raw materials. While the escalation is less marked for the GSP scheme compared to MFN duties they still serve to inhibit the processing of goods for export.

Table 12 tariff escalation for cocoa

Tariff code	Description	Applicable AV duty GSP	Applicable AV duty MFN
18010000	Cocoa beans	0%	0%
18031000	Cocoa butter	4.2%	7.7%
1804000	Cocoa paste	6.1%	9.6%

Table 13 tariff escalation for cotton

Tariff code	Description	Applicable AV duty GSP	Applicable AV duty MFN
52030000	cotton, carded or combed	0%	0%
61034200	men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted	9.6%	12%

Table 14 tariff escalation for coffee

Tariff code	Description	Applicable AV duty GSP	Applicable AV duty MFN
09011100	coffee (excl. roasted and decaffeinated)	0%	0%
09012100	roasted coffee (excl. decaffeinated)	2.6%	7.5%
09011200	decaffeinated coffee (excl. roasted)	4.8%	8.3%
09012200	roasted, decaffeinated coffee	3.1%	9%

The Everything But Arms scheme is a much better basis to maximise the developmental impact of a preference scheme. Goods imported under EBA offer duty-free access to everything but arms, which is equal to around 99% of goods. But eligibility for EBA is limited to LDCs.

A bespoke GSP developed by the UK could improve upon the EU's approach by combining the regimes into one simpler scheme whilst improving the developmental prospects of eligible countries. It could offer the extended product coverage of the Everything But Arms initiative to offer non-reciprocal, duty-free, quota-free market access to all products except arms to all eligible countries, including non LDCs. This would enable the goods of most value to developing countries to benefit from waived tariffs and provide opportunities for diversification in the future by eliminating tariff peaks and escalation.

Improved eligibility criteria

In order to comply with WTO rules eligibility for a GSP scheme must be based on objective developmental criteria. There is currently no universally adopted method to adequately identify developing countries and therefore those most in need of preferential market access. The most commonly utilised classifications such as least developed country, low-income or lower-middle income country, for example, do not fully capture all developmental metrics and arbitrary assessments based on income classification are outdated. A better approach for the UK government to adopt would be to develop economic vulnerability criteria to establish eligibility for preferential market access. Economic vulnerability criteria are utilised by the EU in the administration of its GSP+ scheme and 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 would clearly require some government resources but would be an opportunity for the UK to lead the world in establishing a modern, fit-for-purpose classification that could more adequately assess need.

Our calculations show that using UNCTAD SWVE methodology around 25 of the 116 countries covered in this study would be excluded. This includes at least three countries in Africa who are in customs unions with LDCs and who could be included in a preference scheme on the basis of regional integration criteria. It also includes some more developed economies such as Chile and Mexico for whom an FTA with the UK might be considered appropriate. Thirteen new economically vulnerable countries emerge from the UNCTAD methodology. An initial analysis suggests none of these exports products that would result in a competitive threat to existing preference holders.

We are not proposing wholesale adoption of the UNCTAD SWVE methodology, but rather highlighting the potential merits of taking an approach that is based on a more sophisticated analysis of economic vulnerability. This could be coupled with a graduation mechanism to ensure that preferences are responsive and continue to be well-targeted.

In order to strengthen regional integration and cooperation the government could also explore the potential to extend preferences to wealthier developing countries in a customs union with eligible countries. Facilitating this regional integration and cooperation would help create cohesive trading blocs, enabling larger economies to act as a catalyst for smaller partners to increase trade, exports and broader development. Clearly this would entail providing better market access to some stronger economies than would otherwise be considered but given the development benefits this is a justifiable step to take. The creation of regional engines of growth based on the faster growing powerhouses could enable faster development and increases in trade. This would support 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'. Another area for further investigation by the government would be to consider the possibility of creating a market access scheme for economically vulnerable regions. The African Union has a clear proposal aimed at the OECD countries calling for the creation of a regionalised preference scheme for exactly the reasons outlined above[25].

Improve rules of origin

When goods are imported into one country from another they are regularly subjected to checks to establish conformity with regulatory standards and to assess any applicable tariffs. Depending on the existence of FTAs, different quotas and tariffs are applicable to imports from different countries therefore the country of origin of products must be assessed. The processing of goods from one country in another can alter the originating status. Rules of origin generally define the criteria used to establish the originating status of goods, for example by setting a minimum processing or value addition threshold.

Overly strict rules of origin can have a detrimental effect on regional cooperation and limit the opportunities for developing countries to increase their share of value addition. Many developing countries rely on importing component parts and materials that they do not produce domestically. Rules of origin can limit their ability to process and export added value products, effectively limiting their exports to unprocessed, primary products.

Cumulation is used as a way to enable goods from other countries to be combined or processed and then exported without penalty. For example, Country A might import bearings from Country B and drive shafts from country C to combine with their own parts to produce a powertrain. Cumulation would allow this completed powertrain to be designated as originating in Country A for the purposes of assessing applicable tariffs etc.

The USA's African Growth and Opportunity Act (AGOA) enables this form of cumulation by specifying that items must be "growth, product or manufacture" of one or more AGOA-beneficiary countries[26]. In addition the AGOA also allows materials from non-beneficiary countries to be incorporated into products as long as at least 35% of the value of materials originated in an eligible country. By contrast the EU takes a more complex approach with the guidance on rules of origin for the GSP including different thresholds depending on the relevant HS chapter[27].

In developing its own GSP scheme the UK should take note of developing countries proposals in the Nairobi WTO Ministerial declaration and adopt simple, flexible rules of origin that allow the cumulation of goods from any eligible country. This will maximise integration and cooperation, reduce the costs of production and lower trade barriers. The UK should also conduct analysis of existing schemes to assess the optimum value addition threshold and adopt the minimum feasible threshold for goods containing produce from non-eligible countries.

25 https://au.int/web/sites/default/files/newsevents/workingdocuments/26498-wd-ti6204_e_original_td11.doc

26 https://agoa.info/about-agoa/rules-of-origin.html

27 http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/customs/customs_duties/rules_origin/preferential/annex_22-03_en.pdf

Supply Side Actions

As mentioned earlier, preference schemes do not have to stand isolated from building deeper trade and development partnerships and market access is clearly only part of the equation. To maximise the effectiveness of preference schemes, significant additional investment is required to address supply-side constraints for example lack of capital, business skills, inputs or human resource. Carefully targeted aid for trade programmes can ensure that smaller businesses are thriving and able to take advantage of the market access on offer.

In addition the success of a preference scheme depends not only on its design, but also on its active promotion amongst target users. Government would need to work closely with partner governments and the private sector in developing countries to explain the new scheme and highlight the opportunities it creates.

Conclusion and recommendations

This paper has highlighted the uncertainty surrounding the UK withdrawal from the EU and outlined a number of challenges facing the government.

Unless the government takes action, Brexit will result in the re-imposition of duties on imports from 116 developing countries currently benefiting from full or partial waiving of tariffs. This will weaken the competitiveness of these products, reduce demand, disrupt supply chains and destabilise fragile economies. It will further increase the costs facing UK consumers.

Britain's withdrawal from the EU will result in autonomy over trade policy being returned to the UK. The government should seize this generational opportunity to redefine the UK's approach to trade and ensure that sustainable development is at the heart of UK trade policy. If the government simply attempts to replicate the existing EU trade regime with developing countries, it would have ceded an opportunity to lead the world in introducing pro-development trade policy.

In light of this, there are a number of steps the government can take:

- the government should immediately signal its intention to introduce a preference scheme offering duty-free, quota-free market access to imports from economically vulnerable countries, including but not limited to the least developed countries
- the government should conduct further research to develop a modern, fit-for-purpose, objective economic vulnerability criteria to establish eligibility for such a scheme
- regional trade cooperation and integration should be a central aim of a future preference scheme, the government should further explore the possibility of extending preferences to wealthier catalyst countries in customs unions with predominately vulnerable economies
- flexible rules of origin should be adopted including generous cumulation rules to encourage cooperation and the development of processing capacity in vulnerable countries
- targeted aid for trade initiatives to address supply side constraints should be incorporated into a wider partnership approach to complement preferences.

Annex 1 Countries analysed by current EU regime

Standard GSP only		GSP+ only
Congo	Indonesia	Cape Verde
Cook Islands	Tajikistan	Pakistan
India	Ukraine	Armenia
Micronesia	Uzbekistan	Bolivia
Nauru	Vietnam	Kyrgyzstan
Nigeria		Mongolia
Niue		Paraguay
Sri Lanka		Philippines
EBA		
Afghanistan	Guinea	São Tomé & Principe
Angola	Guinea-Bissau	Senegal
Bangladesh	Haiti	Sierra Leone
Benin	Kiribati	Solomon Islands
Bhutan	Lao PDR	Somalia
Burkina Faso	Lesotho	South Sudan
Burundi	Liberia	Sudan
Cambodia	Madagascar	Tanzania
Central African Republic	Malawi	Timor-Leste
Chad	Mali	Togo
Comoros	Mauritania	Tuvalu
Congo, Dem. Rep.	Mozambique	Uganda
Djibouti	Myanmar	Vanuatu
Equatorial Guinea	Nepal	Yemen, Rep.
Eritrea	Niger	Zambia
Ethiopia	Rwanda	
Gambia, The	Samoa (until 1.1.19)	
EPAs		
Antigua and Barbuda	Fiji	Seychelles
Bahamas	Ghana	St Kitts and Nevis
Barbados	Grenada	St Lucia
Belize	Guyana	St Vincent and the Grenadines
Botswana	Jamaica	
Cameroon	Kenya	Suriname
Cote d'Ivoire	Mauritius	Swazilano
Dominica	Namibia	Trinidad & Tobago
Dominican Rep.	Papua New Guinea	Zimbabwe
FTAs		
Algeria	Georgia	Panama
Chile	Guatemala	Peru
Colombia	Honduras	South Africa
Costa Rica	Jordan	Syria
Ecuador	Mexico	Tunisia
Egypt	Morocco	West Bank and Gaza
El Salvador	Nicaragua	

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