

Mr Angus Brendan MacNeil MP
Chair of the International Trade Committee
International Trade Committee
House of Commons
London SW1A 0AA

16th February 2018

Dear Mr MacNeil,

**Submission from the APPG Africa & Royal African Society to the International Trade Committee-
inquiry into trade relations with developing countries**

Introduction

The Africa APPG is cross-party and cross-house active APPG with almost 200 members and is one of the most active APPGs in parliament. It exists to further a positive and mutually beneficial relationship between the United Kingdom and the African continent and increase understanding of Africa within UK parliament. The APPG is supported by the Royal African Society which is a membership society that works to foster better understanding and strong relationships between Britain, Africa and the world. As the secretariat of the Africa APPG the RAS wholeheartedly supports the APPG submission to the committee.

In 2016 the APPG Africa focused on the future of trade and development cooperation relations in the transitional and post-Brexit period. The APPG undertook a study delegation to South Africa and Namibia in addition to commissioning a series of essays by distinguished experts, commentators and activists who explored the outcomes and lessons learned from EU trade agreements with African countries (Economic Partnership Agreements- EPAs) and their impact on poverty and development in Africa. This submission reflects the observations and conclusions of that inquiry a report of which is accompanying this submission in hard copy. It is also available online- [*The future of UK-Africa trade and development cooperation relations in the transitional and post-Brexit period \(February 2017\)*](#).

Summary

- Despite years of negotiating, the EU's EPAs with African countries have been a source of discontent and controversy having been criticised for shrinking the development policy space of African, Caribbean and Pacific (ACP) countries and hindering regional supply chains and economic integration.
- Historically, the UK has championed trade and development at the EU level, particularly with African countries. We believe that a post Brexit Britain should re-evaluate its trading arrangements with Africa and could offer African countries fairer and mutually beneficial trade deals that would be better for Africa's industrialisation and development than the existing Economic Partnership Agreements (EPAs) made between individual African countries and the European Union (EU).

- Ensuring trade flows from African continent to the UK are not interrupted during Brexit is crucial. We believe this should be done by introducing interim non-reciprocal duty free and quota free preference schemes for ACP countries which already have an EPA.
- Any free trade agreements negotiated after Brexit between the UK and African countries should-
 - Respect and support African regionalism and be compatible with the continent’s Regional Economic Areas (RECs) and ambitions for an African-wide Continental Free Trade Area.
 - Include relaxed Rules of Origin clauses which support African regional value chains.
 - Allow adequate policy space for countries to follow their own development paths and support their own priorities.
 - If liberalisation targets are included, they should be tied to development indicators and benchmarks rather than time-frames.
 - Not be rushed or forced through. Parliament must be allowed time for formal parliamentary debate and civil society discussion so all parties are properly consulted within each country involved.

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

Trade is critically important for development in emerging economies. However, our study concluded that the model of EPAs (five out of seven of which are in Africa) between the EU and ACP countries is flawed, due to the manner in which EPAs limit the scope for regional integration and for African governments to make their own development choices and industrialisation plans. Some key concerns that were regularly raised with the APPG are summarised below:

a) Shrinking of policy space

Under the terms of the EPAs, ACP countries are required to liberalise the majority of their markets within a fixed period. Some countries have been able to negotiate leeway for specified infant industries under the EPA. For countries that have not yet developed infant industries, liberalisation in a set time scale could prove problematic. Once an industry has been “opened” to the market it is very difficult to then “close” it. Despite written provisions in the EPA, in practice it would be extremely difficult to protect infant industries in the future, because at least until now, the space in which to do this has been constantly shrinking as trade liberalisation has increased.

Further, under EPA terms most tariffs are prohibited and so the revenue pool from tariffs has been shrinking. Loss of revenue further diminishes governments’ ability to choose whether to generate income from tariffs to invest in building industry and infrastructure which would also attract inward investment.

b) Undermining regional economic integration

The EPAs have coincided with African efforts to rationalise and harmonise the African regional integration agenda. While the EPAs purportedly intend to respect regional integration programmes, they are adding to the complexity of the task. The different provisions of the various EPAs, with different liberalisation commitments, would make it difficult to align commitments to ensure an operational Africa-wide customs union. Additional burdens are created through provisions that

complicate or contradict the agreements African states have with each other or are about to make and create overlaps in African country groupings.

For example, the South African Development Community (SADC) has been divided up over different EPAs. The so-called “SADC-EPA” is made up of members of the South African Customs Union plus Mozambique. The other members of SADC are negotiating Economic Partnership Agreements with the EU as part of other regional groups – the Democratic Republic of the Congo as part of the Central African EPA and Madagascar, Malawi, Mauritius, Zambia and Zimbabwe as part of Eastern and Southern Africa EPA.

Another problem was the inclusion of Least Developed Countries (LDCs) and non-LDC countries in the same EPA groupings. The EU’s Everything But Arms (EBAs) scheme grants LDC countries duty-free access to the European market for everything except arms exports. LDCs therefore have little need to sign a further FTA but have come under pressure from EU and non-LDC countries to sign, which has caused further fractures and stretching of African resources to address these issues.

c) Complex rules of origin and impacts on supply chains

The EU’s Rules of Origin under EPAs have inadvertently undermined regional value chains because rules of origin, which the EU requires, differ from country to country which has created complications for regional sourcing.

Looking at the example of South Africa from the APPG delegation- unlike the other countries, South Africa has not been granted duty free access to the EU for all its agricultural exports. This means that importing a primary product from another country, processing it there and processing it further in South Africa is no longer possible without paying a higher EU tariff. This makes the product less competitive on the open market. This difference in treatment reduces the ability of smaller states within the EPA to harness South Africa’s more advanced level of industrialisation. So those countries find it difficult to develop supply chains with South Africa and aid their own industrialisation without forfeiting their preferential duty-free access to the EU.

For example, Swaziland imports pears from South Africa and cans them before exporting them to the EU, but because South Africa doesn’t have duty free access, Swaziland needs to get regular permission from the EU to continue to export duty free under the rules of origin. This lack of certainty for the pear canning industry means it is unable to get the investment it needs to grow.

Term of reference: How should the UK approach its relationship with countries with whom it currently has an EPA after Brexit?

Interim trading arrangements

The UK is an important export destination for many African countries, however, it is unlikely that negotiating new trade agreements with Africa will be at the top of the Department for International Trade’s priority list after Brexit. It is important exports from African countries to the UK are not interrupted by the Brexit process but it is equally important that trade deals are not rushed through and that there is adequate time for proper democratic and parliamentary scrutiny on all sides. All

stakeholders the APPG met with during the delegation and inquiry prioritised the need for transitional trade arrangements that guaranteed continued access to the UK market after Brexit.

The Africa Growth and Opportunity Act (AGOA) between African countries and the US is non-reciprocal and the WTO has recently granted a 10 year extension. It is likely that the UK would be allowed by the WTO to have a similar non-reciprocal and duty-free preference scheme as an interim trade arrangement with countries formerly covered by an EPA while replacement agreements are negotiated. The WTO enabling clause allows developed countries to offer preferential, non-reciprocal terms to developing countries but rules and exemptions of the WTO should be clearly established before negotiations for an interim arrangement begin.

Implications for the UK's longer-term trading arrangements with ACP countries

The lessons from the EPA experience combined with Brexit present a valuable opportunity for the UK to re-evaluate its trading arrangements with Africa. The upcoming challenge is to ensure that the Department for International Development and the Department for International Trade work closely to ensure that trade deals support economic development across Africa and give African governments the freedom to help their communities flourish.

- Any future trade agreements made with African countries and trade blocs must allow adequate policy space for them to choose their own development paths and support regional integration and development priorities. When working with African countries UK policy makers need to ask what sort of agreements would truly benefit Africa's development and also allow the development policy space for African countries to make their own decisions regarding their industrialisation policies, whether the UK Government agrees with their development approach or not.
- Agreements made with African regional bodies should be negotiated holistically (in a similar fashion to how the EU negotiates) so as not to undermine regional integration projects, including ambitions for a continental free trade area (CFTA) and customs union- an African Economic Community. Individual bilateral agreements are costly and timely and may undermine regional and continental wide integration projects already underway. The strong message that the delegation took away was that the UK post Brexit should try to work with existing regional agreements and negotiate with blocks rather than deploy a "divide and rule" approach that the EPA process has been accused of.
- If included in future agreements, market liberalisation targets should be clearly tied to development indicators and benchmarks rather than arbitrary time frames. Proper procedures and processes need to ensure that development targets have been met. If circumstances change, ACP countries should be allowed to accommodate these changes.
- Rules of origin in future agreements should help support regional value chains and integration in African states to assist them to move away from reliance on primary produce to adding value by processing goods.
- Trade agreements should include commitments from the UK to ensure that the Government addresses issues such as transfer asset pricing in supply chains which deprive African countries of their due revenues.

- Future trade agreements should not be rushed or forced through. Parliament must be allowed time for formal parliamentary debate and civil society discussion so all parties are thoroughly consulted with each country involved.

The Africa APPG and Royal African Society (RAS) welcome the committee's inquiry and we hope the suggestions in our submission and recommendations in our report are useful. Please do contact us if you require any further information.

Yours sincerely,

Chi Onwurah MP

(Chair of the APPG for Africa)

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