Title: Ratification of the EU-ESA Economic Partnership Agreement **IA No: DIT 007** **RPC Reference No: N/A** **Lead department or agency:** Department for International Trade **Other departments or agencies:** Department for International Development	Impact Assessment (IA **Date: 04/07/2018** **Stage: Final** **Source of intervention:** **Type of measure:** **Contact for enquiries:** Trade for Development

Summary: Intervention and Options

RPC Opinion:

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANDCB in 2014 prices)	**One-In, Three-Out**	**Business Impact Target Status**
-£0.22m, excluding benefits from increased trade	-£0.22m, excluding benefits from increased trade	Not a regulatory provision		Not a regulatory provision

What is the problem under consideration? Why is government intervention necessary?

On the 24th August 2009 , the EU signed an Economic Partnership Agreement (EPA) with four countries from the Common Market for Eastern and Southern Africa: Madagascar, Mauritius, the Seychelles and Zimbabwe (the 'ESA countries'). In July 2017, the Comoros signed the Agreement, and they are currently in the process of ratification. The EPA has been provisionally applied since 14th May 2012, except in the case of the Comoros, where it will be applied pending ratification by the government of the Comoros. In order for the agreement to enter into force permanently, all EU Member States must ratify the agreement and notify the European Commission of their ratification. Were a Member State government to notify the Commission that they were unable to ratify the agreement this would mean that the agreement could not enter into force and its provisional application would be ended.

In the UK, the Government is required to lay the treaty before Parliament for 21 sitting days during which either the House of Commons of the House of Lords (or both) may pass a motion to object to ratification. If neither House objects, the UK may proceed to ratify the treaty. Parliament must also pass an affirmative statutory instrument designating it as an EU treaty as the agreement has provisions that need to have effect in UK law.

What are the policy objectives and the intended effects?

The policy objectives are to provide practical UK support for the EU's trade and development agenda through ratification and full implementation of the EPA with the ESA countries, promoting trade, increasing economic growth and accelerating development. The intended effects include a) removing all tariffs for ESA exports and b) reducing non-tariff barriers that businesses face when trading goods and services and investing abroad. The EPA is a development-focused agreement, including provisions relating to ensuring that trading opportunities can be seized productively, and social and environmental protections to ensure sustainable development.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The policy options are to ratify or not to ratify the agreement. The Economic Partnership Agreement has already been negotiated and agreed between the EU, and Madagascar, Mauritius, the Seychelles and Zimbabwe and the Comoros.Parliament's European Scrutiny Committees have already scrutinised this agreement; as the UK has already signed the EPA, it is too late to change the text of the agreement. However, either House of Parliament may resolve, within 21 days, that the agreement should not be ratified.

The options are:

1. Ratify the EPA. The analysis assumes that the Government is able to deliver its stated policy intention to ensure continuity in the effect of EU-Third Country Agreements as the UK leaves the EU, and therefore ensures the UK will continue trading with ESA countries on broadly similar terms to this agreement.
2. Do not ratify the agreement: Parliament opposes ratification of the EPA. In this scenario the UK Government would notify the European Commission that the UK is unable to ratify the Agreement. This would mean that the Agreement could not enter into force and its provisional application would be terminated. As a result, exports from partner countries in ESA would face increased tariffs, which we expect would damage particular sectors of their economy.

The UK Government proposes ratifying the ESA EPA as the preferred option.

Will the policy be reviewed? It will not **be reviewed. If applicable, set review date: N/A**

Does implementation go beyond minimum EU requirements?				
Are any of these organisations in scope?	**Micro**	**Small**	**Medium**	**Large**
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** **N/Q**		**Non-traded:** **N/Q**

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible : ______________ Date: 11/07/2018

Summary: Analysis & Evidence Policy Option 1

Description: Ratification of the EU-ESA Economic Partnership Agreement

FULL ECONOMIC ASSESSMENT

Price Base Year 2017	PV Base Year 2017	Time Period Years 15	Net Benefit (Present Value (PV)) (£m)		
			Low: -0.17	**High: -0.27**	**Best Estimate: -0.22**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0.2	3	-	**0.2**
High	0.3		-	**0.3**
Best Estimate	0.2		-	**0.2**

Description and scale of key monetised costs by 'main affected groups'

UK businesses are not expected to incur costs if they do not utilise the preferences set out in the EPA.

Where a business chooses to trade under EPA preferences they will incur a one-off familiarisation cost associated with reading the guidance or employing a specialist agent, and across all businesses using the agreement these are estimated at £0.2m.

Other key non-monetised costs by 'main affected groups'

UK businesses may face some increased competition from ESA firms. These impacts are expected to be negligible as the major goods exports of the ESA countries are generally not goods produced by British firms.

The UK Exchequer will receive less income from customs duties as a result of reduced tariffs on imported goods. These are considered a tax measure under the Better Regulation framework and therefore have not been quantified for the purpose of NPV calculations.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	-		-	**-**
High	-		-	**-**
Best Estimate	-		-	**-**

Description and scale of key monetised benefits by 'main affected groups'

There is no econometric modelling available on the impacts of the EPA. However, modelling is available for the Southern African Development Community EPA, and if the ESA EPA gives the same-sized boost to trade then it will increase UK exports to ESA countries by an estimated £3.6m, and will also lead to an estimated increase in UK imports from ESA countries of £6.5m: this will improve choice and help keep prices of goods and services lower for consumers. As the impact of this trade increase on UK GDP has not been modelled, the trade figures are not included as a benefit in the NPV calculation.

Other key non-monetised benefits by 'main affected groups'	
The benefits for the UK result from increases in UK real Gross Domestic Product (GDP) from the elimination of tariffs and the elimination of other measures that impede trade. Owing to lack of data and the cost of conducting bespoke research on this, these have not been quantified. The reduction in tariffs will also lead to an increase in revenues for UK importers; however, these are considered a tax measure under the Better Regulation framework and therefore have not been quantified for the purpose of NPV calculations. The EPA provides considerable benefits to developing countries by giving them immediate duty-free, quota-free access into the EU goods market. This will benefit developing country producers by improving incomes, and give certainty of market access to exporters.	
Key assumptions/sensitivities/risks **Discount rate (%)**	3.5%
- 2017 is the base year. - The analysis assumes that the Government is able to deliver its stated policy intention to ensure continuity in the effect of EU-Third Country Agreements as the UK leaves the EU, and therefore ensures the UK will continue trading with the ESA countries on broadly similar terms to this agreement after EU exit.	

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 0.02	**Benefits: 0**	**Net: -0.02**	Not a regulatory provision

Evidence Base

The structure of this Impact Assessment is as follows:

1. Economic background
2. Problem under consideration
3. Rationale for intervention
4. Policy objective
5. Description of options considered
6. Monetised and non-monetised costs and benefits of each option
7. Impact Tests (including Small and Micro Business Impact Test - SAMBA)
8. Sensitivity analysis & risks

Annex A: estimated one-off costs associated with ESA EPA familiarisation by UK firms

Annex B: The Economic Impact of the EU – ESA EPA Group Economic Partnership Agreement

Annex C: Most-traded product lines between the UK and the ESA EPA States, by value

1. Economic Background

Introduction

1.1 Under the UK's current membership of the EU, decisions on trade policy are taken by the Council of the European Union and European Parliament, and the day to day conduct of EU trade relations, including the negotiation of free trade agreements, is led by the European Commission.

1.2 While we are members of the EU, we will continue to cooperate fully and constructively with our partners. Once we have left, we will remain committed to working collaboratively with the EU to press our shared free trade agenda. We will then also have the opportunity to take forward our interests, priorities and ambitions through a new independent trade policy.

The benefits of international trade

1.3 An open and rules-based international trading environment creates benefits and enables economic integration and security cooperation, encourages predictable behaviour by states and the peaceful settlement of disputes. It can lead states to develop political and economic arrangements at home which favour open markets, the rule of law, participation and accountability.

1.4 Empirical studies generally suggest a positive relationship between trade openness and economic growth. Analysis by the OECD suggests that a 10% increase in openness is associated with a 4% increase in income per head.[1]

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[1] OECD (2003), *Sources of Economic Growth in OECD Countries*, https://www.oecd.org/eco/growth/2505752.pdf

1.5 Trade benefits consumers and households directly through lower tariffs on imported final consumption goods and indirectly through the associated productivity gains of domestic and foreign firms. For example, during 1996 – 2006 import prices for textiles and clothing in the EU fell by 27% and 38% respectively in real terms, in large part as a result of the phasing out of restrictive quotas which had greatly limited access to most developed countries' markets for textiles and clothing. For the same period the import price of consumer electronics fell by around 50%,[2] reflecting the impact of the Information Technology Agreement – a plurilateral agreement signed in 1996 which provided tariff free access for various IT products and which has now expanded to cover around 97% of global trade in these IT products.

The impact of trade on development

1.6 Openness to international trade is typically associated with faster economic growth. Although methodological challenges prevent us from demonstrating causation with certainty, the empirical literature typically finds that open economies, on average, grow faster than closed economies. A joint report by the OECD, ILO, World Bank, and the WTO, for example, highlights evidence that per capita income grew more than three times faster for those developing countries that lowered trade barriers in the 1990s compared to those that did not[3].

1.7 Trade-driven growth has generally benefitted the poor – analysis by the IMF, World Bank and WTO shows that over the period 1993-2008 increases in trade openness are strongly correlated with increases in

[2] J. Francois, M. Manchin, and H. Norberg, 2007, "Passing on of the benefits of trade openness to consumers", European Commission, Directorate General for Trade, p.7.

[3] OECD, ILO, World Bank (2010). 'Seizing the Benefits of Trade for Employment and Growth'. (prepared for G-20 summit meeting, Seoul, 11-12 November 2010), available at: http://www.oecd.org/trade/benefitlib/46353240.pdf

the real incomes of the lowest quintile of the population[4], including in poor countries.

1.8 Trade openness can drive economic development through a variety of channels. Liberal trading conditions reduce the cost of importing productivity-enhancing goods and services[5]. Trade openness facilitates access to foreign exchange earnings, which can finance imports of key inputs to the production process.

1.9 However, gains from trade are not automatic. Liberalisation by itself does not guarantee that the above benefits will accrue to a country. Market and government failures, which tend to be more prevalent in developing countries, can prevent businesses from taking advantage of the opportunities free trade offers. Poor transport infrastructure[6] and slow customs processes, for example, can make tradeable goods from developing countries relatively costly and uncompetitive in world markets. Improvements in governance, infrastructure, labour markets and social policy may be needed if trade liberalisation is to bring economic growth and development benefits.

Economic Partnership Agreements

1.10 The European Union's Economic Partnership Agreements (EPAs) are WTO-compatible trade agreements with African, Caribbean and Pacific (ACP) countries. They are development focused, immediately removing tariffs on exports from developing countries while allowing them to

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[4] IMF, World Bank & WTO (2017),'Making Trade an Engine of Growth for All', available at: https://www.wto.org/english/news_e/news17_e/wto_imf_report_07042017.pdf

[5] *Ibid*, §24

[6] African Development Bank, *African Development Report 2014: Regional Integration for Inclusive Growth* https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ADR14_ENGLISH_web.pdf

retain tariffs of their own to protect sensitive industries from competition, and including provisions aimed to ensure that trading opportunities can be seized productively.

1.11 There is very little quantitative evidence on the impact of EPAs. The EU commissioned a Sustainability Impact Assessment (SIA) of prospective EPAs, which issued its final report in 2007[7]; this considered the impacts of EPAs qualitatively and produced policy recommendations, but did not estimate the size of potential benefits. The EU has not prepared an SIA for the ESA EPA.

The Impact of Free Trade Agreements

1.12 The evidence shows that FTAs enhance bilateral trade. Head & Mayer[8] considered the impact across a wide range of studies (with a total of 2,508 estimates obtained from 159 papers) and found that the median impact of a regional trade agreement or FTA on bilateral trade flows to be an increase of 32 per cent. The wider body of evidence suggests a range of impacts from 8% to 32%.

1.13 The impacts will tend to depend on the precise provisions of the FTA, the characteristics of the partners and the existing degree of liberalisation. Several factors affect the scale of trade effects of FTAs including:

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[7] PricewaterhouseCoopers, "Sustainability Impact Assessment (SIA) of the EU-ACP Economic Partnership Agreements – key findings, recommendations and lessons learned" (PricewaterhouseCoopers, Paris: May 2007) http://trade.ec.europa.eu/doclib/docs/2007/june/tradoc_134879.pdf

[8] Head & Mayer (2013) 'Gravity Equations - Workhorse, toolkit and cookbook', p33-34, http://www.cepii.fr/pdf_pub/wp/2013/wp2013-27.pdf Looking specifically at structural gravity models, which refers to using country fixed effects or a ratio-type method.

- The scale of existing trade flows between country partners within an FTA;
- Specific provisions within the FTA, including how deep and broad its provisions are, how much policy change they inspire and how quickly changes are implemented;
- The responsiveness of aggregate trade flows to reductions in trade costs brought about by the provisions within the FTA;
- The relative importance and direction of trade-related policies falling outside the scope of the FTA; and
- Broader supply-side characteristics of those signing the FTA (i.e. what goods and services they can produce efficiently, and how quickly they are able to shift resources into sectors for which the FTA increases demand and out of those where it reduces demand for domestic output).

The ESA EPA States

1.14 The ESA EPA States have a population of approximately 42 million and an economy of £30.2 billion (2016), equivalent to approximately 1.5% of the UK economy. Seychelles is the group's richest country in per capita terms. In the last decade, the region has seen reasonable growth rates, with Seychelles experiencing the highest rates: an average of 4.7% in the ten years to 2016.

1.15 The bloc includes one high-income country (the Seychelles), one upper-middle income country (Mauritius), and three low-income countries (Madagascar, Zimbabwe and the Comoros). As measured by the Human Development Index, Seychelles and Mauritius are the region's most developed countries (ranked 63rd and 64th globally) and the Comoros is the least developed (ranked 160th), closely followed by Madagascar (158th).

Table 1.1: ESA EPA States Summary					
	GDP (£Billions; 2016)[9]	GDP per capita (£; 2016)	Average annual growth rate (2006-2016)	Population (Million; 2016)	Human Development Index (HDI, 2015) [Rank]
UK	**1949.3**	**29,928**	**1.3**	**65.6**	**0.909 [16]**
Zimbabwe	12.3	824	3.6	14.5	0.516 [154]
Seychelles	1.0	11,177	4.7	0.1	0.782 [63]
Mauritius	9.0	7,140	4.0	1.3	0.781 [64]
Madagascar	7.4	298	2.9	24.9	0.512 [158]
Comoros	0.4	575	1.9	0.8	0.497 [160]

Source: HDI – UNDP; others - IMF WEO (2017)

Trade with ESA EPA States

1.16 UK exports and imports to the ESA countries averaged £491m and £712m respectively between 2014 and 2016. UK trade with ESA EPA States is relatively very small: between 2014 and 2016, trade with ESA EPA States averaged 0.1% of total UK international exports and imports. The main trading partner for UK companies from the ESA EPA States is Mauritius, which accounted for 65% of UK exports to the bloc and 72% of imports in 2014-16.

[9] Figures in pound sterling have been converted from US $ at Bank of England annual average spot exchange rate of 0.7414. Available at: https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxAZxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2010&TD=11&TM=May&TY=2025&FNY=Y&CSVF=TT&html.x=66&html.y=26&SeriesCodes=XUAAGBD&UsingCodes=Y&Filter=N&title=XUAAGBD

Figure 1.1: UK imports and exports from ESA countries, 2014-2016 average (£ millions)

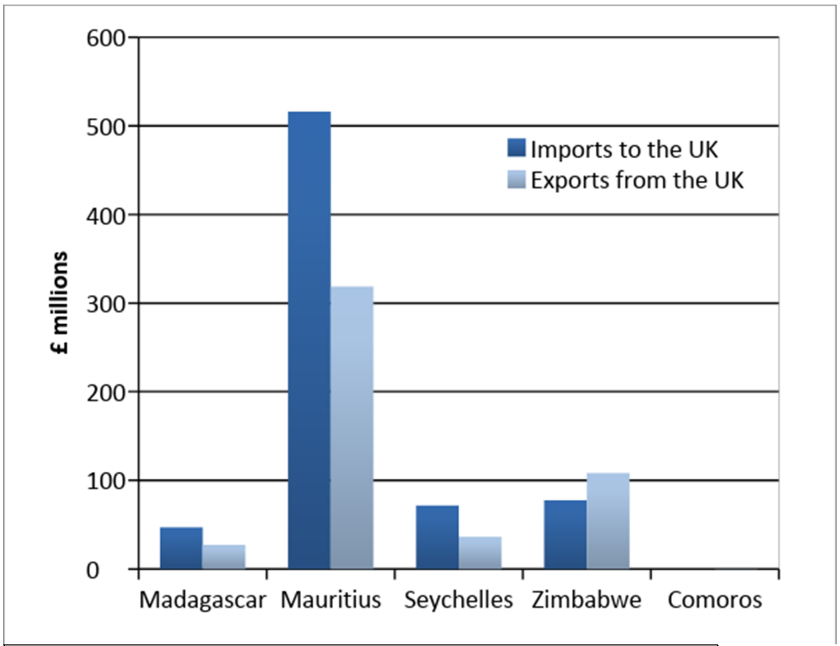


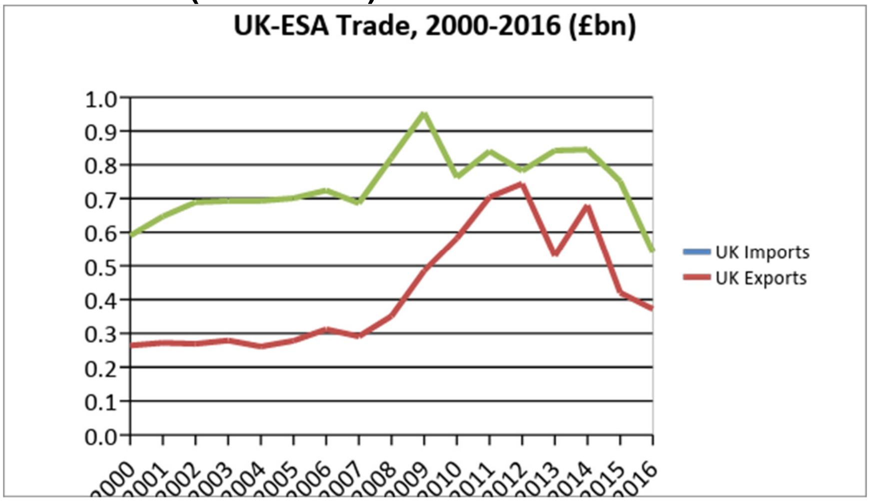
Table 1.2: Average UK Trade with ESA countries 2014-2016		
	Imports (£ millions)	**Exports** (£ millions)
ESA	**712**	**491**
Madagascar	47	27
Mauritius	516	319
Seychelles	72	36
Zimbabwe	77	108
Comoros	0.1	0.6

Source: ONS, HMRC

Note: trade data for the Comoros covers **goods only** (data from HMRC), all others cover **goods and services** (data from ONS)

1.17 Over the last 15 years, trade with this country grouping has increased reasonably steadily, besides from a fall in trade over the last few years due almost exclusively to falling trade with Mauritius.

Figure 1.2: UK exports to and imports from the ESA States, 2000-2016 (£ millions)



Source: ONS

1.18 In 2014-16, vehicles, telephone sets, medicaments, electrical machines, and spirits (mainly whisky) were the major UK exports to ESA. The main import from each ESA countries was knitwear from Madagascar, preserved fish (especially tuna) from Mauritius and the Seychelles, diamonds from Zimbabwe, and cloves from the Comoros.

1.19 The ESA countries' exports to the UK are very concentrated: the single top export from Madagascar, Seychelles, Zimbabwe, and the Comoros accounted for the majority of that country's goods exports to the UK. Mauritius's exports to the UK are more diversified: it's top export accounts for less than a third of its goods exports to the UK, and its top 5 products account for 78%. The UK's exports to ESA countries are very diversified: the top 5 products account for less than half of goods exports to each ESA country except Comoros.

2. Problem under consideration

2.1 Trade flows between the EU and the ESA EPA States have historically been restricted by a number of tariff and non-tariff measures. The EU and ESA countries sought to reduce the adverse impacts of these barriers with an Economic Partnership Agreement. Furthermore, the EPA allows the parties to deepen their relationship through cooperation on trade and development issues.

2.2 On the 29th August 2009, the EU signed an Economic Partnership Agreement with four countries from the Common Market for Eastern and Southern African (COMESA): Madagascar, Mauritius, the Seychelles, and Zimbabwe.

2.3 The EPA has been provisionally applied with Madagascar, Mauritius, the Seychelles and Zimbabwe since 14th May 2012. Application to the Comoros is pending ratification by the government of the Comoros. All EU Member States must now ratify the agreement and notify the European Commission of their ratification for the agreement to come fully into force. Were a Member State government to notify the European Commission that it was unable to ratify the agreement, the EPA could not be brought fully into force and its provisional application would be terminated.

3. Rationale for Intervention

3.1 The UK Government supports the EU's ambitious trade and development agenda including the Economic Partnership Agreements in place and under negotiation. UK ratification of the ESA EPA would be a further demonstration of this policy commitment and a positive move by the UK as an EU Member State.

3.2 Economic Partnership Agreements aim to increase trade and reduce trade barriers. It is well established that trade is mutually beneficial, through:

- More consumer choice in the variety and quality of goods and services,
- Lower prices through increased competition and efficiency,
- Higher firm productivity, and
- Higher real wages and living standards for the countries engaged.

3.3 As well as maintaining the removal of tariffs for ESA countries' exports into the EU,the agreement also includes provisions aimed to ensure that trading opportunities can be seized productively .

3.4 The ESA EPA is a development-focused agreement. While it is reciprocal, trade liberalisation is strongly asymmetric in favour of the ESA countries. The EU will open its market more than the ESA EPA States have committed to. It guarantees immediate duty-free quota-free access into the EU goods market for the ESA countries.

3.5 The ESA EPA States also benefit from a range of safeguard measures (protections from a sudden surge in imports), a ten-year phase-in period for tariff reduction, and the exclusion of certain sensitive products from liberalisation entirely. Each ESA country's extent of liberalisation is in line with its level of development. The Seychelles and Mauritius, as the more developed ESA states, will make 95% and 98% respectively of their tariff lines duty free for imports from the EU by 2022. Zimbabwe and Madagascar, as low-income countries, will make 86% and 88% of tariff lines duty free for the EU[10].

3.6 In addition, the ESA EPA States also benefit from flexible rules of origin: they have greater flexibility to use foreign components while still benefitting from free access to the EU market.

3.7 The EU is providing substantial development assistance to the ESA EPA States to support their implementation of the agreement, and ensure that the opportunities it offers can be fully realised, thereby driving economic growth and development. The ESA EPA contains a chapter on development cooperation, which lists a large number of potential capacity-building efforts. The agreement also contains a chapter on sustainable development which covers social and environmental matters. The ESA EPA establishes joint institutions to monitor and assess the impact of the implementation of EPAs on sustainable development, with a clear role for civil society.

3.8 It also supports the UK's stance as being 'open for business' and in being an active EU member until the UK departs, while also demonstrating the importance we place on continuing to strengthen the EU's relations with Eastern and Southern Africa. Ratifying the EPA would also be in line with our existing EU obligations. Until we leave the EU, we retain all the existing rights and obligations of EU membership, which includes the commitment to ratify free trade agreements. Ratification of the ESA EPA will demonstrate the UK's commitment to

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[10] WTO, "Factual Presentation: Interim Economic Partnership Agreement Between the European Union and the ESA States (Madagascar, Mauritius, Seychelles And Zimbabwe)", 30th August 2017, WT/REG307/1, pp. 11-12.

this agreement and provide a clear endorsement that its provisions are positive for the UK.

3.1 The UK seeks continuity in its existing trade and investment relations, including continuity of existing EU EPAs, so as to avoid disruption for businesses and consumers as the UK leaves the EU. All our EPA partner governments have said they want to maintain their EPAs after the UK leaves the EU. On leaving the EU, the UK government will also explore options to expand on relationships with developing countries.

4. Policy Objective

4.1 The UK has always been deeply committed to free and open international trade and investment as drivers of growth, development, prosperity, jobs and consumer choice. Trade has lifted millions out of poverty, and supports peace and promotes security. It is well established that trade is mutually beneficial, through:

- more consumer choice in the variety and quality of goods and services,
- lower prices through increased competition and efficiency,
- higher productivity, and
- higher real wages and living standards for the countries engaged.

4.2 The UK's policy objectives are to provide UK support of the EU's ambitious trade agenda and as part of this support ratification of the ESA Economic Partnership Agreement.

4.3 The advantages of EPAs, which the UK supports as a tool of EU trade policy, are[11]:

Benefitting businesses and communities across Africa, the Caribbean and the Pacific

- Duty- and quota-free access for exports to the EU. Free access to the EU market of half a billion people for all ACP products, providing plenty of scope for economies of scale.
- More integrated regional markets - benefitting ACP exporters by boosting trade between neighbouring ACP countries and regions.

[11] European Commission, "The EU's Economic Partnership Agreements (EPAs) with countries in Africa, the Caribbean and the Pacific (ACP)", http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_151010.pdf

- More flexible, simpler **rules of origin,** so when a producer in one ACP country uses inputs from another, they do not have to pay customs duties when they export their final products to the EU**.**
- No undue competition - ACP countries will only gradually open their markets to EU imports, and producers of the most sensitive 20% of goods will enjoy permanent protection from competition.
- **A context for wider reforms** - EPAs are part of the wider development agenda for ACP countries to strengthen the rule of law, attract local and foreign investment and create the conditions for greater prosperity.
- Help to address broader issues affecting trade, such as technical barriers to trade, labour rights and the environment, poor infrastructure, inefficient customs and border controls, or inadequate standards.
- Safeguards for local economies - ACP countries that sign EPAs must gradually open some 80% of their markets to EU imports, but they can exclude products and apply "safeguard" measures to ensure that EU products do not compete against locally produced goods.
- Respect for national sovereignty - instead of imposing development strategies, EPAs ask countries to determine their own development strategies and the pace and sequence of reforms.

Benefitting consumers and workers in Europe

- **Lower prices, better value** – EPAs remove trade barriers, which in turn produces healthy competition on the EU market and lower prices for consumers.
- **More choice, better quality** – EPAs can help promote export of new products from ACP countries, and new varieties of familiar goods like coffee, cocoa, mangos, or pineapples.
- **Ethical choices** – European consumers will have easier access to products from small-scale, family-run businesses in ACP countries.

- **Jobs** - in the long run, trade will help ACP countries become more prosperous. In turn, that will generate more demand for European products and expertise, which will be good for jobs in Europe.

4.4 The UK's ratification would also provide a practical demonstration to the EU of the UK's commitment to support EU free trade activity whilst still a Member State.

5. Description of Options Considered

The EU-ESA EPA awaits ratification by all EU member states in order to come into force: as of March 2018, Croatia has already notified the Commission that they have ratified the agreement.[12] There is no scope for the UK government to change the EPA that is already provisionally in force. Consequently, the two options for the UK Government are:

Option 1: Ratify the ESA interim Economic Partnership Agreement.

5.1. The agreement has been negotiated by the European Commission and has been provisionally applied since 14th May 2012 and is scheduled to become part of EU law. The UK was a strong supporter of the agreement throughout the negotiating process.

5.2. This is the government's preferred option as it aims to increase the export opportunities available to developing countries in Eastern and Southern Africa, and to the EU, as well as improving consumer welfare and choice for both.

5.3. The UK government is also seeking continuity from trade agreements that the EU currently has in force after the UK's exit from the European Union. The analysis for this option assumes the UK succeeds in this and that it will continue trading with Eastern and Southern Africa on this basis after exit.

5.4. **These factors mean that option 1 is the UK Government's preferred option.**

Option 2: Do not ratify the ESA interim Economic Partnership Agreement

5.5. The UK Government could choose to reject ratification of the agreement. If it did so, it would notify the European Commission. The EPA would be

[12] See: http://www.consilium.europa.eu/en/documents-publications/treaties-agreements/agreement/?id=2009014&DocLanguage=en

rejected and the EPA would no longer be implemented across the EU and the ESA countries. ESA countries' trading arrangement with the EU would move to WTO, Most Favoured Nation (MFN) rules, except where eligible for EU unilateral preference schemes:

- Madagascar and the Comoros would qualify for duty-free, quota-free access to EU markets under the EU's Everything But Arms scheme;
- Zimbabwe would qualify for tariff reductions on approximately two-thirds of tariff lines under the EU's Generalised Scheme of Preferences;
- However, continued preferential access for Madagascar, Comoros and Zimbabwe would only apply *into* EU markets. The UK would not benefit from any reciprocal preferential access into Eastern and Southern African markets.

5.6. This is not the Government's preferred option, as it runs counter to the Government's commitment to trade-driven developmental partnerships, and would have a negative impact on the UK when compared to option 1. Not ratifying this trade agreement would mean the introduction of tariffs for developing country exports that have been removed for ACP exports to the EU since the 1970s.

6. Monetised and non-monetised costs and benefits of each option

Approach taken by the Department of International Trade for this Impact Assessment

6.1 Proportionality: The UK Government has not commissioned external economic analysis of the impact of the ESA Economic Partnership Agreement. The trade agreement is ‘shallow’ (i.e. most of its provisions are on tariffs: it does not mandate changes to UK investment policy or regulations) and covers a very small proportion of UK trade (around 0.1%). The EU-commissioned Sustainability Impact Assessment (SIA) for the Economic Partnership Agreements as a whole did not include quantified estimates for the impact on the EU economy. Therefore, it was deemed proportionate to rely on internal analysis by DIT economists, making use of publicly-available datasets, for the purposes of this Impact Assessment.

6.2 Baseline: This IA is our assessment of the costs and benefits to UK business of ratifying the EPA. To illustrate these impacts, this IA has compared the impact of ratification (i.e. the ESA States trading with the UK under the terms of the ESA EPA) with a baseline of the EPA being rejected and parties trading in the absence of a preferential agreement (i.e. MFN terms or unilateral preferences). In practice, this agreement has been provisionally applied with 4 ESA countries since 14th March 2012 so some benefits and costs have already accrued in the year 2017.

6.3 **Key Assumptions**

- 2017 is the base year; although the Comoros had not yet ratified the Agreement at this point, trade with the Comoros represents less than 0.5% of UK trade with ESA EPA countries, so there is no substantial impact on the analysis.

- The exact impacts of FTAs are uncertain, as they depend upon a wide range of behavioural responses by businesses and individuals. To reflect that uncertainty, we alter a small number of assumptions to generate a high, low and central scenario, reflecting a range of potential outcomes.
- In the event that the UK chooses not to ratify the EPA, it would lose access to the associated benefits and trade with the ESA States under the trade regime previously in place. This means we would provide Everything But Arms terms for Madagascar and the Comoros, Generalised Scheme of Preferences terms for Zimbabwe, and trade with Mauritius and the Seychelles on Most Favoured Nation (MFN) terms.
- This IA, in line with HMT Green Book appraisal advice, only assesses the impacts on the UK population. We have therefore excluded assessments of the benefits that would accrue to the ESA States, such as the benefits of the development cooperation set out in the EPA, and the market access to the EU provided to ESA States. A Net Present Value to the UK is calculated over a 15-year period, with a 3.5% discount rate.
- In line with Better Regulation procedures we have not included costs and benefits from tariff changes in calculating the Expected Annual Net Direct Cost to Businesses (EANDCB), as these are classed as 'tax measures' and therefore out of scope of the EANDCB.

Option 1 (ratify the agreement):

Overall Impact on the UK Economy

6.4 Benefits to the UK from the agreement will come from bringing down the existing trade barriers that restrict free and efficient trade. This will result in increased export opportunities for UK businesses, creating greater competition and thus lower prices, more innovation, investment in R&D, more jobs and a greater variety of goods and services for consumers.

6.5 There is no econometric modelling available on the impact of the ESA EPA. However, modelling by the EU on the Southern African Development Community (SADC) EPA predicts that the Agreement will increase EU exports to SADC EPA States by 0.73% by 2035[13]. (The modelling does not calculate the impact of increased exports on UK GDP, or how the benefits are divided between firms, workers and the wider economy.) If the ESA EPA has a similar impact on trade, and UK exports increase in line with all EU exports, this is equivalent to **a real-terms increase in UK exports to ESA countries of £3.6m (in 2016 prices) by 2035.**

6.6 The same modelling predicts that EU imports from the SADC EPA States will be 0.91% higher by 2035 (see Annex B). The modelling does not calculate the precise impact on consumer welfare, but theory suggests that the added imports will increase welfare through greater choice and downward pressure on prices. If the ESA EPA has a similar impact, and UK imports increase in line with all EU imports, this is equivalent to **a real-terms increase in UK imports from ESA countries of £6.5m (in 2016 prices).**

Direct Costs to UK Businesses: Transitional Costs resulting from Reading and Understanding the Agreement

6.7 There will be some transitional costs to businesses that have been trading with the ESA States, as they familiarise themselves with the agreement. This will entail reading and understanding the agreement's terms. As the agreement has been provisionally applied since 14th May 2012, these adjustments have already been made.

[13] DG Trade (2016), *The Economic Impact of the SADC EPA Group – EU Economic Partnership Agreement*, http://trade.ec.europa.eu/doclib/docs/2016/june/tradoc_154663.pdf

6.8 There is no published data on the number of UK businesses that trade with the ESA countries. However, experimental official statistics from the ONS show that there were 9,202 UK businesses exporting to South Africa and 3,418 importing from South Africa in 2016[14]. Given that UK exports to ESA were worth 11% of UK exports to South Africa, and imports from ESA were worth 18% of imports from South Africa, then if we assume that the number of firms trading is in proportion to the value of trade then we can estimate that the number of UK firms exporting to ESA countries was 1,051 and the number importing was 623. This is 1,674 firms in total, although this represents an upper bound for the true number, as it's likely some firms both import and export. The lower bound is 1,051 (i.e. if all importers also export then there are only 1,051 UK firms trading with ESA countries). Our central estimate is 1,363 (assuming that half of importers also export).

6.9 Based on this number of firms, we estimate that the transitional costs to UK businesses will be in the range of £0.2m to £0.3m, with a central estimate of £0.23m. Annex A sets our method for calculating these costs. We expect these costs will be profiled over the first three years of the transition, with 60% being applied in the first year (£0.14m), 25% in the second year (£0.06m), and 15% in the third year (£0.03m).

Direct Costs to UK Business: Rules of Origin and other On-going costs

6.10 To trade under EPA preferences, businesses are required to produce a certificate to confirm the origin of the export content meets the rules of origin requirements set out in the EPA.

6.11 Businesses can submit rules of origin forms to HMRC to process free of charge, which can take several days to complete. Alternatively businesses can choose to get an origins certificate from the British

[14] IDBR overseas trade statistics country data tables 2016. https://www.gov.uk/government/statistics/uk-trade-in-goods-by-business-characteristics-2016.

Chambers of Commerce which processes the certificate in a shorter period of time for a fee of £46.80.

6.12 The exceptions to the above are exports of a consignment worth less than €6,000 in value: the exporter may make out an origins declaration of their own without needing to obtain a certificate. Similarly, frequent exporters can apply to HMRC's Registered Exporters scheme, which allows them make out origin declarations on shipments of any value[15].

6.13 Recent academic studies (World Bank 2014, Ciuriak & Xiao 2014) estimate the tariff equivalent trade costs associated with rules of origin administration and compliance requirements ranges between 2% to 6%. These estimates vary considerably depending on the methodology, time period, and the countries under consideration. Further research (Keck and Lendle 2012) has shown that utilisation of agreements can be very high, even where there are very small preferential margins, which could not be the case in the presence of high administrative costs.

6.14 As well as being low in aggregate, the costs of obtaining proof of origins are voluntary: businesses can choose whether or not to export their goods under the terms of the EPA, and will only do so when the cost of proving origins is less than the savings from the tariff reduction.

6.15 Other ongoing costs to businesses include the cost of complying with any revisions to the EPA text, and of complying with verifications checks by customs authorities. We expect these to be very small: revisions will be infrequent and any changes will be minor compared to the original text; and verification checks will only be applied to a small percentage of exports.

Indirect costs to UK Businesses

[15] EU-ESA Economic Partnership Agreement, Protocol 1, Article 21, p. 1033 http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=OJ:L:2012:111:TOC

6.16 There will be adjustment costs to EU (including UK) businesses from the increased competition coming from ESA countries because of the EPA. This will be both in the UK and wider EU markets. But the market power of ESA firms is not expected to be significant relative to UK firms in those product lines where the two compete directly, so we consider it unlikely that UK firms will be significantly affected. These have not been quantified and are assumed to be negligible.

Direct Benefits for UK Businesses

6.17 The benefits of the agreement include the direct savings for UK exporters as a result of reduced tariffs levied in ESA destinations. Businesses that import inputs from ESA countries are also likely to benefit from the reduced tariffs (tariff benefits are not monetised in this Impact Assessment as they are tax measures, and therefore out of scope).

Indirect Benefits for UK Businesses

6.18 The agreement is expected to increase the level of trade between the UK and the ESA countries. We consider that the change in the level of trade is an indirect impact of the trade agreement itself, as firms are required to change their behaviours following the liberalisation of tariffs and non-tariff barriers.

Total Net Present Value Impacts on Business

6.19 The only monetised impacts on business are the one-off familiarisation costs of reading and understanding the text. This means that our estimate of the Net Present Value is a cost of £0.22m with a high scenario of £0.27m and a low scenario of £0.17m. These costs should be set against the numerous benefits to business, and the wider economy, set out above. Whilst these are not monetised, we expect the longer-term benefits of this agreement to outweigh the limited, short-term costs.

7. Impact Tests (including Small and Micro Business Impact Test or SAMBA)

Statutory Equalities Duties Impact Test

6.1. The impact of this agreement on protected groups should be positive, as consumers and businesses overall should benefit from this agreement.

Small and Micro Business Impact Test (SAMBA)

6.2. Small and medium UK firms are not exempt from this agreement or any of the specific chapters within the agreement. Firms that use imports from ESA States are likely to benefit, as the cost of existing imports is likely to fall. Some uncompetitive firms may be adversely affected from competition from ESA firms, however the net impact on SMEs is expected to be positive.

6.3. Currently, around 94% of UK businesses that imported and/or exported had less than 50 employees. However, experimental official statistics show that 65% of firms trading with South Africa in 2016 had fewer than 50 employees[16], accounting for 14% by trade value. No data is available for the ESA countries, but given their proximity to South Africa (and distance from the UK, making it more difficult for small businesses to enter into trading relations with them), we estimate the proportion of small businesses will be similar. Therefore, we estimate that businesses trading with ESA countries are less likely to be small businesses than UK businesses on average.

[16] Calculated from HMRC data, excludes firms of unknown size. Source: “UK trade in goods by business characteristics 2016”, available at: https://www.gov.uk/government/statistics/uk-trade-in-goods-by-business-characteristics-2016

Annex A: Estimated one-off costs associated with ESA EPA familiarisation by UK firms

1	UK businesses will need to read the ESA EPA text in order to familiarise themselves with the content. The main text is approximately 27 pages and 13,625 words. The EU has not yet published detailed guidance for businesses, so firms are likely to read the text itself (though this may be an over-estimate, as most will only refer to sections relevant to their business).
2	Evidence shows that the average reading time is 228 words per minute with a range of 30 words either side.[1]
3	Based on the information above, we estimate the following ranges of time it may take a firm to become familiar with the ESA EPA text: a) High Scenario: 1.1 hours b) Central Scenario: 1.0 hours c) Low Scenario: 0.9 hours
4	Average weekly earnings is £472 from the year ending September 2017 and the average number of hours worked per week is 37.5 over the same period. From this we estimate the average hourly pay is £13[2].
5	We uplift this by 20.2% to account for other non-wage labour costs such as national insurance, pensions and other costs that vary with hours worked[3], revising the cost per business to £15.63 (£13 +£2.63).
6	The cost for one business to read the ESA EPA text and guidance is estimated at: a) High Scenario: £17.19 (£15.63 x 1.1 hours) b) Central Scenario: £15.63 (£15.63 x 1.0 hours) c) Low Scenario: £14.07 (£15.63 x 0.9 hours)
7	Businesses may also seek advice from a specialist agent on interpreting the text and implications for their trade. Survey evidence shows that 60% of businesses seek advice from an agent to complete tax affairs. We use this as a proxy for the number of firms that would seek advice on the ESA EPA. The same survey provides an average cost of using an agent of £265.[4]
8	Published data shows that 3,418 companies import from South Africa and 9,202 businesses export[5]. Data is unavailable for companies exporting and importing from ESA States. Given that UK imports from ESA are only 18% by value of its imports from South Africa, and exports to ESA are 11% by value of exports to South Africa, we assume that there are 1,051 UK companies exporting to ESA and 623 companies import from ESA.

	• The upper bound of companies that trade with the ESA States is 1,674 (assumes no overlap between exporting and importing firms). • The lower bound of companies that trade with the ESA States is 1,051 (assumes all importing companies are also exporting). • A central scenario would be 1,363 (assumes half of importing companies are also exporting) • If 60% of these firms seek advice from specialist agents, then this equates to 1,004 in the high scenario, 818 in the central, and 631 in the low scenario.
9	We assume that all companies that use preferences incur familiarisation costs. 60% will pay an agent, and the remaining 40% will read the text of the agreement (incurring staff time costs): a) High Scenario: £277,577 [(670 x £17.19) + (1,004 x £265)] b) Central Scenario: £225,288 [(545 x £15.63) + (818 x £265)] c) Low Scenario: £173,124 [(420 x £14.07) + (631 x £265)]
	Sources: [1] http://iovs.arvojournals.org/article.aspx ?articleid=2166061#90715174 [2] Labour market statistics summary data tables (ONS) 2017. Table 15. Average Weekly Earnings (nominal) – Regular Pay (Great Britain, seasonally adjusted). https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/october2017/relateddata [3] Source: Department for Business, Energy and Industry Strategy, "Business Impact Target", p. 8 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/609201/business-impact-target-guidance-appraisal.pdf [4] Understanding tax administration for businesses, HM Revenue and Customs Research Report 375, July 2015 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443746/HMRC_Report_375_Tax_Administration.pdf [5] IDBR overseas trade statistics country data tables 2016. https://www.gov.uk/government/statistics/uk-trade-in-goods-by-business-characteristics-2016.

Annex B: Most-traded product lines between the UK and ESA EPA States, by value

Table B.1: Top 5 Exports and Imports between the UK and Madagascar (yearly average, 2014-2016)

	Top 10 UK Exports to Madagascar		Top 10 UK Imports from Madagascar	
	Good (HS4)	**Value (£ millions)**	**Good (HS4)**	**Value (£ millions)**
1	Carded wool yarn	0.72	Jerseys, pullovers, cardigans, waistcoats and similar articles; knitted or crocheted	23.6
2	Spirits	0.61	Shirts; men's or boys' (not knitted or crocheted)	2.9
3	Telephone sets, incl. telephones for cellular networks or for other wireless networks	0.55	Prepared or preserved fish	1.5
4	Pumps for liquids	0.45	Shirts or blouses; women's or girls' (not knitted or crocheted)	1.3
5	Reaction initiators, reaction accelerators and catalytic preparations	0.44	Cane or beet sugar in solid form	1.0

Source: HMRC

Table B.2: Top 5 Exports and Imports between the UK and Mauritius (yearly average, 2014-2016)

	Top 10 UK Exports to Mauritius		Top 10 UK Imports from Mauritius	
	Good (HS4)	**Value (£ millions)**	**Good (HS4)**	**Value (£ millions)**

1	Motor cars and other passenger vehicles	5.5	Prepared or preserved fish	56.9
2	Medicaments in measured doses Electrical machines and apparatus	4.7	T-shirts, singlets and other vests; knitted or crocheted	43.0
3	Telephone sets, incl. telephones for cellular networks or for other wireless networks	3.7	Cane sugar	28.5
4	Spirits*	2.5	Jerseys, pullovers, cardigans, waistcoats and similar articles; knitted or crocheted	17.8
5	Prepared cereal products	1.9	Suits, ensembles, jackets, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (not swimwear), women's or girls', knitted or crocheted	13.7

Source: HMRC

* over 90% of which accounted for by whisky

Table B.3: Top 5 Exports and Imports between the UK and the Seychelles (yearly average, 2014-2016)

	Top 10 UK Exports to the Seychelles		**Top 10 UK Imports from the Seychelles**	
	Good (HS4)	**Value (£ millions)**	**Good (HS4)**	**Value (£ millions)**
1	Yachts and other vessels for pleasure or sport	1.2	Prepared or preserved fish	59.5
2	Parts suitable for heavy machinery	1.0	Furniture and parts thereof	1.0
3	Spirits	0.92	Seats, whether or not convertible into beds and parts thereof	0.66

4	Parts suitable for internal combustion piston engines	0.57	Gymnastics, athletics, other sports or outdoor games equipment	0.63
5	Motor cars and other passenger vehicles	0.57	Fish fillets and other fish meat; fresh, chilled or frozen	0.38

Source: HMRC

Table B.4: Top 5 Exports and Imports between the UK and the Zimbabwe (yearly average, 2014-2016)

	Top 10 UK Exports to Zimbabwe (2016)		**Top 10 UK Imports from Zimbabwe (2016)**	
	Good (HS4)	**Value (£ millions)**	**Good (HS4)**	**Value (£ millions)**
1	Motor cars and other passenger vehicles	6.5	Diamonds, not mounted or set	17.4
2	Hydraulic turbines, water wheels and regulators	2.1	Leguminous vegetables; shelled or unshelled, fresh or chilled	4.9
3	Steam or other vapour generating boilers	1.7	Tobacco, unmanufactured; tobacco refuse	2.3
4	Spirits*	1.4	Tea	1.3
5	Tractors	1.2	Apricots, cherries, peaches, plums and sloes, fresh	0.56

Source: HMRC

* over 90% of which accounted for by whisky

Table B.5: Top 5 Exports and Imports between the UK and the Comoros (yearly average, 2014-2016)

	Top 10 UK Exports to the Comoros	**Top 10 UK Imports from the Comoros**

	Good (HS4)	Value (£ thousands)	Good (HS4)	Value (£ thousands)
1	Meat of fowls, fresh, chilled or frozen	374.6	Cloves	96.7
2	Edible offal of bovine animals, swine, sheep, goats, horses, asses, mules or hinnies, fresh, chilled or frozen	30.9	Suits, ensembles, jackets, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (not swimwear), women's or girls', knitted or crocheted	4.9
3	Tube or pipe fittings of iron or steel	25.0	, spectrum analysers and other instruments for measuring electrical quantities	1.93.1
4	Hand and machine tools	25.0	Aluminium plates of a thickness less than 0.2mm	1.8
5	Bulldozers, angledozers, graders and similar	16.4	Instruments, apparatus for measuring or checking the flow, level, pressure of liquids or gases	1.5

Source: HMRC