THIRD WORLD NETWORK-AFRICA

BRIEFING NOTE ON EPAs & BREXIT
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Title: Brexit, Diminished Commercial Value of EPAs: A Case for a second Look at the Signed EPAs

Introduction

The exit of the UK, the second largest economy, from the EU, will have implications for already signed trade relations between the EU and Africa. This brief looks at the devaluation of the so-called commercial value of the EPAs that some African governments signed and agro-food sector in Africa and makes a case for re-opening of the signed texts.

a. The Exit of the UK from the Coverage of EU Trade Agreements

The UK's departure from the EU will involve the UK leaving EU trade agreements with the preferential basis for current African agro-food exports to the UK established under these EU trade agreements no longer applying. To put this in context the UK has a larger GDP than the combined GDP of the EU'`s 19 smaller economies combined.

EU GDP 2016 By Member State percent (EU GDP 2016 €14 800 billion)

Country	Germany	UK	France	Italy	Spain	Netherlands	Sweden
percent EU GDP	21.1 percent	16.0 percent	15.0 percent	11.3 percent	7. percent	4.7 percent	3.1 percent
Country	Poland	Belgium	Austria	Denmark	Ireland	Finland	Portugal
percent EU GDP	2.9 percent	2.8 percent	2.4 percent	1.9 percent	1.8 percent	1.4 percent	1.2 percent
Country	Greece	Czech Rep	Romania	Hungary	Slovakia	Luxembourg	Bulgaria
percent EU GDP	1.2 percent	1.2 percent	1.1 percent	0.8 percent	0.5 percent	0.4 percent	0.3 percent
Country	Croatia	Slovenia	Lithuania	Latvia	Estonia	Cyprus	Malta
percent EU GDP	0.3 percent	0.3 percent	0.3 percent	0.2 percent	0.1 percent	0.1 percent	0.1 percent

The departure of the UK thus constitutes a serious dent in the so-called commercial value of the economic partnership agreements (EPAs) concluded by African governments with the EU.

Of all EPA signatories the most affected countries would be South Africa, Kenya, Mauritius and Seychelles since for these countries the UK market accounts for a higher percent of their total exports to the EU than the UK's share of EU GDP would warrant.

EPA Signatories: Dependence on the UK Market in Overall Exports to the EU28

	2017	2016	2015		2017	2016	2015		2017	2016	2015
South Africa	31.3	37.8	26.6	Kenya	28.0	29.1	27.7	Ghana	10.5	10.3	10.5

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Extracted from TWN-Africa Stud

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ii. Author: Paul Goodison (PhD)

	percent	percent	percent		percent	percent	percent		percent	percent	percent
Botswana	3.7 percent	6.2 percent	1.9 percent	Mauritius	21.4 percent	22.1 percent	27.2 percent	Cameroon	2.8 percent	4.3 percent	7.9 percent
Namibia	3.3 percent	4.2 percent	5.0 percent	Seychel	23.9 percent	27.1 percent	33.5 percent	Ivory Coast	7.0 percent	7.5 percent	6.2 percent
Lesotho	0.4 percent	0.5 percent	0.3 percent	Zimbab	20.0 percent	16.0 percent	11.5 percent				
Swaziland	11.0 percent	28.3 percent	10.4 percent	Madagas	3.4 percent	4.0 percent	5.9 percent				
Mozambique	5.8 percent	6.7 percent	7.2 percent	Comoros	03 percent	0.5 percent	0.8 percent				

This situation is even more pronounced if only agro-food exports are considered in general and specific agro-food products in particular. At this level for example in the case of South Africa and Kenya an export dependence on the UK market for a range of individual products is well in excess of 50 percent of their exports to the EU28 market of these products. This makes a case for Kenya to reconsider its stand on the EPA agreement signed with the European Union.

While other EPA signatories have a lower trade dependence on the UK market in both their overall trade with the EU and in their agro-food sector trade, in some of these countries for individual products the dependence on the UK market can be exceptionally high. For example in Namibia while the overall dependence on the UK market in trade with the EU28 has been between a 3.3 percent and 5.0 percent of overall trade (2015-17), for products such as table grapes and fresh and chilled beef the dependence on the UK market in trade with the EU28 was between 29.5 percent and 36.8 percent and 51.1 percent and 65.2 percent respectively of export of these products over the 2015-17 period.

Similarly, for a country like Ghana while the overall dependence on the UK market in trade with the EU is only around 10.5 percent, for bananas this dependence on the UK market has ranged from 47 percent to 54 percent of total banana exports to the EU28 in recent years.

The importance of the UK market in overall trade in agro-food products with the EU for a range of EPA signatories is particularly important since it is the agro-food sector where current margins of tariff preferences under the various EPAs are most significant.

It is thus in the agro-food sector where the UK's departure from the EU represents the most serious erosion of the current so-called commercial value of African EPA arrangements with the EU.

b. The Impact of the UK's Exit on the Functioning of Triangular Supply Chains

In addition to the impact of the UK's departure on the overall volume of trade with the EU which will take place under concluded EPAs, the UK's departure will also impact on the functioning of triangular supply chains which serve the UK market via a port of landing in an EU27 member state or an EU27 market via the UK. ***The Economist*** has claimed that the bulk of UK agro-food imports take place through EU27 member states.

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This dimension of Brexit will affect not only EPA signatories but also LDCs which export along triangular supply chains. This primarily affects high value horticulture and floriculture products which are flown to destinations in a EU 27- member state for onward shipment to the UK.

The most prominent example in this regard would be Ethiopian cut flower exports sold via the flower auction houses in the Netherlands and then shipped to the UK via channel ports. However, it also affects horticulture exports to the UK from Zambia and other African horticulture exporters who find it cheaper to land cargoes in an EU27 member states (e.g. Liege in Belgium) before onward shipment to the UK by truck and cross channel ferry.

At minimum, additional costs will arise along these supply chains. At worst if the UK crashes out of the EU without any agreements in place, these supply chains are likely to be profoundly disrupted by the traffic chaos which will arise at the main channel ports as a result of the re-imposition of standard 3rd country import controls on UK/EU27 trade. This will delay vehicle clearance through ports on both sides of the channel, potentially generating massive traffic congestion along surrounding roads.

The precise extent of this triangular trade is unclear, since currently once a good enters the EU28 market it can freely flow across EU borders, there is thus no 3rd country specific documentation of intra-EU trade flows of potentially affected African exports. This data is likely to be available only at a company by company level, and even then, it is unlikely to be comprehensively available.

Another dimension of current triangular trade which could face disruptions is the trade in value added products produced in an EU27 member state (or the UK) on the basis of imports from African countries which is then traded onward into the UK (or into an EU member state). The most important sector affected by this dimension of Brexit is the cocoa sector where in 2016 exports of cocoa beans, paste, butter and powder accounted for 40.9 percent of the total value of African agro-food exports to the EU28. While there are only limited exports of cocoa beans, paste, butter and powder to the UK, African sourced cocoa beans are critical to EU27 member states onward trade of cocoa products to the UK market.

The reality is despite the complete absence of cocoa production in the EU the majority of UK imports of cocoa paste (61 percent), cocoa butter (53 percent) and cocoa powder (95 percent) were sourced from fellow EU member states. If standard Most Favoured Tariffs MFN tariffs were to be applied to EU27/UK trade then cocoa paste imports into the UK would face duties of 9.6 percent , cocoa butter imports would face duties of 7.7 percent , while cocoa powder imports would face duties of 8.0 percent plus a range of supplementary levies based on the sugar content ranging from €25.2/100 kg to €41.9/100 kg, if the UK stuck to its current commitment to apply EU level tariffs in the immediate post Brexit period.

This creates a situation where the future evolution of EU27-UK trade relations is of critical importance to the future functioning of African-EU28 cocoa supply chains.

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It is, however, unclear what the net effect of any Brexit related disruptions would be on the functioning of existing cocoa supply chains. It is possible that under certain 'hard' Brexit scenarios opportunities could be created for African governments moving up the cocoa value chain in their trade with the UK.

The other main triangular supply chain involving processing and packaging which could be disrupted is the trade in sugar products produced from raw sugar currently sourced on a full duty free-quota free (DFQF) basis from African suppliers, where sugar imports are refined and/or packaged in the UK prior to onward trade into EU27 markets.

It can be argued that since refining and packaging does not change the tariff heading of raw sugar, these refined or packaged products should continue to be treated as if they were ACP/LDC products and hence should continue to enjoy continued duty free-quota free access to the EU market.

This should also apply to ACP/LDC sourced raw sugar originating in countries to which the UK grants full duty free-quota free access where this sugar is packaged or refined in an EU27 member state, prior to onward trade into the UK.

If this is accepted, it would then raise important rules of origin questions as regards the use of sugar sourced under Duty Free Quota Free (DFQF) arrangements from African suppliers in food and drink products produced in the UK and traded into the EU. Addressing this issue in a constructive manner would likely help traditional African sugar exporters retain a market presence in the UK despite any post-Brexit UK sugar sector tariff policy changes.

c. The Impact on the Functioning of Certain EU27 Markets

In certain sectors such as bananas and sugar the UK's departure from the EU will also impact on the functioning of EU27 markets in the post-Brexit period. These sectors are considered 'sensitive' by the EU and so market access concessions under EU bilateral trade agreements tend to be based on tariff restricted reduced duty access (so called tariff rate quotas or TRQs). Once the UK leaves the EU it will take away around 20 percent of EU import demand for both sugar and bananas.

Against this background the question arises: what happens to the EU's bilaterally negotiated TRQ obligations to non-ACP countries? Will these market access rights for non-ACP countries remain unchanged or will they be apportioned between the UK and EU27 markets?

In the Light of this African governments have a firm basis to demand a relook at the EPAs signed with the European Union.

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