United Nations Economic Commission for Africa

AFRICAN TRADE POLICY CENTRE

All Party Parliamentary Group - Trade Out of Poverty

Inquiry into UK's Africa Free Trade Initiative

Extension of Call for Evidence

Brexit Implications

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SPEAKING NOTES

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Speaking Notes

I. Trade Policies

"How would the existing trade arrangements (both non-reciprocal trade preference arrangements and reciprocal trade preference arrangements such as the Economic Partnership Agreements) between the UK and African countries look immediately after Brexit? What steps would need to be taken by the UK Government to ensure Africa's exports to the UK were not interrupted upon the UK's withdrawal from the EU? What are the potential risks and opportunities for UK-Africa trade relations arising from Brexit?"

A. How would existing trade arrangements look immediately after Brexit

When the UK joined the European Economic Community 43 years ago it transferred all authority for its trade agreements to the Community. In 2014, much of the UK's 1.1 trillion dollars in trade was channelled through these clear and predictable legal and institutional frameworks.

The EU has Free Trade Agreements (FTAs) inforce with 96[1] countries representing more than a third of world GDP. Preliminary WTO notifications have been made for FTAs with a further 35 countries, worth another 38 percent of world GDP. Once concluded the EU would have FTAs with 131 countries representing about 70 percent of world GDP. And at least another 20 countries are involved in EU trade negotiations which have not yet been given preliminary WTO notifications.

The EU also offers its Everything But Arms (EBA) to Least Developed Countries and a Generalized System of Preferences (GSP) arrangement to further Developing Countries.

As for Africa, as well as the Caribbean and Pacific, the UK's formal trade relationships were set to have been secured within the Economic Partnership Agreements (EPAs) between the EU and regional country groupings, including West Africa, Central Africa, the East African

[1] These figures can vary depending on what is considered a country / territory

Community, Eastern and Southern Africa, the South African Development Community, the Caribbean, and the Pacific.

Most of the EPAs, which the EU fought hard to conclude, are in the process of being signed following more than a decade of negotiations with the respective country blocs. They mark the evolution of trading arrangements between these countries which have developed from the Lomé Conventions beginning in 1975 and the Cotonou Agreement in 2000.

It is notable that a centrepiece of the Brexit campaign was to reassert stronger trading relationships with its Commonwealth countries. But there is also the complication that Cyprus and Malta are Commonwealth countries and EU member states. Yet even if the UK can prioritise such negotiations, the UK may be unable to secure arrangements preferable to the EU due to an EPA clause which requires the EPA countries to also share with the EU any preferable conditions granted in other agreements. The UK will now need to re-consider the post-Brexit alternatives to the approximately 151 countries with which the EU now has, or is currently negotiating, trade agreements, including the EPAs, as well as its place within the WTO.

B. What steps would need to be taken by the UK Government to ensure Africa's exports to the UK were not interrupted upon the UK's withdrawal from the EU?

Transitional trade arrangements will be required while a possible continental agreement is arranged. The UK will have many negotiating priorities during Brexit and such transitional arrangements must bridge the gap to a more comprehensive and progressive trade agreement, which is likely to take more time.

One suggestion is for the UK to ratify and begin implementing concluded EPA agreements prior to activating Article 50 of the Lisbon Treaty, which will start the stopwatch on the 2 year process through which the UK leaves the EU. Up until the final moment, the UK remains part of the EU and is bound by EU law.

Another is that the UK works through the scope of Article 50 to incorporate transitional arrangements itself for leaving EU Agreements such as the EPAs. Article 50 does not define the scope and content of the withdrawal arrangements, and so it is feasible that the UK could negotiate to retain transitional membership of certain Agreements in some way.

Alternatively, a standstill may be necessary on EPA implementation with the EU more broadly. This may be required pending clarification of EU and UK future trade relations with third countries.

The particular specificities of Africa's UK trade will push and pull at certain EPA focal points following Brexit. While the UK accounts for about 11 percent of Africa's exports to the EU, it is especially important for certain countries and sectors. For instance, the UK accounts for 67 percent of beef, 41 percent of tea and spices, 31 percent of wine, and 22 percent of Africa's fruit exports to the EU, while being less important for other products such as fish, cocoa, and coffee. The African countries which export most to the UK are South Africa, Nigeria, and Egypt. The UK's economic clout and connections, beyond trade, likewise weigh as important for certain African countries: the UK is responsible for 37 percent of investment stock and 17.5 percent overseas tourism in South Africa and is the largest source of foreign direct investment, as well as being highly important for remittances, in Nigeria.

These fundamental changes to the nature of the EPAs may require postponing the conclusion of the EPA agreements while these African countries determine possible new ways forward. Such new ways forward will crystalize as the exact nature of the UK's Brexit terms become clear. For instance, a UK within an EU customs union may more easily negotiate a rollover of EPA provisions to include a post-Brexit UK, perhaps with certain revisions. A UK without such an arrangement may be required to initiate its own Africa agreements from scratch.

C. <u>What are the potential risks and opportunities for UK-Africa trade relations arising from Brexit?</u>

Clear risks include uncertainties over legal and institutional trading arrangements and postponed investments in exports for which this is valuable. Significant risks involve failing to secure transitional trading relationships, increased UK isolationism, and Africa being crowded out over other immediate UK negotiating priorities. There are also economic implications of a lower Sterling, and if IMF forecasts are accurate, a UK recession on African export demand.

However, looking forward there are also trade opportunities for Africa. The UK should consider a continental approach to Africa. The goal should be for a comprehensive single trade agreement with all 54 countries that incorporates limited reciprocity, immediate access to the UK market, and phased-in access to the African market. This would be similar to the EU's EPAs, which would likely form the basis for discussions.

A single continental approach would reduce the multiplicity of new arrangements that the UK would have to negotiate while also being aligned with Africa's plans for continental regional integration plan as per Africa's Agenda 2063. In the UK's interest, such an approach may better enable the UK to retain preferential access to non-Anglophone African countries, which may be less inclined to negotiate bilaterally given their looser economic and trade relationships.

Such an Agreement could learn from the best practices of other development-oriented trade agreements as well as the experience of the EPA negotiations. It should, for instance, consider aspects such as:

1) The environment and climate change, and in particular facilitating green technology transfer;
2) Removing subsidies to ensure that Britain competes fairly with the African agriculture sector;
3) Include partnerships in services to help African countries learn from the UK and build capacity.

Such an agreement could potentially form the model for how the US engages with Africa after AGOA expires in 2015, and even for the rapidly developing emerging markets with increasing interest in Africa.

The UK has the opportunity to set a high standard for a developed-oriented trade agreement with Africa.

African governments should themselves be proactive in approaching any UK re-negotiations. Indeed Mauritius has already set up a Ministerial Committee to look into the repercussions of Brexit. That the UK does not yet have its own plans in this respect leaves a gap for African initiative. This is especially pressing given the amount of urgent negotiating priorities which Britain faces; Africa will not be at the top of the list, and African countries will need to press for their place. As such African countries should take the initiative and start developing proposals for early talks with London.

The same will certainly apply to the Caribbean countries, who while notionally trading with the EU, actually send most of their exports to the UK. Yet as a collection of especially small markets will need to fight for a place amongst British negotiating priorities.

Taking the initiative can help these countries press for more development-friendly opportunities including:

- The UK's withdrawal from the EU's Common Agricultural Policy, which subsidizes European farmers at the detriment of Africa's agricultural output.
- And opportunities will be present to relax technical-barriers to trade, which protect some in the EU market, and especially southern European producers, from products in which Africa has a comparative advantage, such as tropical fruits and vegetables, and meats.

Indeed, the South African Citrus Growers Association has already suggested that revised UK plant health regulations on citrus imports could be easier to comply with than present EU regulations.

Similar benefits could be arranged for beef, of which African exports to the EU have fallen following compulsory and expensive regulations, such as those to prevent Mad Cow, which are applied to African countries in which Mad Cow has never been diagnosed.

II. Aid-for-Trade

"Should the UK's aid-for-trade programmes evolve to reflect the new trading relationships between the UK and African countries post-Brexit? Does Brexit potentially open up new channels through which the UK can use trade and investment as a vehicle to reduce poverty in Africa?"

A. Should the UK's aid-for-trade programmes evolve to reflect the new trading relationships between the UK and African countries post-Brexit?

The empirical literature tends to confirm that Aid for Trade has been effective in raising exports and improving the investment climate, and thereby economic performance. Every pound invested in Aid for Trade is estimated to produce between eight and 20 pounds in additional exports from developing countries.

The UK is the leader in this area and should strive to keep this up, despite potential headwinds to Official Development Assistance.

Brexit will have implications for the UK's Official Development Assistance. In 2014, the UK's ODA amounted to £12 billion, much of which went to Africa. Brexit caused a significant shock to the British economy: already Standard & Poor's has downgraded the UK's credit rating by two notches, Sterling has fallen by 12%, and the IMF predicts a UK recession. While the long-term implications of this will depend on the economic stewardship of the British government and Bank of England, this implies a reduced British reach in the short term.

Moreover, within the EU, the UK could also provide leadership on issues such as European aid mobilisation and efficiency, and leverage a pan-European pooled fund. In particular the UK provided leadership for the EU's aid to Anglophone Africa and Commonwealth countries.

The UK's trade and development reach and influence will likely be somewhat diminished from that which is was within EU.

In moving forwards a regional model may become more important for the UK in which it targets Aid for trade to regions, such as East Africa and West Africa, rather than individual countries. This would help the UK to economize on a smaller trade and development footprint as well as feeding into Africa's regional integration framework.

TradeMark East Africa, which in auditing assessments has been exemplary, provides a strong template for this. TradeMark East Africa focusses on increasing physical access to markets, enhancing the trade environment and improving business competitiveness.

Finally, despite Brexit, the UK should strive to maintain cooperation with the EU in development assistance. It should furthermore continue to seek better disbursement of EU funds, which can often be consumed by bureaucracy, and strive to ensure that different European sources of aid continue to be well coordinated.

B. Does Brexit potentially open up new channels through which the UK can use trade and investment as a vehicle to reduce poverty in Africa?

The UK has considerable capacity in many areas in which Africa is seeking to advance its development, and especially in services. If the UK pivots its focus away from the EU and towards the rest of the world, as Brexit advocates signalled, then part of this shift could involve stronger investment partnerships. For instance, the UK could better allocate its attention and focus towards Africa's Regional Economic Communities as well as the numerous Anglophone countries with which Britain often has an overlapping history and operates in similar time zones. If the UK were to find itself increasingly excluded from a central role in EU financial markets, for instance, it might seek to reallocate some of its skills and resources towards the many African countries.

III. Inclusive Trade

"Are there specific potential implications from Brexit for small-scale traders and farmers in Africa? If so, are there ways for the UK government to ensure that post-Brexit trade policies would be pro-poor and equitable for men and women in Africa?"

A. <u>Are there specific potential implications from Brexit for small-scale traders and farmers in Africa?</u>

Trade models predict there to be winners and losers from free trade, especially in the short run, but gains to the winners outweigh the costs to the losers. Brexit has clearly highlighted that insufficient consideration has been given to the losers of integration.

This provides a strong lesson for the agenda of regional integration in Africa. Sufficient attention must be given to recognising sections of society which may face economic risks from integration, and to addressing these risks. This could include identifying particular sectors in which small-scale traders and farmers require assistance to reap the benefits of integration.

B. If so, are there ways for the UK government to ensure that post-Brexit trade policies would be pro-poor and equitable for men and women in Africa?

Solutions may include providing a stronger platform for CSOs to air trade and integration concerns and policies to help individuals transition into fast growing sectors which gain from trade liberalisation.

The EU was the very model for the African Union. In learning now from some of the challenges with this model Africa must now ensure inclusive regional integration and a broad-based pro-poor growth imperative.