Title: Ratification of the EU-Ghana Stepping Stone Economic Partnership Agreement **IA No: DIT 008** **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**
-£0.45m, excluding benefits from increased trade	-£0.45m, 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 21st October 2016, the EU signed an Economic Partnership Agreement (EPA) with Ghana. The EPA has been provisionally applied since 15th December 2016. 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 of the EU-Ghana EPA are to provide practical UK support for the EU's trade and development agenda through ratification and full implementation of the EPA with Ghana, promoting trade, increasing economic growth and accelerating development. The intended effects include a) removing all tariffs for Ghana's 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. 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 Ghana 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 Ghana would face increased tariffs, which we expect would damage particular sectors of their economy.

The UK Government proposes ratifying the Ghana 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-Ghana 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: -0.43	**High: -0.46**	**Best Estimate: -0.45**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0.4	3	-	**0.4**
High	0.5		-	**0.5**
Best Estimate	0.5		-	**0.4**

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 £0.5m.

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

UK businesses may face some increased competition from Ghanaian firms. These impacts are expected to be negligible as Ghana's major goods exports of are generally not the type of 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 Ghana EPA gives the same-sized boost to trade then it will increase UK exports to Ghana by an estimated £6.2m, and will also lead to an estimated increase in UK imports from Ghana of £3.7m: 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 Ghana by giving it immediate duty-free, quota-free access into the EU goods market. This will benefit Ghanaian 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 Ghana 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: 0.03	**Benefits: 0**	**Net: -0.03**	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 Ghana EPA familiarisation by UK firms

Annex B: Most-traded product lines between the UK and the Ghana, 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]

[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 benefited 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 retain tariffs of their own to protect sensitive industries from competition,

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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

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 Ghana 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).

Economy of Ghana

1.14 Ghana is a lower-middle income country with a population of approximately 28 million and has an economy of £31.7 billion (2016), equivalent to approximately 1.6% of the UK economy. Ghana has a GDP per capita of approximately £1,200 compared to £30,000 for the UK.

1.15 In the last decade, Ghana has seen strong growth rates, averaging 6.7% between 2006 and 2016. With the start of petroleum production in 2011, Ghana experienced a spike in growth but has since experienced a rapid slowdown, driven in part by falling commodity prices, energy sector problems and fiscal difficulties. Looking ahead, the IMF expects Ghana’s growth to improve, bolstered by further expansion in the petroleum sector.

Table 1.1: Ghana summary

	GDP (£Billions; 2016)[9]	Average annual growth rate (2006-2016)	Population (Million; 2016)	Human Development Index (HDI, 2015) [Rank]
UK	**1949.3**	**1.3**	**65.6**	**0.910 [16]**
Ghana	31.7	6.7	27.8	0.579 [139]

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

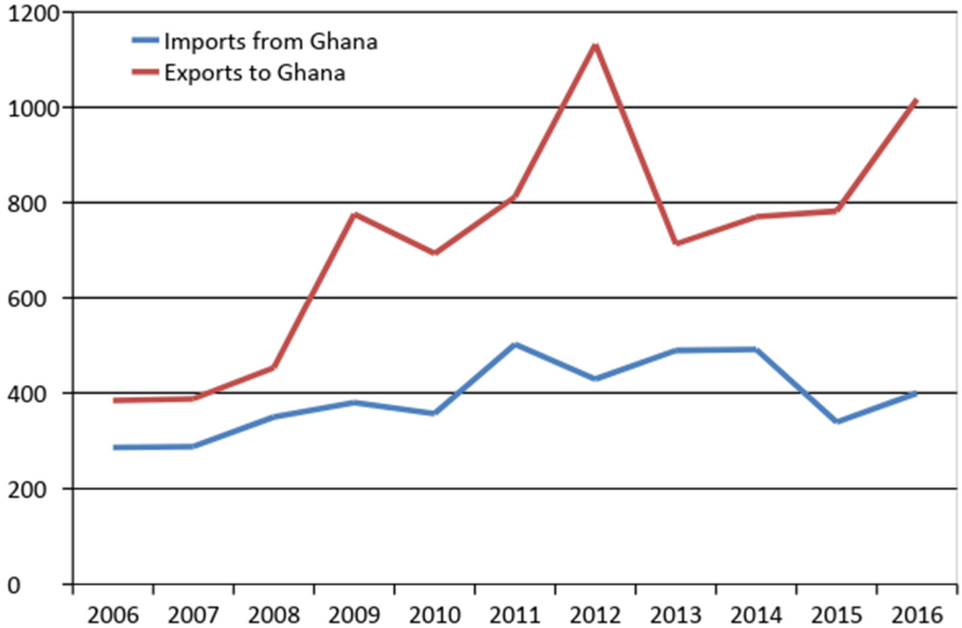
UK Trade with Ghana

1.16 UK imports and exports to Ghana averaged £410m and £856m respectively between 2014 and 2016. UK trade with Ghana is relatively small: between 2014 and 2016, trade with Ghana averaged 0.07% of total UK international imports and 0.16% of UK exports.

1.17 Over the last decade, UK trade with Ghana has performed relatively well relative to UK trade with the rest of the world. As shown in Figure 1.1, exports have increased 165% over the ten years to 2016. This compares to 40% increase in overall UK exports. Imports from Ghana reflect broader trends in trade, increasing 40% compared to 39% increase in total UK imports over the same period.

Figure 1.1: UK exports to and imports from Ghana, 2006-2016 (£ millions)

[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



Source: ONS

Table 1.2: Trade between UK and Ghana (£m)

	Goods		Services		
	Imports to the UK	Exports	Imports to the UK	Exports	Total
2012	224	556	205	576	1561
2013	301	430	188	283	1202
2014	279	361	212	409	1261
2015	213	340	126	442	1121
2016	248	604	152	413	1417

1.18 Over the period 2014-2016 the top 10 categories of imports from Ghana (presented in Table B1 in Annex B) accounted for 93% of all imports from Ghana. Prepared or preserved fish was the top category by trade value, accounting for 26% of imports. Whilst no imports of petroleum were registered in the year 2016, it was the second largest import over the entire period, accounting for 20% of total imports from Ghana. Amongst the top 10 are three cocoa based products (covering cocoa beans, cocoa butter and cocoa paste) that together account for 26% of imports from Ghana, slightly more than preserved fish. There are also three fruit categories that cover products such as pineapples, avocados, mangoes, bananas and sweet potatoes and combined they account for 18% of UK imports from Ghana.

1.19 Over the period 2014-2016 the top 10 UK exports accounted for 42% of total exports to Ghana. Worn clothing is the main category of exports, accounting for 12% of exports over the period. Exports of petroleum oils 'other than crude' are the second main export accounting for 9% of total exports. Whilst 'automatic regulating or controlling instruments' is the third biggest category, accounting for 4% of total exports, only very small amounts of trade were registered under this category in years 2014 and 2015.

2. Problem under consideration

2.1 Trade flows between the EU and the Ghana have historically been restricted by a number of tariff and non-tariff measures. The EU and Ghana 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 10th October 2016, the EU signed an Economic Partnership Agreement with Ghana.

2.3 The EPA has been provisionally applied since 15th December 2016. 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 Ghana 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 Ghana's exports into the EU, the agreement also includes provisions aimed to ensure that trading opportunities can be seized productively..

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

3.5 Ghana also benefits from a range of safeguard measures (protections from a sudden surge in imports), a 15-year phase-in period for tariff reduction, and the exclusion of certain sensitive products from liberalisation entirely.

3.6 The EU is providing substantial development assistance to Ghana 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 Ghana EPA contains a chapter on development cooperation, which lists a large number of potential capacity-building efforts.The Ghana EPA sets up joint institutions to monitor and assess the impact of the implementation of EPAs on sustainable development, with a clear role for civil society.

3.7 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 Ghana. 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 Ghana EPA will demonstrate the UK's commitment to this agreement and provide a clear endorsement that its provisions are positive for the UK.

3.8 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 Ghana Economic Partnership Agreement.

4.3 The advantages of EPAs, which the UK supports as a tool of EU trade policy, are[10]:

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.

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[10] 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-Ghana EPA awaits ratification by all EU member states in order to come into force: as of March 2018, Hungary, Croatia and Lithuania have already notified the Commission that they have ratified the agreement.[11] 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 Ghana Interim Economic Partnership Agreement.

5.1. The agreement has been negotiated by the European Commission and has been provisionally applied since 15th December 2016 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 Ghana, 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 Ghana 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 Ghana 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

[11] See: http://www.consilium.europa.eu/en/documents-publications/treaties-agreements/agreement/?id=2008064&DocLanguage=en

rejected and the EPA would no longer be implemented across the EU and Ghana. Ghana’s trading arrangement with the EU would move to EU Generalised Scheme of Preference rules (GSP).

5.1. 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 Ghana 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. Ghana trading with the UK under the terms of the EPA) with a baseline of the EPA being rejected and the parties trading in the absence of an agreement (i.e. Ghana trading under GSP unilateral preferences). In practice, this agreement has been provisionally applied since 15th December 2016 so some benefits and costs have already accrued in the year 2017.

6.3 **Key Assumptions**

- 2017 is the base year; the first full calendar year in which the agreement was provisionally applied.
- 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 Ghana under the trade regime previously in place, i.e. on Generalised Scheme of Preferences (GSP) 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 Ghana, such as the benefits of the development cooperation set out in the EPA, and the market access to the EU provided to Ghana. 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 Ghana 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[12]. (The modelling does

[12] 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

not reveal the precise impact of increased exports on UK GDP, or how the benefits are divided between firms, workers and the wider economy.) If the Ghana 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 Ghana of £6.2m (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 Ghana 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 Ghana of £3.7m (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 Ghana, as they familiarise themselves with the agreement. This will entail reading and understanding the agreement's terms. For many UK firms there will be almost no change in the administrative tasks that have to undertake, because the European Union was already trading with Ghana under the Market Access Regulation.

6.8 There is no published data on the number of UK businesses that trade with Ghana. However, experimental official statistics from the ONS show that there were 4,594 UK businesses exporting to Nigeria and 496 importing from South Africa in 2016[13]. Given that UK exports to Ghana were worth 59% of UK exports to Nigeria, and imports from Ghana were worth 27% of imports from Nigeria, 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 Ghana was 2,691 and the

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

number importing was 132. This is 2,823 firms in total, although this represents an upper bound for the true number as it's likely that some firms both import and export. The lower bound is 2,691 (i.e. if all importers also export then there are only 2,691 UK firms trading with Ghana). Our central estimate is 2,757 (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 £0.4m to £0.5m, with a central estimate of £0.45m. Annex A sets out 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 (£270,000), 25% in the second year (£110,000), and 15% in the third year (£68,000).

Direct Costs to UK Business: Rules of Origin and 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 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.[14]

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%.

[14] Market Access Regulation (Annex II Art 19 Reg 2016/1076)

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

6.16 There will be adjustment costs to EU (including UK) businesses from the increased competition coming from Ghana because of the EPA. This will be both in the UK and wider EU markets. But the market power of Ghanaian 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 Ghana. Businesses that import inputs from Ghana 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 Ghana. We consider that the change in the level of trade is an indirect impact of the trade agreement itself, as it would only result if firms were 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 reading and understanding the text. This means that our central estimate of the Net Present Value is a cost of £0.45m, with a high scenario of £0.46m and a low scenario of £0.43m. 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

7.1. 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)

7.2. 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 Ghana are likely to benefit, as the cost of existing imports is likely to fall. Some uncompetitive firms may be adversely affected from competition from Ghana, however the net impact on SMEs is expected to be positive.

7.3. 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[15], accounting for 14% by trade value. No data is available for Ghana, and data on Nigeria is only partially released so cannot be used here, making South Africa the best approximation for the proportion of small businesses trading with Ghana. Therefore, we estimate that businesses trading with Ghana are less likely to be small businesses than UK businesses on average.

[15] 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 Ghana EPA familiarisation by UK firms

1	UK businesses will need to read the Ghana EPA text in order to familiarise themselves with the content. The main text is approximately 26 pages and 12,390 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 Ghana EPA text: a) High Scenario: 1.0 hours b) Central Scenario: 0.9 hours c) Low Scenario: 0.8 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 Ghana EPA text and guidance is estimated at: a) High Scenario: £15.63 (£15.63 x 1.0 hours) b) Central Scenario: £14.07 (£15.63 x 0.9 hours) c) Low Scenario: £12.50 (£15.63 x 0.8 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 Ghana EPA. The same survey provides an average cost of using an agent of £265.[4]
8	Published data shows that 496 UK companies import from Nigeria and 4,594 businesses export[5]. Data is unavailable for companies exporting and importing from Ghana. Given that UK imports from Ghana are only 27% by value of its imports from Nigeria, and exports to Ghana are 59% by value of exports to Nigeria, we assume that there are 132 UK companies importing from Ghana and 2,691 companies exporting.

	● The upper bound of companies that trade with the Ghana is 2,823 (assumes no overlap between exporting and importing firms). ● The lower bound of companies that trade with the Ghana is 2,691(assumes all importing companies are also exporting). ● A central scenario would be 2,757 (assumes half of importing companies are also exporting) ● If 60% of these firms seek advice from specialist agents, then this equates to 1,697 in the high scenario, 1,654 in the central, and 1,614 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: £467,304 [(1,126 x £15.63) + (1,697 x £265)] b) Central Scenario: £453,829 [(1,103 x £14.07) + (1,654 x £265)] c) Low Scenario: £441,172 [(1,077 x £12.50) + (1,614 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 Ghana, by value

Table B.1: Top 10 Exports and Imports between the UK and Ghana (average 2014-2016)[16]

	Top 10 UK Exports to Ghana (Average 2014-2016)		Top 10 UK Imports from Ghana (Average 2014-2016)	
	Good (HS4)	**Average Annual Value (£ Thousands)**	**Good (HS4)**	**Average Annual Value (£ Thousands)**
1	Worn clothing and other worn articles	52,424	Prepared or preserved fish	61,026
2	Petroleum oils and oils obtained from bituminous minerals, other than crude	27,969	Petroleum oils and oils obtained from bituminous minerals, from crude	47,766
3	Automatic regulating or controlling instruments	18,162	Cocoa beans, whole or broken, raw or roasted	30,252
4	Taps, cocks, valves and similar appliances for pipes	12,810	Cocoa butter, fat and oil	24,932
5	Parts and accessories for machinery	12,734	Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens, fresh or dried	18,276
6	Medicaments	12,464	Bananas, including plantains, fresh or dried	15,809
7	Articles of iron or steel	12,417	Manioc, arrowroot, salep, Jerusalem	8,463

[16] 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

			artichokes, sweet potatoes and similar roots and tubers	
8	Petroleum oils and oils obtained from bituminous minerals, from crude	11,968	Cocoa paste, whether or not defatted	7,649
9	Electricity generating sets and rotary convertors	10,902	Other vegetables, fresh or chilled.	3,602
10	Parts for nuclear reactors, boilers and mechanical appliances	10,817	Natural rubber, balata, gutta-percha, guayule, chicle and similar natural gum	3,148

Source: UN COMTRADE/WITS