

## **As the UK renegotiates trade deals, let's make them fair.**

### **Fairtrade Foundation policy briefing & discussion paper**

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**The UK is about to renegotiate trade arrangements with a large number of countries around the world. This could have serious consequences for millions of jobs and livelihoods in very poor countries. Government must instead ensure that changes in trade arrangements lead to fairer trading relationships that help end poverty.**

The implications of leaving the EU for fair trade are highly complex and our public position is likely to evolve as the impacts and context become clearer with time. We welcome feedback and dialogue.

#### **Introduction**

This briefing is to explain the trade risks and opportunities the Fairtrade Foundation sees for farmers and workers in developing countries arising from the UK's decision to leave the EU<sup>1</sup>. We also explain what government must do to ensure that UK commitment to reducing poverty through trade is strengthened, not undermined.

Fairtrade<sup>2</sup>'s aim is to end poverty through fairer trade. We work with over 1.6 million smallholder farmers and plantation workers in some of the world's poorest countries to deliver fairer terms of trade, improved human rights and environmental sustainability. In the UK we work with over 400 companies, with the UK retail market for Fairtrade produce worth over £1.6 billion in 2015.

#### **Why does this matter?**

The UK purchases a large amount of produce from developing countries. Food like bananas, coffee, cocoa and tea is grown in countries such as Ghana, Malawi, and Cote D'Ivoire where more than half the population live in absolute poverty. Countries such as Kenya and Ethiopia sell flowers and fresh vegetables to UK supermarkets – in Kenya alone half a million people depend on flower exports to the UK and mainland Europe<sup>3</sup>. Countries such as Bangladesh employ large numbers in the garments industry, selling to UK outlets. Fairtrade also works with the producers of other produce such as cotton, sourced from African and Asian origins and precious metals such as silver and gold, sourced from African and Latin American origins.

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<sup>1</sup> The Fairtrade Foundation has not at any time taken a position on whether the UK should leave the EU, or the terms on which it should do so.

<sup>2</sup> This paper uses "Fairtrade" to refer to trade in partnership with the Fairtrade Foundation, and "fair trade" to refer to the broader principle of trading fairly with poor countries and producers, on terms designed to end poverty.

<sup>3</sup> 500,000 people depend on Kenyan floriculture, including 90,000 direct employees – source: Kenya Flower Council website, 2015.

In 2015 the UK signed on to the new UN Global Goals for Sustainable Development (the SDGs), which call on governments to support poor country exports as a way to build decent livelihoods and end poverty.<sup>4</sup>

Disruption to exports such as these could affect millions of jobs for plantation and factory workers, and the livelihoods of millions of smallholder farmers, increasing poverty.

### **How could the UK's decision to leave the EU affect developing country exports?**

UK retail markets are incredibly competitive, with intense price competition. This squeezes profit margins all the way down to the producer level. The fall in the value of the pound since the referendum makes the squeeze all the harder.

In this context, even small changes in the cost of trade, due to new tariffs or trade related measures could cause buyers to switch their purchasing to different countries. This is called “**trade diversion**”.

A loss of sales from a developing country can easily lead to a devastating impact on the lives of farmers and workers.

### **Developing country imports arriving via other EU countries.**

Many UK imports from developing countries are imported into other EU countries first – for example, this is very common for flowers and cocoa. New tariff barriers or other costs between the UK and the EU could disrupt market access

Many of the companies Fairtrade works with in the UK have manufacturing bases for intermediate processing or finished goods in other European countries, and export Fairtrade products to the rest of Europe. New tariff barriers or other costs between the UK and EU could be very disruptive to this business.

#### ***Targets under UN Global Goal 17:***

*“Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda*

*Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries’ share of global exports by 2020*

*Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries ... ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access”*

### **Emerging economies could push out the poorest countries.**

The UK's current trade with developing countries is largely governed under EU deals.

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<sup>4</sup> Global Goals in full can be found here: <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

49 least developed countries enjoy duty free, quota free (DFQF) trade terms under the EU's "Everything But Arms" programme<sup>5</sup>. Other developing countries trade under the EU's Generalised Scheme of Preferences (GSP) with those meeting additional conditions qualifying for GSP+.

The UK is likely to pursue trade deals with emerging economies such as China, Brazil and India as a high priority. These countries may be in competition with very poor (least developed) countries for exports of key products. For example, increased Brazilian sugar cane imports would undermine the sales of farmers in countries such as Malawi and Swaziland.

### **Uncertainty leads to lack of investment**

Producers in developing countries who sell to the UK are already concerned about their future sales. Investing in their businesses has become a more risky prospect, and could be withheld. But investment is very necessary if they are to improve productivity, quality, and their attractiveness to buyers.

It is unclear how quickly the UK will be able to agree new trade deals, with the period of uncertainty potentially extending into several years.

### **There is also an opportunity to help end poverty**

If the UK improves terms of trade for least developed countries, it could help to stimulate exports, boosting income and jobs.

49 least developed countries already enjoy duty-free, quota-free (DFQF) access to the UK market for "everything but armaments" (EBA), as part of European Union trade rules. **The UK needs to retain DFQF access for countries qualifying under EBA.**

However, if a product sold by an LDC includes elements from various countries, it may fall foul of "rules of origin" requirements, and be excluded from Everything But Arms treatment – which means that tariffs have to be paid. This can inhibit poorer countries from manufacturing more complex products using components or ingredients from different countries. **The UK needs to (at a minimum) maintain existing and should improve rules of origin for developing countries and LDCs in particular.**

Developing countries can also pay higher tariffs on processed or value added goods. This can inhibit developing countries from building up manufacturing or processing businesses. Where producers sell processed goods they keep more of the value, boosting profits and income. **The UK needs to (at a minimum) maintain and should improve tariffs for value-added goods from developing countries.**

The UK currently subsidises its own farming industry under the EU Common Agricultural Policy (CAP). This can act as a trade barrier to developing countries exporting products such as sugar, fresh fruit and vegetables. Decisions on replacement farming subsidies could also help support exports by poor countries to the UK.

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<sup>5</sup> See [http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc\\_150983.pdf](http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_150983.pdf) for details

## What is the UK government position?

Prior to the referendum the UK government had a long-standing commitment to poverty reduction through trade. The exceptional situation following the EU referendum means that policy on trade is under review. In response to Parliamentary Questions from Holly Lynch MP (Lab, Halifax), Greg Hands MP, Minister of State at the International Trade Department wrote:

*“The UK Government is committed to ensuring developing countries can reduce poverty through trading opportunities. Trading arrangements that do not involve developing countries can still have an impact on them. Such impacts will be taken into account as the UK develops its international trade policy. (Written answer 43100, 21 July 2016)*

*The UK Government is committed to ensuring developing countries can reduce poverty through trading opportunities. As the UK prepares to leave the EU there will be no initial change in the way we trade with developing countries. The UK has a unique opportunity to shape a bright future for the UK and its trading relationship with developing countries.” (Written answer 43101, 21 July 2016)*

There is a welcome acknowledgement here of the potential impact on LDCs of new trade deals with developed and emerging economies, and a welcome commitment to ensuring developing countries can reduce poverty through trade. Nevertheless, risks remain high, and it will be necessary to explore further what the government’s top line commitment is likely to translate into in practice.

## What does government need to do?

At this time of uncertainty, the government should reaffirm its commitment at the highest level to ending global poverty through trade, ensuring that the lives of the world’s poorest people are improved, not undermined, by changes in UK trade policy.

There needs to be a clear and unequivocal public commitment at the level of the Prime Minister that Britain’s future trade deals will seek to deliver fair and equitable trade in line with our commitments to the SDGs, and will not pursue measures which come at the expense of adverse social, economic or environmental impact for poor countries.

We also urge the government to commit to the following principles to ensure that the UK’s new trade arrangements with developing countries are truly fair.

### **1. Joined up government**

New trade deals will be negotiated by the new International Trade Department. Decisions on agriculture and food security by Defra. The Treasury, FCO, and other ministries will also influence trade decisions. The Department for International Development has a crucial role, but will not have control over trade decisions.

Even prior to the referendum, the UK Parliament’s International Development Committee had warned that

“The Government should identify a formal mechanism for relevant Secretaries of State or responsible Ministers to come together regularly to discuss the implementation of the SDGs at the highest political level.

The Government should also commit to producing a regular report on policy coherence for sustainable development.”

*UK Parliament, International Development Committee Inquiry into Implementation of the Sustainable Development Goals, 2016*

policy coherence on trade needed to be stronger, and proposed measures to ensure coherence.

**There must be political commitment at the highest level to delivering fair trade for poor countries through the UK's new trade arrangements. Excellent policy coherence between DFID, International Trade, and other ministries is essential, in line with the recommendations of the IDC in 2016.**

## **2. Impact assessment – do no harm!**

There will be cases where the immediate UK national interest on trade conflicts with poverty reduction goals. Government should scrutinise the impact of proposed new deals on least developed countries, especially the possibility for trade diversion or loss of market access.<sup>6</sup> Impact assessments need to be timely so that findings can be addressed in negotiations.

Where risks of damage to poverty reduction are identified, proposals must be adjusted. A **“Do No Harm” principle** must apply. **The UK must ensure that LDCs are at a minimum no worse off compared to their current position with EU arrangements.**

## **3. Transparent and open consultation**

Transparent and open consultation on proposed deals with civil society, affected developing countries trade and producer associations at origin should be ensured to allow specific concerns to be raised, understood and addressed.

## **4. Adjustment support and aid for trade**

Where negative impacts are unavoidable, the UK must put in place sufficient support for poor communities affected through the UK's aid programme. No-one should find themselves in poverty as a result of decisions made on trade in the UK. UK Aid can support diversification, productivity or market access measures which mitigate negative impacts. Those directly affected must benefit from such support.

The UK's aid programme already invests in Aid for Trade, and in supporting farmers and workers in export supply chains. We encourage continued investment here, ensuring a focus on the delivery of decent work and incomes for farmers and workers.

But there are important caveats: Aid for Trade programmes can fail – increasing trade to the benefit of elites, but failing to catalyse decent jobs and livelihoods for the poorest people<sup>7</sup>. At the risk of stating

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<sup>6</sup> <https://www.parliament.uk/business/committees/committees-a-z/commons-select/international-development-committee/inquiries/parliament-2015/sustainable-development-goals-inquiry/>

<sup>7</sup> In one high-profile example, ICAI's review of Trademark Southern Africa's work in 2013 found that insufficient attention was paid to the positive and negative impacts of trade growth on the poorest people, with plans relying on “assumed benefits for the poor rather than causal relationships between activities and impact”.

<http://icai.independent.gov.uk/wp-content/uploads/DFIDs-Trade-Development-Work-in-Southern-Africa-Report.pdf>

the obvious, care must be taken so that Adjustment support or other Aid for Trade programmes are designed to meet the real needs of farmers and workers such as viable market access and stable trading relationships, and do not deepen existing inequalities.

## **5. Focus on Least Developed Countries**

The impact of trade decisions will be most acutely felt in the world's least developed countries, where poverty levels are highest. For example, absolute poverty in Malawi – which exports tea and sugar to the UK – currently runs at 87%. Excellent outcomes for LDCs must be a top priority for UK trade negotiators.

- The UK needs to retain DFQF access for countries qualifying under EBA.
- The UK needs to maintain existing (and should aim to improve) rules of origin for developing countries and LDCs in particular.
- The UK needs to maintain (and should aim to improve) tariffs for value-added goods from developing countries.

## **6. Incentives for fair trade**

Government can use other policies to encourage preferential purchase from LDCs on ethical terms, and ethical purchasing more generally. This includes incentives to ensure an “ethical level playing field”, such as the Modern Slavery Act, the UK's Business and Human Rights action plan, and provisions for ethical purchasing within public authority procurement policy.

The UK Government has the opportunity to be a leader in this field, driving SDG 12 on sustainable production and consumption. However, there is a risk that Government could roll back existing regulations, reducing the incentives for fair trade.

DFID, and bodies such as CDC should also require high fair trade, human rights and environmental standards as a condition of grant making in partnership with UK companies.

Government should continue to commit to show leadership in ethical public procurement, in line with the provisions of existing EU directives. Government should also consider what additional measures could be taken which incentivise UK business to source preferentially from LDCs, and to do so to high ethical standards designed to deliver poverty reduction and human rights.

## **Final comments**

This briefing paper is a first response to the radical shift expected in UK trade policy arising from the decision to leave the EU. The implications of leaving the EU for fair trade are highly complex and our public position is likely to evolve as the impacts and context become clearer with time. We welcome feedback and dialogue.

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