Fairtrade Foundation briefing on the UK global tariff schedule

This briefing has been prepared for MPs following the Fairtrade Foundation's submission to the UK global tariff consultation, which closed on 5th March 2020. The Fairtrade Foundation will continue to engage with potential post-Brexit tariff changes from a development perspective, and we hope that there will be opportunities to debate the schedule further in the coming months. Please contact alice.lucas@fairtrade.org.uk for more information.

Key messages

- The Fairtrade Foundation is calling for the Government to carefully consider the impact of changes to the UK's global tariff schedule and to **undertake thorough and timely assessments on the impact of proposed changes, through a development lens.**
- We are asking the Government to **prioritise securing continuity arrangements** before January 2021 for those countries which currently enjoy preferential access via the EU, but that have not yet agreed roll-over deals with the UK, including Ghana, Cote D'Ivoire, Kenya and Cameroon.
- The Fairtrade Foundation was particularly **concerned by the suggestion included in the public consultation that products that can't be produced in the UK could be placed on a zero tariff rate**. We would urge the Government to **carefully consider the risk of preference erosion in any change to the tariff schedules**, and to conduct in-depth sustainable development focused impact assessments

About the Fairtrade Foundation

Fairtrade in the UK is part of a global Fairtrade system which supports 1.71 million Fairtrade workers in 73 countries around the world. **Our vision is to make trade fair and secure a better deal for farmers and workers, contributing to the UK's wider international development efforts and achievement of the Sustainable Development Goals (SDGs)**.

The UK market for Fairtrade-certified goods, underpinned by Fairtrade standards, minimum price and direct payments of a premium to producers, has grown into one of the world's largest, and Fairtrade continues to be highly trusted by the UK consumer – **83% of the public say that they trust the Fairtrade mark** and 77% have actively chosen Fairtrade products over an alternative. In 2017, €188.8 million in Fairtrade premium was paid to producers. On average each Fairtrade producer organisation received more than €118,000 in Fairtrade premium.

Development concerns in the UK global tariff schedule

The most popular Fairtrade products in the UK are coffee, banana, sugar and tea. However, there is a growing market in wine and flowers, and cotton also remains important. **Each of these sectors has an important role to play in development, and the achievement of the SDGs**. The above sectors currently enjoy protections under EU mechanisms that grant market access to developing and low income countries. This includes the Generalised System of Preferences (GSP) including the Everything But Arms (EBA) initiative, Economic Partnership Agreements (EPAs) with African, Caribbean & Pacific (ACP) countries and other bilateral Free Trade Agreements (FTAs). We welcome the Government's stated intent to roll-over or replicate these existing agreements for Least Developed Countries (LDC's) and low-income countries.

Within the scope of the UK global tariff consultation, the Fairtrade Foundation is concerned that changes to the current tariff schedule would see significant implications for poverty reduction through trade and for key Fairtrade commodities. The Fairtrade Foundation has identified two key concerns:

1. The state of continuity arrangements

Several countries which currently enjoy preferential access via the EU **have not yet agreed roll-over deals / continuity arrangements with the UK, including Ghana, Cote D'Ivoire, Kenya and Cameroon**. These countries are significant for Fairtrade sourcing including bananas, cocoa and cut flowers. This sourcing (and indeed other non-Fairtrade sourcing) supports hundreds of thousands of livelihoods. Later in this note we set out further details about the scale of this sourcing.

Without maintaining protections as part of the UK Global tariff schedule, or through agreement on a continuity arrangement, **these countries could be facing significant new import duties**. In the case of Ghana for example, this could mean a new UK import duty on bananas and processed cocoa products. Ghanaian cocoa farmers are already in a position where a farmer's income might be as little as 75 pence per day.

More widely, it is still the hope of the Fairtrade Foundation that the Government will take the current opportunity of setting in place new continuity agreements to **reassess the problematic aspects of EPAs.** For example, there could be a relaxation of rules of origin requirements to allow full regional cumulation from East Africa. This could facilitate, for example, the further development of coffee roasting facilities in the global South, and other value addition. Fairtrade's experience is that enabling value addition is a powerful means to improving incomes and livelihoods and increasing high value employment. In light of the new Africa Continental Free Trade Agreement (CFTA), there is also an opportunity to address concerns around the lack of regional integration raised by the EU's EPA arrangements.

We encourage the Government to prioritise securing continuity arrangements. If this is not possible before the end of the transition period in January 2021, we ask the Government to consider signing further Transition Protection Mechanisms (TPMs) in order to avoid disruption to farmer and worker livelihoods (similar to those agreed from 2017 ahead of the UK's departure from the EU).

2. Preference erosion

From a "trade for development" perspective, new UK-only MFN tariffs are especially important in calculating any advantage that a developing country might glean from preferential rates, and therefore of particular concern to the Fairtrade Foundation. **If tariffs are liberalised for all countries on a product where poorer countries might currently (or in the future) have a competitive advantage, then preference erosion can occur.** For example, if UK MFN tariffs are reduced to zero across the board, an estimated 1.5 billion in ACP exports will be affected[1], many of whom are least or low income countries.

The Fairtrade Foundation was particularly concerned by the suggestion included in the public consultation that products that can't be produced in the UK could be placed on a zero tariff rate. While many products currently imported are not included on the list of commodities the Government has proposed to consider, we are concerned that there is the potential for significant preference erosion for products, like bananas and cane sugar, which employ high numbers of smallholder farmers and agricultural workers. **A unilateral "remove tariffs for zero production" rule would carry a high risk of damaging exports for developing countries.**

The Fairtrade Foundation would urge the Government to carefully consider the risk of preference erosion in any change to the tariff schedules, and to conduct in-depth sustainable development focused impact assessments to inform the current consultation.

Fairtrade commodities at risk:

Impact on Fairtrade commodities - at a glance

- There are **over 25,000 farmers and workers producing Fairtrade bananas**. In 2017, global Fairtrade banana sales generated **€31.3m in Fairtrade Premium** for investment in communities.
- In 2017, Fairtrade worked with over **260,000 cocoa farmers**, delivering **€38 million** in Fairtrade premium.
- Fairtrade currently works with over **57,800 workers in Fairtrade certified flower farms**. In 2017, sales of Fairtrade flowers generated **€6.8 million in premium**.
- In 2017, there were **54,960 farmers producing sugar cane on Fairtrade certified farms**. In the same year, sales of Fairtrade cane sugar generated **€11.9 million** in premium for Fairtrade farmers.

• Bananas

Fairtrade certified bananas comprise one third of all bananas currently consumed in the UK, amounting to around 240,000 Metric Tonnes (MT) of bananas. The top exporting countries of Fairtrade bananas are the Dominican Republic, Colombia, Peru and Ecuador, with smaller volumes arriving from countries including Panama and the Windward Islands. **The UK is responsible for around 20 percent of all banana consumption in the EU and UK markets combined**; certain countries, such as the Dominican Republic, Belize, St Lucia and Ghana, are especially dependent on the UK market.

There are over 25,000 farmers and workers producing Fairtrade bananas. In 2017, global Fairtrade banana sales generated €31.3m in Fairtrade Premium for investment in communities. Research commissioned by Fairtrade in Colombia found that 96 percent of smallholders said their economic situation had improved since joining Fairtrade, and smallholders reported an average 34 percent increase in income due to Fairtrade.

The state of continuity agreements is vital for the banana sector. While the UK Government has agreed the 'roll-over' of deals with the ACP group of countries with which the EU has an EPA – including the CARIFORUM countries in the Caribbean such as the Dominican Republic and Windward Islands –

[1] Source: Epamonitoring.net

emerging West African banana exporters like Ghana, Cote D'Ivoire and Cameroon, who have interim EPA's with the EU, have not yet agreed roll over deals with the UK, as highlighted previously. Without bilateral deals in place, these developing countries would be reliant on the MFN rates agreed with the WTO, based on the principle of non-discrimination.

Preference erosion is also of significant concern. The effect of any unilateral decisions on tariffs, and any future trade deals, on the banana sector globally needs to be carefully considered.

It is also worth highlighting that the liberalisation of tariffs on bananas is likely to deliver **little to no benefit to the UK consumer.** Bananas are already sold in the UK at well below the sustainable cost of production – the typical price for a loose banana in the UK is 12p and over the last 15 years the cost has already dramatically reduced.

- ## Sugar

Fairtrade sugar cane production continues to have significant development impact for LDC and ACP countries. In 2017, there were 54,960 farmers producing sugar cane on Fairtrade certified farms. In the same year, sales of Fairtrade cane sugar generated €11.9 million in premium for Fairtrade farmers used in delivering health and education services to workers, training and capacity training and in credit and finance.

In 2017, the EU lifted the production quota on domestic beet production in 2017. As a result, all intra-EU trade in sugar beet is currently tariff-free, whilst a tariff regime still applies to sugar cane imports. The EU tariff regime currently ensures that the LDC and ACP countries have duty-free access via EBA and via the EPAs (as in the case of bananas). South Africa also has a Tariff Rate Quota (TRQ), agreed through the SADC EPA, which allows up to 150,000 MT to be exported to the EU duty free.

At the time of the change to the EU sugar regime, the Fairtrade Foundation expressed concern that this new policy environment would make it harder for cane sugar exporters to compete with EU beet production, with some beet producers receiving additional funding through the EU's 'voluntary coupled support' mechanism. **Across the EU, since the implementation of the new regime in October 2017, sugar imports from the LDCs and ACP countries are down 59 percent compared with the same time in 2016/17,** and the price of sugar has also slumped further. This has also led to declining volumes of Fairtrade-certified sugar in the UK.

As part of the consultation on the UK global tariff schedule, the Fairtrade Foundation believes **that the UK now has the opportunity to design sugar policy post-Brexit with 'trade for development' objectives front and centre.** Beyond any commitment to 'roll-over' preferential access, we would like to see the UK take the opportunity presented by the UK global tariff review to reflect on sugar policy, and the extent to which the UK would like to sustain, and perhaps even grow, a market for LDC and ACP cane sugar, including Fairtrade-certified sugar.

- ## Cocoa

The cocoa trade has a long history of exploitation and injustices remain – living incomes are hard to attain and child labour remains a challenge. Fairtrade research has also highlighted the particular challenges facing women cocoa farmers, who earn less than men despite doing more of the work. Efforts have been made to increase productivity amongst smallholders (to support the attainment of living incomes) but this has resulted in a global price decrease which has negated any gains from productivity – in 2017, prices dropped by 29 percent, highlighting the importance of the Fairtrade approach – floor prices which are activated at times of low market prices, and fixed premiums. In 2017, €38 million in Fairtrade premium was delivered to cocoa farmers in Fairtrade certified farms.

Fairtrade certified cocoa is largely sourced from two countries in West Africa – Cote D'Ivoire and Ghana, although there is also some cultivation in other countries including the Dominican Republic and Peru. Currently, and as mentioned elsewhere in this submission, these countries have not rolled-over the EPAs in place with the EU with applied tariffs of 0 percent (for cocoa beans). **Unless continuity agreements are put in place before the end of the transition period in January 2021, Fairtrade cocoa farmers could see significant disruption to market access**, leading to worsening developmental outcomes.

In addition, the Fairtrade Foundation believes that **the UK global tariff schedule may offer an opportunity for the Government to address the tariff escalation on processed cocoa which currently affects the cocoa supply chain**, encouraging value addition (and thereby improved value capture and income for cocoa farming communities).

As previously mentioned, EU tariffs applied to the two biggest cocoa-exporting countries, Ghana and Cote D'Ivoire, are currently 0 percent. EU MFN tariffs on cocoa beans (raw or roasted) are already set at 0 percent. However, developing countries could move up the value chain to the next stage of the production process (transformation into cocoa paste, butter or powder) if tariff escalation (and possibly also rules of origin) were addressed. Currently, the EU MFN import duty on these processed products is higher than cocoa beans – 9.6 percent for the import of cocoa paste, 8 percent for the import of cocoa powder, and 7.7 percent for the import of cocoa butter.

A new UK global tariff schedule could create opportunities for the expanded export of these value added products directly to the UK. For comparison, the EU GSP grants a preferential rate of 6.1 percent for the import of cocoa paste, 4.2 percent for the import of cocoa butter, and 2.8 percent for the import of cocoa powder.

In the immediate term, the Fairtrade Foundation would **encourage the Government to prioritise securing roll-over agreements for cocoa producing West African states** to ensure continued market access for farmers and workers.

- ## Flowers

The UK market for Fairtrade cut flowers has grown significantly over the last few years and has a significant role to play in supporting developmental outcomes for LDCs and ACP countries. Fairtrade currently works with over 57,800 workers in Fairtrade certified flower farms. In 2017, sales of Fairtrade flowers generated €6.8 million in premium for Fairtrade farmers to invest in their communities.

Currently, 73 percent of UK Fairtrade roses are grown in Kenya where cut flowers are the country's second biggest export after tea, supporting up to two million people. Around 38 percent of the European Union's cut-flower imports (Fairtrade certified and non-Fairtrade), many of which reach the UK via the Netherlands, now come from Kenya, and cut flowers are also a significant export for Ethiopia, Colombia and Ecuador, Uganda and Tanzania, among other origins.

Kenyan flower exporters currently benefit from a 0 percent tariff on cut flowers, as a result of the interim EPA between the EU and the East African Community (EAC). The deal has faced significant challenges, with differences of approach between EAC members. Similar to other Fairtrade sectors, the Fairtrade Foundation is particularly concerned about the status of continuity agreements for countries producing Fairtrade flowers, especially Kenya (we understand that Colombia and Ecuador have agreed continuity agreements). **If the Government is unable to reach an agreement with Kenya before the end of the transition period, the market for Fairtrade cut flowers from Kenya is likely to face disruption.**

Without this preferential access, Kenyan roses would face an import duty of 8.5 percent (a reduced tariff through the GSP), and Colombia and Ecuadorian roses could face a duty of 12 percent (current EU MFN tariff) from June to October and a seasonal reduction to 8.5 percent from November to May.

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