



Department for
International Trade

Continuing the United Kingdom's Trade Relationship with the Eastern and Southern African Region

Agreement establishing an Economic Partnership between the Eastern and Southern Africa States, on the one Part, and the United Kingdom of Great Britain and Northern Ireland, on the other Part

February 2019



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This publication is available at www.gov.uk/dit

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ISBN 978-1-5286-1007-0

CCS0219502286

02/19

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

Contents

Introduction	4
Legal approach	5
Resources	5
General drafting changes	6
Removal and replacement of references to the EU	6
Entry into Force provisions	6
Territorial Application	6
Time-bound commitments	7
Explanation of this Agreement, including Significant Differences between the ESA EPA and the Existing EPA	7
Provisional Application	7
Goods	7
Rules of origin	7
Rules of origin derogations	9
Trade remedies	10
ESA EPA committee to review the application of a provision exempting ESA from UK multilateral safeguards	10
Bilateral Safeguards – Sugar	10
Dispute settlement	11
Economic background	13
Economic impact of the existing EPA	15
Potential loss to UK if the ESA EPA is not ratified	15
Immediate impact if not ratified	16
Longer term impact	18

Introduction

1. In line with commitments provided for in the Trade Bill 2017-19, this report explains the Government's approach to delivering continuity in the UK's trade relationship with the Eastern and Southern Africa (ESA) region covering Madagascar, Mauritius, Seychelles and Zimbabwe¹ as we leave the European Union (EU).
2. As we leave the EU the Government has sought to deliver the maximum possible certainty to businesses and consumers through ensuring continuity in the UK's existing trade relationships. It is in no-one's interests to disrupt existing trade flows.
3. To achieve this, we have developed new bilateral agreements that replicate, as far as possible, the effects of our existing trade agreements with existing partners. The agreements provide for entry into force when the existing agreements between the EU and a third country cease to apply to the UK, whether the UK leaves the EU with no agreement or at the end of the Implementation Period if the Withdrawal Agreement is ratified. In either event, the new bilateral agreements will form the starting points for our future trade agreements with partners.
4. Wherever possible, we have sought a technical replication of these agreements, but in some cases, we have applied bespoke solutions for individual agreements as necessary to ensure continuity of effect in a UK-only context.
5. In accordance with the commitments provided for in the Trade Bill 2017-19, this report gives details of, and explains the reasons for, any significant differences between:
 - a. trade-related provisions of the Agreement establishing an Economic Partnership between the Eastern and Southern Africa States, on the one part, and the United Kingdom of Great Britain and Northern Ireland, on the other part² ("the ESA EPA") and
 - b. the trade-related provisions of the Interim Agreement establishing a framework for an Economic Partnership Agreement between the Eastern and Southern Africa States, on the one part, and the European Community and its Member States, of the other part, signed at Grand Baie, Mauritius on 29 August 2009 ("the existing EPA").
6. The report first sets out the general drafting changes which are consistent across all our continuity trade agreements and which do not have a significant impact on the effect of our current trade relationships. It then explains any significant differences between the trade-related provisions in the ESA EPA and the existing EPA. We have included some discussion of the impacts. This report focuses solely on the changes made to the relationship between the UK and ESA countries as a result of moving from the current to a new agreement. Any impacts resulting from the UK's exit from the EU or the nature of the Future Economic Partnership have been excluded from this report.
7. The UK has chosen the form that the States involved agree is the most pragmatic and sensible in the circumstances, taking into account the wishes of partner countries. Accordingly, some agreements have been drafted in long form to reflect these wishes. The ESA EPA is a long form agreement.

1 In July, the Comoros signed the Agreement, and it is currently in the process of ratification. Zambia have not signed to date.

2 Agreement establishing an Economic Partnership Agreement between the Eastern and Southern Africa States, on the one part, and the United Kingdom of Great Britain and Northern Ireland, on the other part.

Legal approach

8. To draft the ESA EPA we have reproduced all relevant sections of the existing EPA with necessary technical and administrative changes to make this operable in a UK-only context.
9. The existing EPA is the only trade agreement between the EU and ESA countries.

Resources

10. This report is intended to aid businesses, consumers and parliamentarians in understanding any significant differences made to the UK's trade relationships with Madagascar, Mauritius, Seychelles and Zimbabwe, the reasons for any changes, and their impact.
11. The existing EPA can be found in hard copy in the Houses of Parliament Libraries and online on the European Commission website and on Gov.uk at the following links:
<https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=OJ:L:2012:111:TOC>
<https://www.gov.uk/government/publications/eu-no92018-eceastern-and-southern-african-states-interim-agreement-establishing-a-framework-for-an-economic-partnership-agreement>
12. More detail, including decisions of joint committees set up pursuant to the existing EPA for the purpose of administering the agreement, can be found on the EUR-Lex site:
<https://eur-lex.europa.eu/collection/eu-law/inter-agree.html>
13. A consolidated version of the existing EPA can also be found on the EUR-Lex site. The consolidated text is not an authoritative version of the Agreement but will assist readers to understand how the Agreement has been amended since its entry into force.
14. The full text of the ESA EPA will be laid in Parliament alongside an Explanatory Memorandum as part of the UK's treaty ratification process as set out in the Constitutional Reform and Governance Act 2010. The text will also be available online on the gov.uk website.

General drafting changes

15. This section gives an overview of the general drafting changes we have made to all agreements. It is subject to the more specific information in the section headed “Explanation of this Agreement, including Significant Differences between the ESA EPA and the existing EPA” below.

Removal and replacement of references to the EU

16. Once the UK leaves the EU it will not generally be appropriate for UK agreements to reference the EU. Consequently, where applicable, references have been removed or replaced by references to the “United Kingdom” or “UK” (as appropriate).
17. References to the “European Union”, the “EU”, “EU Party” and, similarly, references to all EU Treaties, EU legislation made under those Treaties or commitments and reservations made by other “EU Member States” have also been removed or replaced, as have references to the “European Commission.”
18. References to “Member States” have been deleted or replaced with references to the “United Kingdom” or “UK” (as appropriate).
19. References to EU institutions have been replaced with appropriate UK-equivalent institutions or deleted (as appropriate).
20. References to “the Treaty on European Union” and “the Treaty on the Functioning of the European Union” have been deleted or replaced (where appropriate).
21. Certain provisions relevant only to the EU, such as provisions which apply only to EU Outermost Regions, have been deleted, as have provisions relating to the accession of new EU Member States and to EU languages (other than English and other languages which remain relevant to particular agreements).

Entry into Force provisions

22. Entry into force provisions specify the date from which the terms of the agreement will bind the parties. Existing entry into force provisions have been replaced with new provisions to ensure that, whatever the scenario in which the existing EPA ceases to apply to the UK, the ESA EPA enters into force as swiftly as possible. For the ESA EPA to enter into force, it must first be ratified by both the UK and ESA. In UK domestic law, before an agreement subject to ratification may be ratified by the Foreign Secretary, it must be laid before Parliament for scrutiny under the Constitutional Reform and Governance Act 2010 (“the CRaG Act”).
23. Provisional application is a mechanism which allows an agreement to be applied prior to its entry into force. This means that the treaty can be applied provisionally without its having completed the scrutiny or other procedures required by the domestic law of the respective negotiating States, provided any necessary domestic implementing measures are in place. Where the negotiating states have agreed that a treaty may be provisionally applied from the date the underlying EU agreement ceases to apply to the UK, the treaty may be operated provisionally from that date if this becomes necessary while, in the case of the UK, the treaty completes the procedures set out in the CRaG Act. A number of the existing EU agreements provide for provisional application and were provisionally applied.

Territorial Application

24. The Territorial Application article sets out to which territories this agreement applies, and how it applies to them. In the existing EPA, the Territorial Application article defined the EU’s territorial

coverage of the agreement by referencing the EU treaties. In the new ESA-UK EPA, this has been replaced by an article which ensures that the agreement applies to the UK and the territories for whose international relations it is responsible in the same way as the previous agreement did.

Time-bound commitments

25. Parts of agreements that contain a transitional period, requiring a party to complete an action within a certain timeframe, and which have not yet been fulfilled under the conditions of the original EU agreement, have been amended so that the new UK agreement reflects the remaining time in which the obligation must be fulfilled.

Explanation of this Agreement, including significant difference between the ESA EPA and the existing EPA

26. This section provides a discussion of changes in the ESA EPA with Madagascar, Mauritius, Seychelles and Zimbabwe.

Provisional Application

27. The existing EPA provides for provisional application, and indeed it is still currently provisionally applied by the EU. Given that the UK is seeking to maintain effects of the existing agreement with Madagascar, Mauritius, Seychelles and Zimbabwe as we leave the EU, we have retained this provision in the ESA EPA. This provides us with the option of a proportionate approach to manage the demands on parliamentary time during this unique period, whilst minimising disruption to businesses and consumers as we leave the EU. Provisional application would allow businesses that use this agreement in the UK and ESA countries to continue to access this agreement.

Goods

28. Goods chapters in trade agreements set out the treatment and the level of access to the domestic market granted goods from partner countries. This includes setting tariff levels on various products, establishing bilateral safeguards and determining the Rules of Origin.
29. In the ESA EPA commitments on tariffs for both the UK and ESA countries have been transitioned without changes. This means that tariff preferences applied by the UK to goods from Madagascar, Mauritius, Seychelles and Zimbabwe will remain the same as those applied by the EU under the existing agreement, and likewise those countries will continue to apply the same preferences to goods from the UK that they are currently applying to goods from the EU.
30. In cases where import duties remain subject to staged tariff reductions, reductions will continue at the same pace as scheduled in the existing EPA.

Rules of origin

31. In free trade agreements, Rules of Origin are used to determine the economic nationality of a good. To qualify for preferential tariff rates, a good must “originate” in the territory of one of the parties to the agreement. Trade agreements may also allow materials originating and/or

processing in a country other than the exporting party to count towards meeting the specific origin requirements for preferential treatment, a process known as “cumulation”.

32. There are two categories relevant to determining whether goods “originate” in the exporting country for the purposes of a free trade agreement:
- a. Wholly obtained – these are goods that are wholly obtained or produced entirely in a single country. Examples include 1) Mineral products extracted from the soil; 2) live animals born and raised.
 - b. Substantial transformation – these are goods that are made from materials which come from more than one country, and the origin is therefore defined as that of the country where the goods were last substantially transformed. This can be determined in three ways:
 - i. Value added – this type of rule requires that a proportion of the final value of the product be added in the exporting country.
 - ii. Change in Tariff Classification (CTC) – This type of rule requires that the final product be sufficiently different from the imported materials so that it moves to a different tariff classification altogether.
 - iii. Specific processing or manufacturing – These rules typically apply where value-added or CTC rules may not adequately determine originating status, and where specific processes are required to meet originating criteria.
33. As a member of the EU, all UK content is currently considered as “originating” in the EU and UK exports are designated as being of “EU origin”. This means that materials from, and processing in, the UK and the rest of the EU can be used interchangeably in bilateral trade with existing EU trade agreement partners. This will no longer be the case when existing EU trade agreements stop applying to the UK. At this point, the designation of UK exports will shift from “EU” originating, to “UK” originating and EU content will (unless specific provision is made in new agreements) no longer count towards meeting the origin requirements for preferential treatment for either party. This would have implications for goods traded between the UK, EU and ESA.
34. To address these implications and to provide maximum continuity for business, it has been agreed in the ESA-UK Agreement that EU content and processing can be recognised (i.e. cumulated) in UK and ESA exports to one another. The cumulation arrangements are set out in detail in the Title II (Definition of the concept of ‘originating products’) of the Rules of Origin Protocol and subject to satisfying the conditions specified in the agreement.
35. If cumulation of EU content for the UK and the ESA countries were not permitted under the ESA-UK Agreement, some UK and ESA based exporters might find themselves unable to access preferences as they are currently able to under the ESA-EU Agreement. UK exporters to ESA who rely on EU content might have to revert to paying Most Favoured Nation (MFN)³ tariff rates, if they continued using EU content, or they might have to review and reassess their existing supply and value chains as a result of this change. The impact would, of course, vary across sectors.

³ ‘Most Favoured Nation’ treatment is applied to all World Trade Organisation (WTO) members, which states that members should accord similar treatment for all other members. Preferential Trade Agreements are allowed as an exception to this provision, under Article VI of WTO law, if they cover ‘substantially all trade’.

36. The ESA-UK Agreement provides only for trade between the UK and ESA and does not provide for either party's direct trade with the EU, including, for example, where UK and ESA based exporters use content from each other in exports to the EU.

Rules of origin derogations

37. Derogations contained in the Rules of Origin part of trade agreements allow a volume of specific product lines to be exported under a more lenient rule of origin, if agreed by a Committee established by the agreement. They allow exporters who may have struggled to meet the origin requirements in the list of product-specific rules to secure preferential access for a specified amount of their product.
38. Some derogations must be granted automatically after an application is made to the Committee. The automatic derogation quotas in the existing EPA were agreed between the EU and ESA. They include inbound (ESA to EU) quotas for specific products, in this case canned tuna and tuna loins, and were agreed upon in relation to the size of the EU and ESA markets. When the UK leaves the EU, ESA countries can no longer use the automatic derogation quotas in the existing EPA to access the UK market.
39. To maintain the market access offered under the original quotas for these products, the UK has amended agreed automatic derogation quotas with ESA to reflect the bilateral trade flows observed in recent years and the fact that the UK is a smaller market than the EU28. This provides continuity of market access opportunities for exporters from ESA and allow quotas to accommodate the bilateral trade flows observed in recent years.
40. Where possible, automatic derogation quotas have been re-sized based on 3-years of usage data (i.e. for canned tuna). In order to preserve future market access opportunities for UK and ESA businesses, it was also agreed to use a proxy based on trade flow data where usage data showed historic trade was very low (i.e. for tuna loins).
41. Without retaining the automatic derogations, goods imported from ESA that are currently covered by these quotas in the existing EPA could face more restrictive rules of origin under the ESA EPA, and potentially even MFN tariffs. The impact of this would depend on existing trading patterns, and the response of domestic consumers and businesses to the change in tariff. UK imports from ESA in these products were worth £111 million in total in 2017, equivalent to approximately 33% of total UK goods imports from ESA.⁴
42. Reconfiguring quotas based on historic usage and trade flow data does mean that the ability to apply the quota flexibly across 28 Member States is lost, but since derogation quotas have been resized in a way that reflects estimates of historic usage of the quotas, it is expected that the impact on ESA producers and UK consumers will be limited.

Table 1: List of automatic derogation quotas from ESA to the EU and new quota volumes

Order Number 5	Product description	New UK quota volume (tonnes)
091618	Canned tuna	6300
091619	Tuna loins	340

⁴ HM Revenue and Customs, UK trade statistics data, <https://www.uktradeinfo.com/Pages/Home.aspx> 2017.

Trade remedies

43. Trade remedies provide a safety net for domestic industry against unfair or injurious trading practices involving dumped, subsidised or unexpected surges of imports of goods. All major WTO members have a trade remedies regime

ESA EPA committee to review the application of a provision exempting ESA from UK multilateral safeguards

44. The ESA EPA includes a provision requiring the EPA Committee to meet to review whether ESA should be exempted from UK multilateral safeguards for a period of time. This meeting will take place no later than 120 days after entry into force of the ESA EPA.

45. In the existing EPA, ESA were exempted from EU multilateral safeguards for a period of 5 years, beginning on 14 May 2012. The provision required the EPA committee to review the exemption at the end of this period to decide whether it should be extended. We understand that this review did not take place. UK and ESA have reached an agreement that this review should take place under the ESA EPA.

46. The EPA committee will meet to determine whether ESA is to be exempted from UK multilateral safeguards for a set period. The impact of an exemption would be expected to be minimal as safeguards are rarely used. The EU currently has only one in place, on steel products. If the UK does impose a safeguard, the exemption would only have a meaningful impact if ESA were a significant exporter or producer of the products covered by the safeguard.

Bilateral Safeguards – Sugar

47. The existing EPA includes a provision that allows the EU (i) to apply a bilateral safeguard duty to imports from ESA countries if certain conditions are satisfied, including for example if a disturbance in an EU agricultural product market arises (the 'bilateral safeguard'); and (ii) to determine that a disturbance in the EU sugar market for this purpose has arisen if the price of sugar falls below a certain level (the 'trigger price mechanism'). In line with the principle of technical replication we are transitioning these provisions and establishing a trigger price mechanism for the UK sugar market.

48. Data is not, however, available to determine what the appropriate level for the trigger price mechanism should be in the UK at this time. This is particularly the case given recent volatility in sugar prices following the reform of the EU domestic sugar regime. To ensure that the ESA EPA is operable upon entry into force, we have agreed with our partners to suspend the trigger price mechanism temporarily. We have agreed that the Parties will review the price trigger after entry into force of the ESA EPA. The price trigger set in the existing EPA will reapply after a period of five years, unless the Parties reach agreement on a replacement trigger price.

49. We do not envisage an impact on the UK. Given the substantial convergence of UK and EU sugar prices with those prevailing on world markets, it is unlikely that it will be appropriate to deploy safeguards in the foreseeable future. The temporary suspension of the trigger price mechanism does not prevent the UK applying a bilateral safeguard duty to sugar imports based on the standard procedures applicable in the ESA EPA.

Dispute settlement

50. The economic benefits of an EPA can only be realised if they are faithfully implemented and complied with. A dispute settlement mechanism in an agreement signals the Parties' intention to abide by the agreement, thereby increasing business and stakeholder confidence that commitments set out in the agreement can, and will, be upheld. The dispute settlement mechanism therefore provides an important deterrent function. It also provides an effective mechanism for enforcing those commitments, and for resolving any disputes arising. We have replicated the effects of these provisions in all agreements.
51. The dispute settlement chapter of the existing EPA makes reference to the 'optional arbitration regulation of the Permanent Court of Arbitration for International Organisations and States'.⁵ This reference is not relevant to the ESA EPA because the EU is not a party to the agreement. It has therefore been necessary to replace this reference and agree a new set of rules for the purpose of governing the arbitration.
52. We have changed the reference from the 'optional arbitration regulation of the Permanent Court of Arbitration for International Organisations and States' to the 'Permanent Court of Arbitration rules 2012'. We have relied on the Permanent Court of Arbitration rules 2012 because these are the most recent rules from the Permanent Court of Arbitration available. These rules consolidate previous rules (including those which were in place when the existing EPA was negotiated), and parties may use them for the arbitration of disputes involving various combinations of states, state-controlled entities, intergovernmental organisations, and private parties. This does not materially change how arbitration rules would be applied.
53. The impact of transitioning the dispute settlement chapter from the existing EU trade agreements is that, in the unlikely event that a dispute arises, the UK will be directly responsible for any relevant costs associated with the dispute settlement process.

Cotonou agreement

54. The existing EPA contains a range of references to the Partnership Agreement between the EU and the African, Caribbean and Pacific Group of States (ACP)⁶ ("the Cotonou Agreement"). The Cotonou Agreement provides a framework for the EU's political, development and trade relations with these 79 developing countries. When the UK leaves the EU the Cotonou Agreement will cease to apply to the UK.
55. Some references to the Cotonou Agreement contained in the existing EPA can be deleted without any change to the effect of the ESA EPA. For others, we have sought to ensure continuity of the effect of the references in the existing EPA to the Cotonou Agreement which are relevant to the UK's trade relationship with the Madagascar, Mauritius, Seychelles and Zimbabwe. Those references include the objectives and essential and fundamental elements set out in the Cotonou Agreement and the ability to take appropriate measures in the event of a

⁵ The optional arbitration regulation of the Permanent Court of Arbitration defines an "international organisation" as an "intergovernmental organisation" (such as the EU).

See <https://pca-cpa.org/wp-content/uploads/sites/175/2016/01/Optional-Rules-for-Arbitration-Between-International-Organizations-and-States-1996.pdf>

⁶ Partnership Agreement between the Members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States of the other part, signed in Cotonou on 23 June 2000, revised on 25 June 2005, and further revised on 22 June 2010,

violation of those elements. For these references we have replicated the relevant provisions of the Cotonou Agreement in the ESA EPA as Annex V.

56. Annex V replicates the language of the Cotonou Agreement and the EPA to ensure that respect for human rights, democratic principles and the rule of law, and good governance remain as essential and fundamental elements of the ESA EPA; and that if needed, appropriate measures can be taken in the event of a violation of these elements. Annex V also outlines the principles that will apply to any development cooperation provided by the UK to the ESA countries to support implementation of the ESA EPA. The overall result is a replication of the effects of the Cotonou references in the existing EPA.

Amending the agreement

57. In line with the continuity principle, we have not made any changes to the amendment provision in the existing EPA. The language was fully replicated in the ESA EPA. The Parties may amend the text of the Agreement through a decision of the EPA Committee. Such amendments will enter into force subject to ratification by the Parties (Article 64). This would trigger scrutiny procedures required by the Constitutional Reform and Governance Act 2010 (CRaG Act). In addition, the EPA Committee is entitled to adopt any transitional measures that may be required in respect of the amended provisions until they come into force.

Expanding the agreement

58. The ESA EPA replicates the clause in the existing EPA which lists areas for future negotiations to expand the agreement. These include trade in services, technical barriers to trade, sanitary and phytosanitary measures, procurement, agriculture and intellectual property rights.
59. The timetable for these negotiations will be jointly agreed within six months of entry into force of the ESA EPA; this 6-month timetable is a new provision in the ESA EPA which does not have direct precedent in the existing EPA.

Economic background

60. This section provides a country-specific background analysis of trade between the UK and ESA countries.

61. Total trade in goods and services between the UK and Madagascar, Mauritius, Seychelles and Zimbabwe ('the region') was £1.5 billion in 2017, around 0.1% of UK total trade.⁷ Madagascar is the UK's 143rd largest trading partner,⁸ Mauritius is the UK's 79th largest trading partner, Seychelles is the UK's 146th largest trading partner, and Zimbabwe is the UK's 100th largest trading partner.

62. In 2017, UK exports to the region were £0.6 billion. Madagascar is the UK's 152nd largest export market, Mauritius is the UK's 91st largest export market, Seychelles is the UK's 166th largest export market, and Zimbabwe is the UK's 92nd largest export market.

63. UK imports from the region were £0.9 billion. Madagascar is the UK's 125th largest import market, Mauritius is the UK's 71st largest import market, Seychelles is the UK's 118th largest import market, and Zimbabwe is the UK's 106th largest import market.

Table 2: Trade between the UK and Madagascar, Mauritius, Seychelles and Zimbabwe 2017 (£ billion)

	Trade in Goods	Trade in Services	Total trade
UK exports to the region	0.1	0.5	0.6
UK imports from the region	0.3	0.6	0.9
Total trade	0.4	1.1	1.5

Source: [ONS, \(2018\). UK trade: August 2018](#); [ONS, \(2018\). UK trade in services by partner country experimental data: April to June 2018](#).

64. The ESA economies with the largest value of trade with the UK in 2017 were Mauritius and Zimbabwe. The trade between the ESA countries and the UK is shown in the table below.

Table 3: Trade between the UK and ESA economies in 2017 (£, million)

	UK Exports Goods	UK Exports Services	UK Imports Goods	UK Imports Services	Total trade
Madagascar	19	14	30	32	95
Mauritius	40	243	162	503	948
Seychelles	6	14	63	8	91

⁷ ONS, (2018). UK trade: August 2018; ONS, (2018). UK trade in services by partner country experimental data: April to June 2018.

⁸ Treating EU members as individual trading partners with the UK.

Zimbabwe	17	248	69	51	385
Total	82	519	324	594	1,519

Source: [ONS, \(2018\). UK trade: August 2018](#); [ONS, \(2018\). UK trade in services by partner country experimental data: April to June 2018](#).

65. Using data from HMRC for trade in goods only, Table 4 shows the top goods exported to the region were in electrical machinery and equipment (£31 million in 2017), machinery and mechanical appliances (£28 million), and vehicles other than railway or tramway stock (£27 million), combined representing over half of the total value of goods exported to the region. The UK's top goods imported from the region were in preparations of meat and fish (£111 million in 2017), apparel and knitted clothing (£86 million), and precious metals and stones (£62 million), together representing almost 80% of the total value of goods imported from the region.

Table 4: Top 5 UK goods exports to & imports from the region, 2017 (at HS2, £ million)

Top 5 UK goods exports to the region	Value	Top 5 UK goods imports from the region	Value
Electrical machinery and equipment	31	Preparations of meat and fish	111
Machinery and mechanical appliances	28	Apparel and clothing (knitted)	86
Vehicles other than railway or tramway	27	Precious metals and stones	62
Beverages, spirits and vinegar	8	Sugar	23
Pharmaceutical products	7	Apparel and clothing (not knitted)	13

Source: [HMRC trade statistics by commodity code](#), accessed December 2018. Sectors classified according to Harmonised System Sections. Data presented is recorded on a 'physical movement' basis where a good is recorded as an export (import) if it physically leaves (enters) the economic territory of a country.

66. Sector data for trade in services is not available for Madagascar, Mauritius, Seychelles or Zimbabwe.
67. The goods trade figures in Tables 2, 3 and 4 are not directly comparable. The ONS data is recorded on a 'Balance of Payments' or 'change of ownership' basis where a good or service leaving (entering) the economic territory of a country is recorded as an export (import) only if it has changed ownership between the resident of the reporting country and non-residents. Goods exports (imports) are recorded by HMRC if a good physically leaves (enters) the economic territory of a country.
68. In 2017, HMRC estimated that 1,508 VAT-registered UK businesses exported goods to and 216 imported goods from Mauritius.⁹ Estimates are not available for the number of UK businesses trading with other ESA economies.

69. For context, provisional survey data from the ONS¹⁰ shows that around 340,500 (non-financial) registered businesses in Great Britain traded either goods or services or both in 2017 with another country. This was just under 15% of all VAT/PAYE registered businesses. There were around 203,900 (non-financial) registered businesses in Great Britain engaged in goods trade with another country and 194,600 (non-financial) registered businesses trading in services in 2017. Some of these businesses traded in both goods and services. There will be other businesses trading internationally, which are not identified by these surveys as they are not registered for VAT. Neither of these sources include businesses trading below the VAT registration threshold.

Economic impact of the existing EPA

70. In 2018, Department for International Trade and Department for International Development published an impact assessment for the ratification of the existing EPA. The impact assessment's central estimate was of a £0.22 million cost to UK businesses, resulting from familiarisation costs to business. However, this was the only monetised impact and should be set against the numerous benefits to business and the wider economy that have not been monetised. Longer-term benefits of this agreement are expected to outweigh the limited, short-term costs.

71. In 2007, the European Commission published a Sustainability Impact Assessment (SIA) covering all their ACPEPAs.¹¹ It found that the existing EPA would have a positive effect on two-way trade flows (for both Least Developed Countries [LDCs] and non-LDCs) and a positive impact on the economy through increased production (for both LDCs and non-LDCs). It also estimated that there would be a positive social impact through greater employment and incomes. However, there was uncertainty over the effects on the environment.

72. The European Commission highlighted the general development benefits associated with EPAs for partner countries. These range from creating new business, trade and investment opportunities, to positive labour market impacts and support for farmers, to promoting economic integration into the local region.¹²

Potential loss to UK if the ESA EPA is not ratified

73. Not being able to ratify this transitioned agreement would result in UK businesses losing the preferences negotiated in this EPA. This would include the re-imposition of many tariffs, returning to MFN treatment with the region. The benefits derived from trading under preferences within the FTA, such as increases in trade flows, may then be reversed.

74. It is unlikely that the entire effect of the agreement achieved so far would disappear. Many tariffs would automatically revert to MFN rates, discussed in further detail below, but it could take longer for some of the other benefits to be lost. Some gains might endure even in the long-run. For example, the UK might still benefit from any regulatory arrangements agreed because of the EPA. Business connections formed because of the EPA might endure.

75. In addition, the existing deal has been applied since 2012, with tariff implementation concluding in 2022. Therefore, the full benefits of the deal will not yet have materialised.

10 ONS. [Annual Business Survey: Non-financial business economy, exporters and importers in Great Britain 2017](#)

11 The SIA focused on the Horticulture sector as a focus for the ESA analysis stage.

12 European Commission (2016) 10 benefits of Economic Partnership Agreements (EPAs)

76. The size of the impact of not ratifying the ESA EPA would depend on the responsiveness of trade flows to increased costs brought about by the loss of provisions within the agreement.¹³

Immediate impact if not ratified

Tariffs

77. Much international goods trade takes place in products for which MFN rates are already zero. However, EPAs provide additional opportunities by reducing tariffs in products where this is not the case. If the UK-ESA Agreement were not signed, tariffs between the UK and ESA countries would automatically revert to MFN rates for all trade, other than where specific partner countries benefitted from preferential access to the UK market under a unilateral preference scheme. This would lead to an increase in duties on some UK exports to and imports from ESA.

78. It is the Government's intention that countries that currently benefit from preferential access to the UK through the Generalised Scheme of Preferences (GSP) would continue to receive the same access through a new UK trade preferences scheme. This includes countries that benefit from Everything But Arms who would receive duty-free quota-free access on all goods, and those who would be eligible for standard GSP preference which would provide tariff reductions on two thirds of all tariff lines, but not the same level of access as that offered by an EPA. Higher income partner countries would not benefit from unilateral preferences.

79. To estimate the potential impact of losing tariff preferences, assumptions have to be made. If all current trade between the UK and ESA occurred at the negotiated preferential tariff rate, if current patterns of trade remained unchanged in future, and without taking into account the effect of any unilateral preferences, reverting to the UK and partner countries' current MFN tariff rates would result in an implied annual increase in total duties of around £55 million. This would predominantly be duties on imports from the region at over £53 million, with implied additional duties on UK exports increasing by almost £2 million.¹⁴

80. However, these estimates assume that all tariff preferences offered under the current agreement are fully utilised by exporters. This is unlikely to be true. In 2016, DIT estimates suggest that 96% of the UK's eligible goods imports from Mauritius, Seychelles and Zimbabwe (defined as those which occurred under tariff lines where a preferential rate was offered under the agreement) actually utilised the tariff preferences.¹⁵ This means that the actual increase in duties could be lower than the estimates above.

13 Head K and Mayer T. '[Gravity Equations - Workhorse, toolkit and cookbook](#)' 2013 and Dhingra and others. '[Beyond Tariff Reductions: What Extra Boost From Trade Agreement Provisions?](#)' 2018

14 DIT's own calculations using tariff data from ITC Market Access Map and HMRC trade statistics. Implied additional duties are calculated using the difference in MFN and preferential tariff rates and the current value of trade for each product at HS2 level, 2017. MFN tariff rates for imports into the UK are trade-weighted average rates using a reference group of countries by ITC Market Access Map, rather than bilateral trade data. This is to overcome endogeneity bias which may show low average tariff rates where there are low bilateral trade values. These results assume all trade occurs under preferential EPA tariff rates. Different approaches to this analysis are likely to yield different results. Import tariff data are available for Madagascar (2018), Mauritius (2018) and Seychelles (2017), but not available for Zimbabwe (Sources: [ITC Market Access Map](#) and [HMRC Trade statistics](#)).

15 DIT's own calculations using data from [Eurostat](#) (accessed 19th November 2018). Note that using a single year does not account for fluctuating trends in bilateral trade flows, which can be significant. In general, data on the preference utilisation of trade deals is not readily accessible and should be treated with

81. Similar data on UK eligible goods exports to any of the ESA countries is not publicly available.
82. The total duty which would in fact be charged on exports and imports would depend on how quantities and prices of traded products adjusted to the imposition of tariffs. If UK producers were not previously utilising the preferential rates or producers and consumers changed their behaviour in response to higher tariffs, this cost would be lower than estimate above. These are strong assumptions, so this figure should be treated as an indicative estimate of the magnitude of the trade barrier under this scenario.
83. Over half of the possible annual increase in total duties would be made up of duties on traded goods with Mauritius (almost £32 million). This corresponds with Mauritius making up a large proportion of UK trade flow with the region. As an upper-middle and high-income country respectively, Mauritius and the Seychelles would not benefit from unilateral preferences and would therefore face UK MFN tariffs in the absence of an EPA. The indicative estimate is that the implied additional duty would be over £5 million a year on goods traded with Madagascar, £16 million on goods traded with Seychelles, and £2 million on goods traded with Zimbabwe.
84. As a Least Developed Country, it is anticipated that Madagascar would qualify for tariff free quota free UK market access, meaning duties would not in fact apply.
85. As a lower middle-income country, it is anticipated that Zimbabwe would qualify for GSP market access, meaning a reduction in the duties which would apply. Under current trading patterns and UK MFN and GSP tariff schedules, trading under GSP would mean around 87% of UK goods imports from Zimbabwe would not face tariffs as the MFN rate is currently zero, 1% would not face tariffs as GSP provides a reduced tariff of zero, 10% would face reduced but non-zero tariffs compared to MFN, and 2% would face non-zero MFN tariffs.
86. Without accounting for unilateral preferences, the largest increases in import duties would be for preparation of meat or fish (HS16) at more than £30 million, apparel and knitted clothing (HS61) at more than £10 million and sugar (HS17) at almost £8 million. These closely correspond to the top UK goods imported from the region; the remaining products all have duty increases below £2 million. On the export side, the largest increase in implied duties would be in machinery and mechanical appliances (HS84) at £0.6 million. The remaining products all have duty increases below £0.5 million. Accounting for unilateral preferences would reduce the increased import duty for apparel and knitted clothing (HS61) by around £3 million, as Madagascar accounts for a significant proportion of UK imports of these products from the region
87. Indicative estimates of implied additional tariff duties are provided to give a sense of scale of possible additional costs of trade. Tariff duties are transfers, where the cost to business is equal to the benefit felt by the UK Exchequer and ESA countries' governments which could collect more tariff revenue. However, depending on businesses' response to the change in duties, there could be wider effects of increased costs of trade, including negative impacts on consumer choice, prices, and ultimately economic growth and welfare. Estimates of implied additional duties therefore do not constitute an estimate of the impact.

Businesses

88. Additional duties could be absorbed by either business from the UK or Madagascar, Mauritius, Seychelles or Zimbabwe (depending on whether it is the importer or exporter paying the duty), passed on to consumers, or existing trade patterns could be interrupted. This could impact UK competitiveness, leading to disruptions in supply chains and job losses in the short term.

caution. They indicate whether businesses trading in goods are benefitting from negotiated preferences, but do not tell us which or how many businesses are using these preferences. Nor do they cover services trade.

89. Businesses that rely on imports as part of their supply chains may be affected if import prices rise, including UK exporters that rely on regional inputs to export goods to the rest of the world. In 2015 (latest data), around 15.1% of the value added in UK's gross exports reflected imports from abroad.¹⁶ UK companies which rely on regional imports would become less competitive. Given the small share of UK trade under this agreement, in this case we would expect these impacts to be relatively small but could be noticeable for some specific companies.

Consumers

90. Imported products could be more expensive for consumers if retailers pass on additional duties to consumers through increases in domestic prices. This could disproportionately affect certain groups of consumers, for example those at the lower end of the income distribution, depending on the specific sectors affected. Consumers might also see a reduction in choice of products and services available. Given the small share of UK trade under this agreement, in this case we would expect these impacts to be relatively small overall but could be noticeable on specific product lines.

Longer term impact

91. In the long run, the UK would forgo the longer-term benefits that the EPA would have brought to UK. This could result in the long-term UK GDP marginally decreasing if a deal is not reached. Given the small share of UK trade under this agreement, we would expect the impact on GDP to be relatively small.

92. We expect this agreement to support jobs and economic development in the ESA economies by providing continuity in trading arrangements with the UK including duty-free quota-free UK market access. This could be of particular benefit to partner firms producing goods such as canned tuna and clothing for which the UK is an important export market.

¹⁶ OECD, 2018. [Trade in Value Added \(TiVA\): Origin of value added in gross exports, December 2018](#). Experimental statistics. No data available for Madagascar, Mauritius, Seychelles or Zimbabwe

CCS0219502286

978-1-5286-1007-0