The Scale of the Impact of a 'no-deal' Brexit on Fairtrade Triangular Supply Chains

The following document sets out examples of the potential scale of impact of a 'no-deal' Brexit could have on Fairtrade supply chains operating within the EU and UK, in particular looking at tariff increases, and the impact of Rules of Origin concerns.

The below figures represent the potential scale of the impact of a 'no deal' scenario on triangular supply chains. It has not been possible to determine how much of direct UK imports are processed and then traded onward to the EU (UK-EU triangular trade). However, given that the EU is currently the UK's largest trading partner, we can assume that a significant proportion of goods are traded between the UK and EU. This means that the imposition of tariffs to products processed in the UK, and traded to the EU, is likely to have a significant impact on UK businesses, UK consumers and the developing country producers at the bottom of our supply chains.

This document has been prepared following a briefing by epamonitoring.net, and the Fairtrade Foundation is grateful for the guidance and expertise provided in preparing the below.

Introduction

The impact of a 'no deal' Brexit is likely to have significant implications for Fairtrade supply chains operating between the EU and UK. If no deal is agreed by the end of the transition period, then so-called 'triangular' supply chains operating within the EU and UK could face an increase in tariffs of up to 6-8%. For developing country producers, already working to very low margins, any increase in tariffs could have a devastating impact of producer income and long term developmental outcomes.

This is particularly the case for Fairtrade products which move between the UK and EU for processing, packaging or onward trade. Cocoa, coffee, cut flowers and sugar are likely to be the most severely impacted in the event of a no-deal – products which supply a life line to producers in low income countries such as Cote d'Ivoire, Ghana, Kenya and Colombia.

Of equal concern, is the impact of a no deal on Rules of Origin, the rules for deciding where a product 'originates' from. This could impact on developing countries ability to utilise preferences currently granted to them under the UK's GSP scheme and roll-over EPA's. Moreover, a failure to agree Rules of Origin for developing country producers is also likely to add administrative costs – the burden of which would most likely fall on producers at the bottom of the supply chain. Please see the end of this document for more detail.

The Fairtrade Foundation is therefore calling on the EU and UK to agree urgent measures to unilaterally suspend tariffs on produce between the UK and EU that has been processed from developing country products.

The impact of tariffs on key Fairtrade supply chains in the event of a no-deal Brexit

1) **UK Global Tariffs**

The following are the tariffs that will apply to key Fairtrade commodities in the event of a no-deal with the EU in December 2020:

Cocoa beans (1801)	0%
Cocoa butter (1804)	6%
Cocoa paste (1803)	8%

Coffee beans (0901)	0%
Banana (08039010)	£95/tonne
Raw cane sugar – for refining (17011310, 17011410)	£28.00/100kg std qual[1]
Fresh cut roses (06031100)	8%
Roasted coffee (090121) Roasted Coffee – decaffeinated (090112) Decaffeinated Coffee (090122)	6% 8% 8%

2) Cote d'Ivoire – processed cocoa (2019)[2]

Cote d'Ivoire Trade to the UK and EU28 Fairtrade Products

	UK €	**UK Tonnes**	**EU28 €**	**EU28 Tonnes**	**UK % value EU28**
Cocoa Beans (1801)	109,959,394	51,467	2,096,499,817	988,146	5.2%
Cocoa Butter (1804)	103,135,803	21,742	378,654,384	79,388	27.2%
Cocoa Paste (1803)	23,125,044	6,930	474,875,184	209,239	4.9%
Cocoa powder (1805)	0	0	34,243,709	19,010	0%
Banana (0803)	19,205,229	24,783	250,900,234	339,703	7.7%

Source: EC Market Access Data Base, https://madb.europa.eu/madb/statistical_form.htm

As the above table shows, direct UK imports of cocoa beans and value-added cocoa products, account for only 7.9% of total EU trade in these commodities. A significant proportion of Ivorian exports in value added cocoa products, which are hugely important for Cote d'Ivoire (cocoa beans and value-added cocoa products account for 67% of the value of total Ivorian exports to the EU28[3]), therefore travel to the EU for processing, with onward trade to the UK. The cost of the imposition of UK Global tariffs of 6-8% on value-added cocoa products traded to the EU from the UK is likely to be borne by producers at the bottom of the supply chain.

In addition, the 7.9% of cocoa and value added cocoa products imported directly to the UK, may also undergo processing for onward trade with the EU, although it has not been possible to determine how much stays in the UK market.

3) Ghana – processed cocoa (2019)

Ghana trade to the UK and EU28 Fairtrade Products

	Import value to the UK (euro)	**Import Qty to UK (kg)**	**Import value to EU (euro)**	**Import Qty to EU (kg)**	**UK % value EU28**
Cocoa beans	21,185,107	9,384,000	632,915,006	282,869,000	3.3
Cocoa paste	4,144,108	1,321,000	207, 403, 877	92,325,000	1.9
Cocoa butter	1,618,795	310,000	297,256,341	59,810,000	0.5

[1] NB the UK Government has announced proposals for a New Autonomous Quota of 260,000 tons to apply to raw cane sugar from 1 Jan 2021, for 12 months, with an in quota rate of 0.00%. The UK Government launched a consultation on this proposal in October 2020, which the Fairtrade Foundation submitted evidence to. Our response highlights the need for any proposed ATQ to work in the interests of farmers in developing countries and the poorest farmers in LDC/LIC regions. We called for a careful modelling of policy options to encourage, at a minimum, maintaining the effective market access for LDC and LIC's.

[2] The following is sourced from epamonitoring.net, who also provided expertise and guidance throughout this briefing.

[3] Source: epamonitoring.net

Bananas	19,698,824	24,485,000	73,091,268	85,118,000	26.9

Source: https://madb.europa.eu/madb/statistical_form.htm

Direct UK imports account for only 2.3% of total EU cocoa beans and value added product imports. This might suggest that the UK imports the majority of processed cocoa products from the EU. Value-added cocoa products face a potential tariff increase of 6-8%. This increase in tariffs in onward trade from the EU to the UK, may result in additional costs being borne by low paid cocoa farmers in Ghana, as well as increased costs to the UK consumer.

Conversely, the UK directly imports nearly 27% of Ghana's total EU trade in bananas, which are therefore much less likely to be affected by a no-deal at the end of the year.

Indeed, the most immediate risk facing Ghana is the lack of 'roll-over' agreement with the UK. Without an agreement or transitional protection mechanism at the end of the year, Ghanaian bananas will be facing a tariff of £95/tonne, while value-added cocoa products will face an increase in tariffs of 2.5% for cocoa butter and 4.5% for cocoa paste (under the General Framework recently announcement by the UK Government[4]).

4) **Kenya – cut flowers (roses) (2019)**

Kenya fresh cut roses trade to the UK and EU28

UK		**EU28**		**UK % EU28**	
Import value to UK (Euro)	**Import Qty to UK (kg)**	**Import value to EU28 (Euro)**	**Import Qty to EU28 (kg)**	**UK % value EU28**	**UK % Volume EU28**
48,173,074	8,711,000	390,294,803	128, 414, 000	12.3%	6.8%

Source: https://madb.europa.eu/madb/statistical_form.htm

While direct imports of cut flowers (roses) to the UK accounts for 12.3% of Kenyan exports of cut roses to the EU28, they account for only 6.8% by volume. This suggests that higher value items are exported directly to the UK (prepacked roses direct to supermarkets), while loose roses for the florist trade are imported via the Netherlands, with imports from the Netherlands accounting for about 80% of the flowers sold in the UK. The majority of Kenyan exports in cut roses (and other cut flowers) enter the UK via the EU.

The UK's departure from the EU customs union will create new administrative burdens requiring Kenyan cut flowers exported via the Netherlands to prove they come from Kenya before they can claim duty free access. If they cannot successfully claim duty free access they will face an 8% import tariff if the UK leaves the EU without a free trade agreement in place. This issue is complicated by the logistical arrangements under which cut roses are onward traded from the Netherlands to the UK. This involves the 'Groupage' of different consignments into single containers for specific destinations. This practice will become extremely difficult to maintain if different consignments in individual containers are subject to different tariffs and phytosanitary inspection requirements, since the delays faced by one consignment will affect the whole container. Moving away from 'Groupage practices will generate additional costs which will prove extremely disruptive for the vast majority of Kenya cut roses and other cut flower exports to the UK.

5) **Colombia – coffee (2019)**

[4] https://www.gov.uk/guidance/trading-with-developing-nations-from-1-january-2021

Colombia coffee trade to the UK and EU28

	Import value to UK (euro)	Import Qty to UK (kg)	Import value to EU (euro)	Import Qty to EU (kg)	UK % value EU28
Coffee, not roasted (090111)	48,456,063	15,283,000	513,367,380	180,985,000	9.4
Coffee, roasted (090121)	163, 846	33,000	1,024,887	146,000	9.8

Source: https://madb.europa.eu/madb/statistical_form.htm

Direct import of coffee beans into the UK from Colombia represents only 9.45% of the EU's overall trade in coffee beans with Colombia. This might therefore suggest that significant roasting and/or packaging is taking place in the EU, for onward sale to the UK. Therefore, despite having a roll-over agreement in place with Colombia via the UK-Andean Trade Agreement, Colombian coffee farmers may still lose out in a no-deal Brexit, with increased tariff costs passed on to those at the bottom of the supply chain. The same is true of roasted coffee supplied to the EU/UK for further processing or packaging, which is an important way for coffee producers to move up the value chain and capture more of the final value of the product. An increase in tariffs may therefore affect the economic development outcomes of Colombian coffee farmers.

While 9.45% of Colombian roasted and unroasted coffee is exported directly to the UK, as with other commodities, it has not been possible to determine how much of this is processed in the UK for onward trade to the EU, and this the impact on UK businesses processing coffee in the UK for onward trade.

6) The case of sugar

The global sugar market is highly competitive and individual trade measures can have significant effects. Sugar farming is low paid work and the implications of a loss of sales are serious, especially for the poorest countries such as Malawi. Many sugar farmers in LDC and LIC's are already working on very low margins, and any impact on market access is likely to have severe development implications and affect the well-being of whole communities.

Without an EU-UK deal, sugar supply chains operating between the EU and UK could see the application of standard MFN tariffs, divergent regulatory and customs standards, and strict Rules of Origin. This would carry profound implications for LDC/LIC exporters, many of whom serve both the UK and EU market.

The UK refining industry imports raw cane sugar from a number of developing and low income countries including Jamaica and Belize. Following refining, this is then traded onwards to European markets such as Spain, Portugal and Italy.

The EU sugar refining industry is also hugely important for developing country raw sugar cane producers. For example, raw cane sugar from Fiji and Malawi is imported to the EU and processed in Spain. Currently, sugar refined in the EU for onward trade with the UK would be subject to the UK Global Tariff rate is set at £28/100kg in the event of a no-deal.

The situation for Fairtrade sugar supply chains is further complicated by the UK Government's proposal to introduce an Autonomous Tariff Quota (ATQ) of 260,000 tonnes for sugar[5].

The impact of a no-deal Brexit on Rules of Origin and Fairtrade supply chains

In addition to tariffs, a further concern lies in Rules of Origin. This has three major dimensions along triangular supply chains:

- **administrative:** with additional trade costs being generated along triangular supply chains (e.g. for cut flowers).
- **'originating' status:** whereby a good will lose its developing country status and access to tariff preferences if it is processed in the UK prior to onward trade to the EU (e.g. fair-trade sugar) or in the EU prior to onward trade to the UK (cocoa paste, cocoa butter, cocoa powder and roasted coffee), with these products then facing standard MFN tariffs should the UK and EU fail to reach a deal or make special transitional arrangement on Rules of Origin for developing country products to minimise disruptions[6].
- **'cumulation'**: currently developing country farmers and workers can use inputs from any EU28 country in products exported to the EU28 without losing the 'originating status' which grants duty free access, from 1st January inputs produced in the UK will not be permitted in goods exported to the EU27 without endangering originating status and vice versa**.**

For more information, please contact Alice Lucas, Advocacy & Policy Manager, Fairtrade Foundation: alice.lucas@fairtrade.org.uk.

[5] Opening a new UK ATQ on sugar cane on a 'first come first served' basis as is currently proposed could have concerning impacts on developing country producers. It could risk the situation in which large volumes of raw cane sugar could potentially be imported 'en masse' to the UK on 1st January 2021, likely to be from LDC and LIC competitors such as Brazil and Australia. This has the potential to have significant impact on the market access for cane suppliers from less developed countries.

At the same time, we understand that there is a clear need to support a viable raw cane sugar refining sector in the UK, and the significant role it plays as a market for sugar cane exports from developing and low income countries. Managed well, an ATQ on raw cane sugar could be part of a market stabilisation mechanism to prevent sugar market price volatility, that works in support of farmers in LDC/LIC countries.

[6] The Government has recently announced that goods entering EU via the UK, 'in transit', will still be able to take advantage of GSP preferences: https://www.gov.uk/guidance/trading-with-developing-nations-from-1-january-2021