# DELIVERING A 'FAIRTRADE BREXIT'?

**A Fairtrade Foundation briefing paper**
**September 2018**

**The Brexit negotiations are now in a crucial phase, with a Withdrawal Agreement due this autumn, setting out the terms by which the UK will leave the European Union.**

Key issues remain unresolved in the negotiations, and the climate of uncertainty which now dominates, including talk of a 'no-deal' scenario, is extremely concerning for all involved in global trade. A 'cliff-edge' in 2019, with no deal and no transition period, would not only impact on UK businesses, but could also impact negatively on developing country exporters who depend on trade with the UK for their livelihoods.

This briefing paper builds on the Fairtrade Foundation's 2017 report[1] which made the case for protecting developing country market access to the UK through the Brexit process. In this paper, we explore outstanding issues from a Fairtrade perspective, taking a deeper look at Fairtrade supply chains, and consider the implications for different products including bananas, sugar and coffee. We seek to apply a 'trade for development' lens, reflecting on the contribution of these sectors to developing country economies, and more broadly, the Sustainable Development Goals (SDGs).

## HOW DOES FAIRTRADE WORK AND WHY ARE WE BOTHERED BY BREXIT?

Fairtrade exists to get a better deal for producers and workers in developing countries. Globally, there are 1.66m Fairtrade producers in 73 countries, and the UK is one of the more developed consumer markets. In 2016, the retail value of Fairtrade products in the UK was £1.6bn and in 2017, we saw growth of 7 percent thanks to new commitments in categories like flowers and wine.

Fairtrade-certified organisations are rigorously audited against a set of regularly reviewed standards to ensure decent conditions in relation to labour rights and environmental protection. Those standards require the payment of the Fairtrade Premium, owned by the farmers and workers themselves, and in some cases, the Fairtrade Minimum Price, which protects producers from harmful market fluctuations.

Fairtrade is a voluntary scheme which includes certification but also goes beyond that to develop programmes of support for producers and workers – for example, in women's leadership and climate change adaptation – and to develop advocacy strategies with others to address systemic challenges such as child labour and low wages.

**In our experience, increasing the cost of trade with developing countries (through tariffs, the imposition of other barriers, or UK currency devaluation) could lead to:**

- Companies switching their sourcing arrangements, ending long-term relationships with suppliers;
- The burden of increased tariffs and other costs being pushed down onto producers and workers (i.e. lower purchasing prices, lower wages);
- Currency devaluation hitting Fairtrade companies importing from developing countries;
- Companies stepping back from Fairtrade commitments resulting in smaller volumes being bought on Fairtrade terms, less Fairtrade leverage on issues such as living wages, and less investment in programmes.

***Joab Gideon, Longonot Horticulture:***

**"WE RELY ON THE UK MARKET, WE JUST HAVE A FEW BUYERS IN GERMANY AND PEOPLE DON'T BUY FLOWERS IN KENYA, SO A LARGE PERCENTAGE OF OUR EXPORTS DEPEND ON [THE] UK. IF BREXIT MEANT WE LOST THIS THEN WE'LL BE SUFFERING A LOT."**

[1] *Brexit: Let's Change Trade for Good,* Fairtrade Foundation (2017) https://www.fairtrade.org.uk/~/media/FairtradeUK/Get%20Involved/Documents/APPG/FairtradeFoundation-Brexit-LetsChangeTradeForGood.pdf

FAIRTRADE FOUNDATION

## A NOTE ON THE BREXIT PROCESS:

Whether or not there can be a successful Brexit outcome for developing countries depends to a large extent on a 'transition period'. There are some things that the UK is able to do unilaterally and immediately, including the establishment of a preference scheme to replicate the EU Everything But Arms (EBA) initiative which grants duty-free quota-free (DFQF) access to the Least Developed Countries (LDCs), and the EU's 'Generalised System of Preferences' (GSP), as announced in June 2017.

For those developing countries that do not qualify for EBA, a transition phase would allow for:

- Negotiations on the future UK-EU trading relationship;
- The negotiated 'roll-over' of existing EU trade agreements with developing countries as announced by the UK government in June 2017;
- Agreement on the apportioning of Tariff Rate Quotas (TRQs);
- Agreement on future Rules of Origin (RoO), both between the UK and the EU27 and between the UK and other developing countries;
- A clear timetable allowing UK companies and developing country producers to plan.

This briefing assumes that the transition period agreed by the UK and EU negotiators in March 2018 is dependent on a Withdrawal Agreement being in place.

**With a Withdrawal Agreement** and associated transition period, the UK government and the EU have until the end of December 2020 to reach agreement on these issues.

**Without a Withdrawal Agreement** and associated transition period, there is a high risk that the UK would leave the EU without resolution on these issues, with serious consequences for both UK companies and developing country producers. There would be a 'cliff-edge' at the end of March 2019.

# 1/ YOUR ICONIC FAIRTRADE BANANA

- **The basics:** Fairtrade certified bananas comprise one third of all bananas[2] currently consumed in the UK, amounting to around 240,000 Metric Tonnes (MT) of bananas. The top-exporting countries of Fairtrade bananas are the Dominican Republic, Colombia, Peru and Ecuador,[3] with smaller volumes arriving from places like Panama and the Windward Islands. Looking at overall banana imports (Fairtrade certified and non-Fairtrade) to the UK, we can see that the UK is responsible for around 20 percent of all banana consumption in the EU, and that certain countries, such as the Dominican Republic, Belize, St Lucia and Ghana, are especially dependent on the UK market.[4] The Fairtrade banana continues to deliver development impact. In 2016, global Fairtrade banana sales generated €28.5m in Fairtrade Premium for investment in communities. Research commissioned by Fairtrade in Colombia found that 96 percent of smallholders said their economic situation had improved since joining Fairtrade, and smallholders reported an average 34 percent increase in income due to Fairtrade.[5]

- **The banana journey:** Fairtrade's biggest banana licensee buy their bananas on Fairtrade terms from plantations and smallholders in Africa, Central and South America, and ship them to a number of UK ports. Here, customs clearance takes place in order to sell to UK retailers and onto other EU consumers in countries including Ireland, France and Belgium. Given the perishable nature of bananas, it is important for this process to be smooth and as 'frictionless' as possible. When the consignment arrives in the UK/EU, traders must have a certificate stamped following a conformity check, but they can also apply for a renewable exemption from these checks, the kind of 'trusted trader' scheme that we have heard about regarding post-Brexit customs arrangements. It is worth noting that the same ships also call at other EU mainland ports, so conformity in customs documentation and requirements is key. Without this, Brexit could severely disrupt the functioning of these triangular supply chains that serve EU27 markets via the UK. The application of standard third country import controls arising from a 'hard Brexit' would likely give rise to lengthy delays at UK ports.

- **Tariffs and quotas:** Some commentators have claimed that leaving the EU could bring positive benefits to developing country banana exporters and UK consumers through the lowering of import taxes on bananas, either through Free Trade Agreements (FTAs) or through a lower 'Most Favoured Nation' (MFN) tariff. This ignores the complex history of disputes in the banana trade, the World Trade Organisation (WTO) rulings on bananas, and the preference erosion which can occur as a result of liberalisation. The value of duty-free, quota-free access diminishes as it is extended to more and more countries, and so any decision to liberalise tariffs should only be taken after thorough impact work and careful consideration.

***Jetta Van Den Berg, Quinta Pasadena, Dominican Republic:***

> **'IN THE 1990S WE WERE PROTECTED BY QUOTAS AND FOR THE LAST 10 YEARS, ANOTHER TARIFF SYSTEM, BUT NOW THAT'S SLOWLY DISAPPEARING. AT THE MOMENT WE DO NOT PAY IMPORT TAX TO EUROPE BUT ECUADOR AND COLOMBIA DO – IT IS THIS SYSTEM [THAT] MAKES IT POSSIBLE FOR US TO COMPETE.'**

- **All Fairtrade banana-exporting countries currently have some kind of preferential trading arrangement with the European Union.** These arrangements do differ but for good reasons. None of the major banana exporters have Least-Developed Country (LDC) status[6] and so do not qualify for the EU's duty-free, quota-free scheme, 'Everything But Arms' (EBA).[7] However, most do still have duty-free and quota-free access as members of the African, Caribbean and Pacific (ACP) Group of countries with whom the EU has Economic Partnership Agreements (EPAs). These include the CARIFORUM countries in the Caribbean – the Dominican Republic and the Windward Islands such as St Lucia – which have a full EPA with the EU, and emerging West African banana exporters like Ghana, Côte D'Ivoire and Cameroon, which have interim EPAs. Interim EPAs have been signed by some countries where there has been regional resistance to the EU's approach which requires developing countries to open up their markets. For example, in West Africa, Nigeria continues to oppose the EPA process on the grounds that it could undermine its industrial strategy and diminish its tax revenues.[8]

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[2] Cavendish variety – the most commonly bought banana in the UK
[3] Fairtrade International Monitoring Report, 8th Edition, https://monitoringreport2016.fairtrade.net/en/
[4] For more analysis, see EPA Monitoring: http://epamonitoring.net/strong-growth-in-banana-consumption-in-the-eu-based-on-alarmingly-low-prices-2/
[5] *Fairer Fruit: Fairtrade's Impact in the Banana Industry,* 2016
[6] See current UN list of LDCs: https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf
[7] https://www.gov.uk/government/news/government-pledges-to-help-improve-access-to-uk-markets-for-worlds-poorest-countries-post-brexit
[8] See for example: https://edition.cnn.com/2018/04/06/africa/nigeria-free-trade-west-africa-eu/index.html

- **The EU[9] is already undertaking a process of liberalising trade to increase market access for Latin American producers such as Colombia and Ecuador**, a move which has been driven by WTO rulings.[10] Since 2006 this has become a 'tariff-only' regime, with a commitment to gradually reduce the import duty to 75.00 Euros/tonne by the end of 2019, when the existing stabilisation mechanism[11] will also end. This may have a negative impact on both EU producers themselves (e.g. Canary Islands, Guadeloupe and Martinique), who currently account for 11 percent of bananas consumed in the EU, and the ACP countries who account for around 19 percent and who may find it hard to compete against larger, more mechanised exporters – often US-owned multi-national corporations (MNCs) operating in Latin America. Previous changes to the banana regime have proven especially difficult for the Windward Islands.

- **Without a Withdrawal Agreement, this preferential access will be at risk next year (2019).** Without a Withdrawal Agreement and the associated transition period, existing EU trade deals will not apply beyond 29 March 2019.

The UK has stated its intention to 'roll-over' existing deals including the EPAs and other Free Trade Agreements (FTAs) but changes to these deals are likely, and there is no guarantee that this will be possible in such a short time frame, especially in the case of the 'interim EPAs'. At the time of writing, we are waiting for a forthcoming 'technical notice', which we hope will provide clarity on this issue.[12] Without bilateral deals in place, these developing countries would be reliant on the UK's unilateral offer through a new preference scheme, or on the 'Most Favoured Nation' (MFN) rates agreed through the WTO, based on the principle of non-discrimination. The UK's current position is to duplicate both the EU Generalised System of Preferences (GSP)[13] and the EU's WTO schedules[14] in the first instance and so as bananas are currently excluded from the EU's GSP, falling back on these mechanisms would see an increase in import taxes on bananas from developing countries. For the Dominican Republic, Belize, St Lucia, Côte D'Ivoire, Ghana and Cameroon, this would be a tariff increase from zero to the MFN rate of 117.00 EUR/1000 kg (decreasing to 114.00 EUR/1000 kg from 2020), unless the UK government takes unilateral action to guarantee existing access under a WTO waiver.

## EXISTING AND FUTURE TARIFFS IN BANANAS[15]

| Existing EU EPA/FTA | Reduced Duty – current | Reduced Duty – from 2020 | Duty without roll-over (MFN) |
|---|---|---|---|
| Dominican Republic, Windward Islands, EU-CARIFORUM EPA | DFQF, 0% | DFQF, 0% | Expected MFN tariff, equivalent to 117.00 EUR/1000 kg, decreasing to 114.00 EUR/1000 kg from 2020 |
| Ghana, EU-Ghana Stepping Stone EPA | DFQF, 0% | DFQF, 0% | As above |
| Cameroon, EU-Cameroon Interim EPA | DFQF, 0% | DFQF, 0% | As above |
| Côte D'Ivoire, EU-Côte D'Ivoire Stepping Stone EPA | DFQF, 0% | DFQF, 0% | As above |
| Colombia, Andean Pact FTA | 89.00 EUR / 1000 kg | 75.00 EUR / 1000 kg | As above |
| Peru, Andean Pact FTA | 89.00 EUR / 1000 kg | 75.00 EUR / 1000 kg | As above |
| Ecuador, Andean Pact FTA | 89.00 EUR / 1000 kg | 75.00 EUR / 1000 kg | As above |
| Panama, EU-Central American FTA | 89.00 EUR / 1000 kg | 75.00 EUR / 1000 kg | As above |

[9] https://ec.europa.eu/agriculture/bananas_en
[10] See for example: https://uk.reuters.com/article/uk-trade-wto-bananas/eu-loses-battle-in-wto-banana-wars-idUKL0773130020080407
[11] http://trade.ec.europa.eu/doclib/docs/2017/april/tradoc_155499.pdf
[12] A technical notice on Trade Agreement Continuity is referenced here: https://www.gov.uk/government/publications/classifying-your-goods-in-the-uk-trade-tariff-if-theres-no-brexit-deal
[13] http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/index_en.htm
[14] https://www.wto.org/english/news_e/news18_e/mark_24jul18_e.htm

- **Future free trade deals between the UK and countries with larger economies may have an impact on other developing countries.** Learning from the impact that EU free trade agreements (FTAs) with Latin America have had on Caribbean exporters, we know that it will be important to consider how future trade deals, or any unilateral decisions on tariffs, might affect the banana sector globally. Reducing tariffs on wealthier banana exporters is likely to make it much harder for poorer and smaller countries to compete. This is why the Fairtrade Foundation has been calling for in-depth impact assessments, which include analysis of key sectors and issues, to accompany the mandate-setting process ahead of new trade negotiations. The EU is already negotiating free trade agreements with large producers – for example, Brazil[16] and the Philippines[17] – and has been negotiating with India, the world's largest banana producer, for more than 10 years.

- **Reducing the price of bananas for the UK consumer is a red herring.** It has been suggested that unilateral tariff reduction, or even complete elimination, would bring benefits to the UK consumer because that saving would be passed on at the till. However, it is unlikely that this would be the case with bananas: due to an intense price war, UK consumers *already pay below the sustainable cost of production* for their bananas. The typical price that we pay for a loose banana in the UK is 12p and over the last 15 years, the cost of a banana, accounting for inflation, has dramatically reduced.[18]

- **Non-tariff issues:** Some have argued that certain EU standards can operate as 'non-tariff barriers' (NTBs) which prevent developing countries, and other countries such as the United States, from importing their goods to the EU. By far the most debated and reported standards issue regarding the EU, Brexit and bananas, is the so-called ban on 'bendy bananas'. No banana ban on the grounds of shape or appearance has ever been stipulated by the EU, although EC regulations[19] do attempt to classify bananas into several groups (or 'classes') for marketing purposes.

[16]As part of EU negotiations with the Mercosur countries: http://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/index_en.htm
[17]http://trade.ec.europa.eu/doclib/press/index.cfm?id=1637
[18]Fairtrade Foundation, *Britain's Bruising Banana Wars* (2014)
[19]Commission Implementing Regulation 1333/2011which replaced 2257/94

# 2/ YOUR FAIRTRADE CUP OF COFFEE

- **The basics:** Fairtrade-certified coffee is now a UK staple. It's served in coffee shops like Starbucks and Greggs, at conferences and events by companies like Sodexo, and available to buy from iconic Fairtrade brands like Cafédirect and major retailers like the Co-op. The top exporting countries of Fairtrade coffee globally are Peru, Colombia and Honduras, but there are certified producers all over the world including in East Africa – countries like Ethiopia, Uganda and Tanzania – and in Asia, with countries like Indonesia and East Timor. In 2016, global coffee sales generated more than €74m in Fairtrade Premium.

- **The coffee journey:** There are a number of stages to the coffee journey which means that the supply chain is more complex than that of bananas. Traditionally Fairtrade certified coffee farmers have focused on the production of green beans – the harvesting, sorting, processing and drying of cherries. Increasingly, farmers are able to invest in equipment (such as a hulling machine) and are receiving training in grading – activities which can add value to the initial cultivation. This coffee will then be prepared for export and roasting, which often takes place on a large scale in countries like Germany and the Netherlands, although there are speciality roasters in the UK. There is a lot of interest in opportunities for roasting to take place in the country of origin so that producer countries can retain a greater proportion of the value of the finished product. However, this will require a more developed domestic market for coffee and/or improvements in the storage (such as vacuum packaging) of roasted coffee for export to avoid its degradation in transit, and rules of origin to support this. The Fairtrade movement is currently supporting a new brand of coffee – Zawadi – which has been developed by women-led co-operatives and roasted in Kenya for the domestic market.

- **Tariffs:** During the debates on Brexit, 'reducing EU tariffs on roasted coffee' has been regularly cited as a pro-development reason for the UK to leave the EU. In reality, tariffs on developing country coffee exporters are rare[20] and it is primarily other factors that stand in the way of value addition in the sector.

  – **Most coffee-exporting developing countries do already qualify for duty-free access, including in the export of roasted coffee**, by virtue of existing Economic Partnership Agreements (EPAs) and Free Trade Agreements (FTAs) with the EU, or as a result of their status as a Least-Developed Country (LDC) and qualification for 'Everything But Arms' (EBA).[21] Existing tariffs are set out on the next page.


[20] Please note the clarification on this Cap X article by the late Calestous Juma: https://capx.co/how-the-eu-starves-africa-into-submission/

[21] http://trade.ec.europa.eu/tradehelp/everything-arms

| Country and Arrangement | EU Tariff – Green Coffee | EU Tariff – Roasted Coffee |
|---|---|---|
| Ethiopia, Uganda, Tanzania: Least-Developed Country (LDC) qualifying for EU Everything But Arms (EBA) | 0% | 0% |
| Peru, Colombia: EU Andean Pact FTA | 0% | 0% |
| Honduras, Guatemala, Nicaragua, Costa Rica: EU-Central America FTA | 0% | 0% |
| Mexico, existing EU-Mexico Global Agreement (currently being updated) | 0% | 0% |
| Bolivia, qualifies for EU GSP+ | 0% | 0% |
| Indonesia, qualifies for EU GSP | 0% | 2.6% |
| Brazil, EU MFN tariff | 0% | 7.5% |

– **A 'no-deal' scenario risks increasing the import duty on roasted coffee from countries like Peru and Colombia with existing EU deals.** The only other alternative would be to include roasted coffee and these countries within a revised UK GSP but the government has not yet proposed any immediate changes to unilateral preferences. 'No deal' would also disrupt coffee supply chains across Europe. Without agreement on rules of origin, including with third countries, the MFN tariff would apply on roasted coffee products crossing the UK-EU border, increasing the cost of business for Fairtrade licensees.

– **There could be some development gains from renegotiation of the EPAs to improve the 'rules of origin'.** A managed Brexit process, with a Withdrawal Agreement in place and an associated transition period, may create an opportunity for a reassessment of the problematic 'Economic Partnership Agreements' (EPAs), with a view to relaxing the rules of origin requirements to allow full regional cumulation, for example, from East Africa. This could facilitate the further development of coffee roasting facilities in the global South.

- **Non-tariff issues:** As with bananas, shared standards (for example, restrictions on pesticides and contaminants, rules on 'organic' production and labelling) facilitate frictionless trade across Europe. Any post-Brexit divergence in standards between the UK and the EU could be disruptive for the supply chain. The European Commission has prepared a note on the UK's withdrawal from the EU and consequences for EU Food Law should the UK become a 'third country'.[22]

[22] https://ec.europa.eu/agriculture/sites/agriculture/files/docs/notice_brexit_eu_food_law.pdf

# 3/ YOUR FAIRTRADE SWEETENER

- **The basics:** Fairtrade sugar can be found for retail on UK supermarket shelves – often as a speciality product like demerara sugar – but also as a key ingredient in Fairtrade-certified products like chocolate and ice cream. Cultivated from sugar cane in tropical countries including Belize, Fiji, South Africa, Malawi, Guyana and Mauritius, some sugar is currently refined in the UK and the other portion refined overseas. In 2016, global sales of Fairtrade sugar generated €9.7m in Premium, an increase of 15 percent since 2015.[23] However, this good news story also needs to be seen against a challenging policy environment where in 2016, the overall number of Fairtrade sugar farmers declined by 13 percent, the hectares under Fairtrade sugar certification dropped by 18 percent and UK Fairtrade sugar volumes dropped by 14 percent.[24] Investments in productivity are working but the market for Fairtrade sugar, and for the LDC and ACP suppliers, is being squeezed. The challenge for the small-island states in particular, also on the front line of climate change and extreme weather events, is that global markets can seem stacked against them, they have very limited financial support and few options in terms of economic diversification and industrialisation.

- **The sugar journey:** Sugar cane is grown and harvested in tropical countries, unlike sugar beet which can be cultivated in cooler climates, including European countries like France, Germany, Poland and the UK. For Fairtrade sugar, the cane is often supplied by smallholders who will then sell to a sugar mill where the cane stalks are processed. There are a number of in-country cane sugar mills and EU refineries that serve the UK Fairtrade market – these include the Tate & Lyle Sugars East London refinery which processes raw sugar cane, and the Ilovo refinery in Malawi, which creates specials, owned by Associated British Foods (ABF). Tate & Lyle Sugars, as with other refineries such as Azucaraera's Guadelete will also bag sugar and re-export for their domestic markets and the wider European market.

- **Tariffs and quotas:**

  – **The EU sugar regime has undergone a significant shift** in the last few years, and domestic beet production in the EU is now increasing since the production quota was lifted. As a result, all intra-EU trade in sugar beet is now tariff-free, whilst a tariff regime still applies to sugar cane imports. That tariff regime does still ensure that the LDC and ACP countries have duty-free access via EBA and via the EPAs (as in the case of bananas). South Africa also has a Tariff Rate Quota (TRQ), agreed through the SADC EPA, which allows up to 150,000 MT to be exported to the EU duty-free. However, our concern during the EU decision-making process, which has been borne out by the declining volumes of Fairtrade-certified sugar in the UK, was that this new policy environment would make it harder for cane sugar exporters to compete with EU beet production, with some beet producers receiving additional funding through the EU's 'voluntary coupled support' mechanism. Across the EU, since implementation of the new regime in October 2017 sugar imports from the Least Developed Countries (LDCs) and ACP (African, Caribbean and Pacific) countries are down 59 percent compared with the same time in 2016/17,[25] and the price of sugar has also slumped further.[26]

  – **Post-Brexit, preferential access for the LDC and ACP suppliers must be maintained.** The least controversial thing that the UK could do on sugar through the Brexit process would be to guarantee that existing preferential access will be sustained. As noted in relation to bananas, the UK government has already stated its intention to 'roll-over' the existing agreements, and this has recently been reiterated during the Prime Minister's visit to South Africa. However, if there is no Withdrawal Agreement, and if the 'roll-over' is not legally complete by March 2019, there will be an urgent need for the UK to make a unilateral offer to the ACP countries and to agree on a UK TRQ for South Africa. The intention would be to protect existing access in a 'no-deal' scenario rather than to expand access to a wider set of countries at this point.

[23]https://www.fairtrade.net/fileadmin/user_upload/content/FairtradeMonitoringReport_9thEdition_lores.pdf

[24]Fairtrade Foundation Annual Report 2016, p.10: https://www.fairtrade.org.uk/~/media/FairtradeUK/What%20is%20Fairtrade/Documents/Annual%20Impact%20Reports/Trustee_Report_Final_Upload.pdf

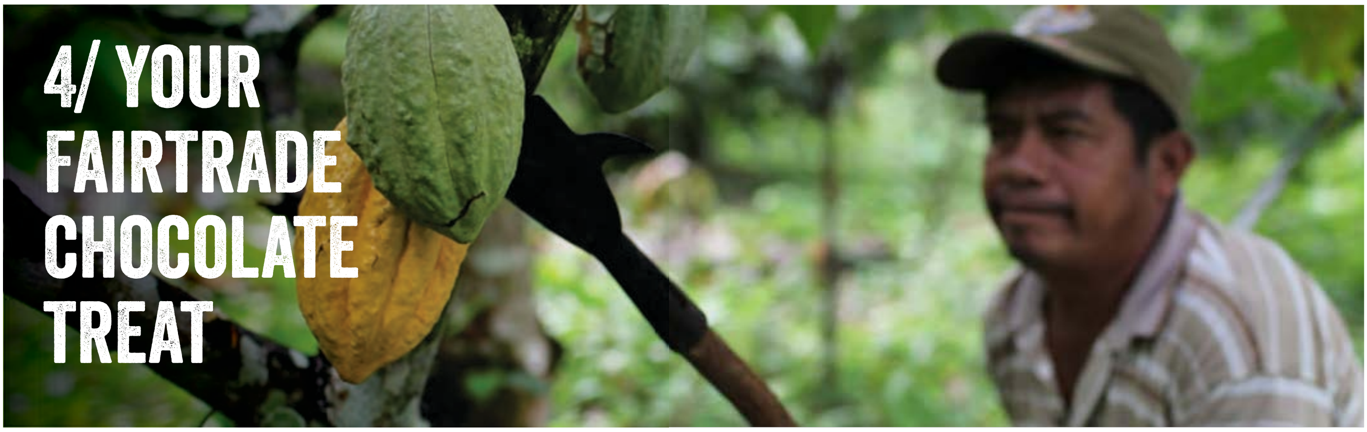
[25]2016/17 cumulative imports from LDC & ACP countries, 1 162 602 MT as of 28/07/17; 2017/18 imports of 475 242 MT as of 28/07/18, https://ec.europa.eu/agriculture/market-observatory/sugar/statistics_en

[26]https://ec.europa.eu/agriculture/sites/agriculture/files/market-observatory/sugar/doc/price-reporting_en.pdf

– **The UK has an opportunity to design sugar policy post-Brexit with 'trade for development' objectives front and centre.** Beyond any commitment to 'roll-over' preferential access, one of the potential benefits of a so-called 'hard Brexit', where the UK leaves both the EU customs union and single market, is the freedom to reflect on sugar policy, and the extent to which the UK would like to sustain, and perhaps even grow, a market for LDC and ACP cane sugar, including Fairtrade-certified sugar. Beyond this, we would also encourage DFID to look at how it can support cane sugar farmers, including those with Fairtrade certification, to diversify and find new markets.

– **'Rules of origin' will also be critical** for UK-EU trade in refined cane sugar, and also for the trade in products such as chocolate bars where sugar is a key ingredient. In a no-deal scenario, or with a negotiated UK-EU FTA that introduced tariffs on sugar, there could be some initial advantage for the LDC ACP producers exporting to the UK. However, given that the vast majority of sugar in the UK is then sold on to manufacturers with integrated UK-EU 27 supply chains, the imposition of tariffs or restrictive rules of origin (RoO) would be disruptive and could hinder the re-export of sugar-containing products (like chocolate bars) manufactured in the UK. This is what the Food & Drink Federation have dubbed 'a hidden hard Brexit'[27] – even under an UK-EU FTA where it was agreed that cane sugar could be traded across borders duty-free, the product may not qualify for this preferential access unless generous rules on 'cumulation' apply. This could include an exemption for LDCs, whereby any cane sugar (in this example) imported into the UK from an LDC like Malawi – and then re-exported or transformed into a chocolate bar for sale in the EU27, or vice-versa – is regarded as local content. Agreement on 'diagonal cumulation' would also allow for UK-EU trade in products containing cane sugar from EPA countries such as Belize or Mauritius, assuming that these EU deals also get 'rolled-over' by the UK.

[27]https://www.fdf.org.uk/rulesoforigin-eu-uk-fta.aspx



# 4/ YOUR FAIRTRADE CHOCOLATE TREAT

- **The basics:** Fairtrade cocoa is largely sourced from two countries in West Africa – Côte D'Ivoire and Ghana, although there is also some cultivation in other countries including the Dominican Republic and Peru. In 2016, Fairtrade-certified cocoa farmers received €24.6m in Premium, up 33 percent on the previous year. Fairtrade certified chocolate bars or ice cream will draw on other inputs like sugar, almonds and vanilla, and so whilst cocoa is a key ingredient, the supply chain is inevitably more complex. Sadly, the trade has a history of exploitation and injustices remain – living incomes are hard to attain and child labour remains a challenge. Efforts have been made to increase productivity amongst smallholders (to support the attainment of living incomes) but this has resulted in a global price decrease which has negated any gains from productivity – in 2017, prices dropped by 29 percent, highlighting the importance of the Fairtrade approach – floor prices which are activated at times of low market prices, and fixed premiums.

- **The chocolate journey:** Cocoa is primarily grown by smallholders who having cut the pods from the trees, scrape out the beans and then prepare them for sale. Once fermented and dried, the cocoa beans are bagged and eventually sold on via government agencies. In Ghana, this process is managed by the Ghana Cocoa Board, Cocobod, and in Côte D'Ivoire, the Coffee & Cocoa Council. The next stage of the process sees the beans transformed into cocoa powder and cocoa butter and then combined with sugar and milk for tempering and delivery of the final product. The manufacturing process typically takes place in Europe – for example, there are Fairtrade licensees manufacturing in Germany and Italy – and the final stage in particular requires a cooler climate. As with refined cane sugar (above), chocolate bars made in the UK may also be re-exported across Europe and beyond. For example, Divine Chocolate advent calendars are also sold in Canada.

- **Tariffs:**

  – **EU tariffs applied to the two biggest cocoa-exporting countries are currently 0 percent.** EU MFN tariffs on cocoa beans (raw or roasted) are already set at 0 percent, a reflection that very few countries are competing at the primary production stage. However it has been suggested that developing countries could move up the value chain to the next stage of the production process (transformation into cocoa paste, butter or powder) if tariff escalation and restrictive rules of origin were addressed. The EU MFN import duty on these products is higher than cocoa beans – 9.6 percent for the import of cocoa paste, 8 percent for the import of cocoa powder, and 7.7 percent for the import of cocoa butter. However, both Ghana and Côte D'Ivoire, the two biggest cocoa producing countries, already have a 0 percent tariff by virtue of their 'stepping stone', albeit problematic, Economic Partnership Agreements (EPAs). Should there be problems in rolling these over, Côte D'Ivoire and Ghana would qualify for a UK GSP (copied over from the EU scheme) which grants a preferential rate of 6.1 percent for the import of cocoa paste, 4.2 percent for the import of cocoa butter, and 2.8 percent for the import of cocoa powder. An alternative, as suggested elsewhere, would be to guarantee their market access unilaterally, either through a time-limited offer to support Brexit transition, or through immediate UK revisions to the GSP.

  – **A deal on 'Rules of Origin' will be critical:** As described in the previous section, clarity on post-Brexit 'Rules of Origin' is required for chocolate companies manufacturing and trading across a future UK-EU border. The previously cited FDF report into rules of origin uses chocolate bars as a case study[28] to show how the methods for calculating eligibility for preferential treatment through both CETA and the pan-Euro Mediterranean (PEM) Convention Origin Protocol could cause problems for chocolate manufacturers, particularly if the sugar price were to rise. This reinforces the need for 'diagonal' cumulation which treats content from third countries (like Ghana or Côte D'Ivoire) as if it were local content, and supports the idea of a generous agreement between the UK and EU which is highly unlikely with no deal.

[28] p.15 https://www.fdf.org.uk/corporate_pubs/FDF-Rules-of-origin-report.pdf

- **Non-tariff issues:** Given the integrated nature of chocolate supply chains across Europe, there is little benefit for producers in the UK pursuing divergence from EU standards and labelling requirements. Different requirements in relation to organic labelling (for example) may create an additional burden, with producers likely to conform to standards that grant them access to the EU27 market as well as the UK.

In addition to the general EU Food Law, there are additional requirements on cocoa and chocolate – for example, EU rules demand that milk chocolate contain at least 30 percent cocoa[29] and less cocoa content (following the US rules for example, which allow just 10 percent) would be bad news for producers. The EU is also strengthening its rules on cadmium, a carcinogen, which will be effective from 2019.

[29]Directive EC 2000/36/EC as amended

# 5/ YOUR FAIRTRADE BOUQUET

- **The basics:** The UK market for Fairtrade cut flowers has grown significantly over the last few years with some big commitments from retailers, including this year from the Co-op who have committed to sell 100 percent Fairtrade roses when sourced from Africa. Globally, the number of Fairtrade-certified flower farms is also on the increase – up to 12 percent in 2016. 73 percent of UK Fairtrade roses are grown in Kenya where cut flowers are the country's second biggest export after tea, supporting up to two million people. Around 38 percent of the European Union's cut-flower imports (Fairtrade certified and non Fairtrade) now come from Kenya,[30] and cut flowers are also a significant export for Ethiopia, Colombia and Ecuador.

- **The flower journey:** Kenyan roses are grown in the Rift Valley, and historically, most of these have been transported via Nairobi to the Netherlands where they are sold on at auction. Fairtrade certified roses, however, are being imported directly to the UK to local flower companies and bouquet makers, with some also re-exported to Ireland. Because of the perishable nature of flowers and the need for them to get quickly to market, the freight travels by air from a terminal at Nairobi Airport which is dedicated to the transportation of flowers and vegetables. For those (non-Fairtrade) flowers which travel via the Netherlands, they are auctioned off and within hours of being sold at auction, the flowers will be transported to a loading dock for re-export, including to the UK. It has been estimated that delays of just one day could wipe out 30 percent of the profits on cut flower exports and so a 'hard Brexit' could potentially close down the triangular trade in cut flowers.

- **Tariffs:**

  – **The UK government must act sooner rather than later to guarantee preferential rates.** Kenyan flower exporters currently face a 0 percent tariff on cut flowers, a deal secured through its signing and ratification of the controversial EPA between the EU and the East African Community. The deal has split the region, with Tanzania – an LDC – continuing to oppose the arrangement. Flower producers from Colombia and Ecuador also export to the EU duty-free as a result of a Free Trade Agreement with the EU. Without this preferential access, Kenyan roses would face an import duty of 8.5 percent (a reduced tariff through the GSP), and Colombia and Ecuadorian roses would face a duty of 12 percent (MFN tariff) from June to October and a seasonal reduction to 8.5 percent from November to May.

  – **Non-tariff issues:** As noted for other commodities, flowers are able to travel across European borders because of agreement on standards. Flowers must comply with plant health regulations and will usually be accompanied by a 'phytosanitary certificate'. Whilst Fairtrade roses are directly traded with the UK, the companies with whom we work are also trading across the UK-Netherlands border, and so see significant risks, not just in a 'no-deal' scenario, but also any UK-EU arrangement that lengthens the time spent at borders. There is also need for clarification on EU Plant Health Regulations and their applicability post-Brexit. Changes have recently been agreed at an EU level but will only come into force through implementing regulations once the UK has left the EU during a planned transition period. This illustrates how a UK-EU 'common rulebook', if this is the agreed approach going forward, will have to evolve in order to keep in step with changes in regulatory regimes.

[30] http://kenyaflowercouncil.org/?page_id=94

# 6/ YOUR GLASS OF FAIRTRADE WINE

- **The basics:** In 2017, UK sales in Fairtrade wine grew by more than 30 percent, thanks in part to the continued commitment from the Co-op who launched the UK's first Fairtrade wine from the Lebanon. The growth in Lebanese wine production is also providing a valuable source of work for Syrian refugees who have relocated to the Bekaa Valley. The largest producer of Fairtrade wine is South Africa, with 24 producer organisations, and conversely, the UK is also the top destination for South African wine, accounting for around a third of South African wine exports to the EU. You can also purchase Fairtrade wine from Chile where there are nine certified wine producer organisations, and from Argentina.

- **The wine journey:** Wine grape farming takes place through both small farmers' organisations and co-operatives and also through larger plantations. The demanding process of harvesting, crushing and pressing can often lead to poor labour standards and living conditions and in South Africa there are particular challenges arising from the apartheid legacy, most notably the 'dop' system, where workers were paid in wine. Wine is now imported either bottled or in bulk, followed by bottling in the UK.

- **Tariffs:**

  – **Two of the four countries exporting Fairtrade wine, South Africa and Chile, already have preferential access to the UK/EU market.** South African access is via the Economic Partnership Agreement (EPA) and Tariff Rate Quota (TRQ) which allows for the export of 78m litres of bottled wine and 33m litres of bulk wine duty-free (2017 figures, the quota increases annually). The EU and Chile have an 'Association Agreement' which includes a Free Trade Agreement (FTA),[31] currently under renegotiation. The existing FTA (from 2002) includes an agreement on wine which provided for the elimination of tariffs over a four-year period, excluding those wines with particular named provenance (e.g. Champagne).

  – **Lebanon is a slightly different case** – whilst it has an 'Association Agreement' with the EU[32] which enables access to the EU market through completely eliminated (in the case of grapes and olive oil) or reduced (in the case of citrus fruit) tariffs and through a generous 'rules of origin' framework,[33] reductions have not yet extended to wine.

  – **The EU MFN tariff, which the UK has plans to initially replicate, is 32€/hectolitre (hl = per hundred litres).** This tariff currently applies only to those countries outside of the single market who do not already have a preferential deal on wine with the EU, such as Australia but also Lebanon and Argentina. This tariff has sometimes mistakenly been referred to as a tariff of 32 percent but the actual cost relative to the product value is much less – some have estimated around 13p per litre. The much larger tax bill comes from UK excise duty which is currently £2.16 per bottle excluding VAT.

  – **The EU is currently negotiating deals that will open up its market to wider wine imports.** Negotiations are already underway with countries including Vietnam and Japan where the intention is to eliminate tariffs on wine and spirits. Argentina is also party to the EU-Mercosur negotiations which are still ongoing and dealing with unresolved issues (in particular the potential increase in beef imports to the EU). The UK may choose a policy of liberalising the wine market at a faster pace, but the question is whether it may be able to commence and conclude deals with greater ease than the EU.

- **Non-tariff issues:** Within the EU, sanitary and phytosanitary standards and other compliance issues relating to wine are governed by a number of EU regulations.[34] One of the particular features with wine is the number of 'geographical indications' (GIs) – for example, Champagne – that govern the trade, and which have implications for labelling. This is not just an EU requirement – other trade partners have GIs for wine such as Stellenbosch or Western Cape South African wines. GIs will have to be on the agenda of any rolled-over EPA agreement with South Africa. Finally, it is also worth highlighting work undertaken by the Trade Policy Observatory in modelling the potential economic impact from Brexit on the wine sector in the event of further devaluation of the pound. In their worst-case scenario, predicting higher prices and lower consumption levels, the TPO researchers estimate an 11 percent decline in the value of wine imported to the UK from Chile post-Brexit.

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[31] https://eur-lex.europa.eu/resource.html?uri=cellar:f83a503c-fa20-4b3a-9535-f1074175eaf0.0004.02/DOC_2&format=PDF

[32] https://eeas.europa.eu/sites/eeas/files/euro_mediterranean_agreement_en.pdf

[33] Lebanon is currently in the process of ratifying the Pan Euro-Mediterranean Convention (PEM).

[34] https://www.food.gov.uk/business-guidance/wine-law

# PRODUCERS AT THE HEART: OPPORTUNITY AND RISK

**The Fairtrade Foundation has always sought to be open-minded on Brexit and have spoken about potential opportunities as well as risks. These do still exist and whilst limited, we would cite the following as examples:**

- A reconsideration of the Economic Partnership Agreements (EPAs);
- Improving the rules of origin (RoO) that apply to developing countries to allow for full regional cumulation in support of existing and emerging customs unions, and initiatives like the African Continental Free Trade Area (CFTA);
- A generous UK preference scheme which applies to a greater number of countries and extends to a greater range of products than the current EU GSP;
- A new UK policy on sugar which supports developing country market access.

However, in our view ***these opportunities only apply if there is a transition period, and with careful consultation*** to develop and implement future policy, and to avoid an unnecessary economic shock. Any improvements will not be delivered by Brexit per se – they rely on very particular policy options being pursued by the UK government. With the right political will these opportunities could also be pursued through or alongside the EU with much larger combined impact.

There is also a calculation to be made between the potential benefit of pursuing these opportunities independently outside of an EU Customs Union, and the additional costs and disruption that may arise from running an independent trade policy (for example the 'Facilitated Customs Arrangement' or FCA), and from leaving the Single Market. As previously noted, there is a high risk that additional costs are pushed onto producers who all too often have the least power to negotiate within a particular supply chain.[35] Moreover, these producers often do not receive protection from their national governments against the worst effects of the power asymmetry in many grocery supply chains. Revisiting the scope and remit of the 'Groceries Code Adjudicator' (GCA) to cover farmers and producers further up the supply chain, including those in developing countries, may go some way to protect suppliers at this uncertain time. Alternatively, the Government could introduce new statutory codes of conduct as part of the powers introduced by the Agriculture Bill.[36] Without action, there is a risk that more producers will see their incomes reduce, risking increases in poverty or the adoption of increasingly unsustainable farming practices.


*The Fairtrade Foundation aims to give producers a voice – four producers attended the 2018 Fairtrade reception in parliament.*

[35]See 'Who's got the power?' (2014) published by the Fairtrade Advocacy Office for a detailed account of the power imbalance that exists between major traders and retailers on the one hand, and smallholder producers on the other.

[36]The Agriculture Bill as introduced can be read here: https://services.parliament.uk/Bills/2017-19/agriculture.html

Some of the 'opportunities' that are sometimes cited, often in relation to commodities discussed in this paper – such as coffee or bananas – are based on incorrect information. These include the following, noted below with their associated risks to developing countries:

| Brexit 'opportunity' | Actual risks to developing countries |
|---|---|
| New Free Trade Agreements (FTAs) outside of the EU | There are very few of these to deliver with developing countries, as most already have arrangements or deals with the EU.<br><br>New FTAs with countries like the United States or Australia may undermine the preferences that poorer countries currently have, may erode established standards, or include problematic investor-dispute mechanisms (such as ISDS) that favour investors over producers. Under current UK rules, parliamentarians will not have a vote on trade deals unless they require implementing legislation. |
| Dismantle punitive tariffs | Most developing countries already have preferential tariffs (and many have zero tariffs). Unilateral liberalisation towards middle and higher income countries could undermine the position of exporters in the poorest countries, making their products less competitive in the UK market. |
| Divergence from EU rules and standards | Most producers will want to sell to the UK and EU. Divergence from EU standards would make UK-EU trade much harder, impacting on developing country products which are traded through the UK to Europe or vice-versa. Producer costs would rise if they need to comply with separate UK and EU standards systems. In some cases, lower standards could harm producers. |
| Lower prices for the UK consumer | If prices reduce due to tariff changes, this may be at the expense of the sales of the poorest countries to the UK, where there is disruption to existing trade flows, as explained earlier in this paper.<br><br>The relationship between lower tariffs and consumer prices is also contested. Savings could be absorbed by traders or retailers rather than passed on to the consumer (or, indeed, the producer). Across a range of Fairtrade commodities – including bananas, cocoa, sugar and tea – we already battle with low global prices which are failing to deliver for producers. In some instances – such as bananas – high price competition has already pushed the retail price below the sustainable cost of production. The Fairtrade Minimum Price is required because of these market failures. |

# DEAL OR NO DEAL: CONCLUSION AND RECOMMENDATIONS

This briefing paper is a snapshot in time of different Brexit-related issues that will affect and potentially disrupt a number of Fairtrade supply chains. We could have extended this analysis to look at even more products – for example textiles, olive oil and tea. But our intention was to provide some illustration of the issues that are still to be resolved, and which could impact significantly on developing country producers. At this stage in the process, we would like to make the following recommendations:

**1) Ensure developing countries do not lose their market access:**

– UK and EU negotiators need to step up efforts in order to avoid a 'no-deal' Brexit;

– The UK government should guarantee access for developing countries with EPAs and FTAs even in a 'no-deal' scenario. If a 'roll-over' of deals proves more complicated, the UK may need to apply for a WTO waiver allowing for preferential rates to be granted unilaterally.

**2) A future UK-EU agreement that supports trade with developing countries.**

– The UK government should provide clarity as soon as possible on future customs arrangements, including the conformity checks and documentation that will be required at UK-EU borders in different Brexit scenarios;

– In the context of a Withdrawal Agreement, the UK should ensure that the future UK-EU trading relationship supports trade with developing countries, including through agreement on 'rules of origin';

– The UK government could establish a 'Be Prepared' Grant Facility to help smaller companies with high dependency on developing country supply chains, including Fair Trade organisations, plan for any changes arising from Brexit. A similar initiative is already in place in Ireland.[37]

**3) Protect developing country producers from any negative impacts of Brexit and maximise opportunities to increase protections.**

– The UK government should re-examine what protections it can extend to overseas suppliers (particularly those in developing countries) once the UK exits the EU. The Government could do this through robust regulations covering overseas and indirect suppliers, proposed in the Agriculture Bill, or by revisiting the scope and remit of the Groceries Code Adjudicator (GCA).;

– The UK government should establish a joint DFID/DIT transition fund to support developing country suppliers to the UK, including Fairtrade suppliers, through this time of change.

**4) Future trade policy should have development objectives at its heart.**

– The UK government should amend the legislation[39] to ensure that development impact and achievement of the SDGs is considered when setting tariffs and wider trade policy. This will support any changes that the UK may want to make unilaterally post-Brexit;

– The UK government should give further detail on its commitment to conduct impact assessments ahead of new trade deals, and enshrine this commitment in the Trade Bill. We need to understand when these will be carried out, their scope, and by whom;

– The UK government should look again at the problematic 'Economic Partnership Agreements' (EPAs) and consider alternative ways of granting market access, addressing tariff escalation and supporting regional integration.

– To accompany these policy changes, the UK government could establish an 'Aid for Fair Trade' Fund, to drive development impact for producers and achievement of the SDGs through trade.

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[37] See: https://www.prepareforbrexit.com/be-prepared-grant/
[38] See this recent letter in Farmers' Weekly: https://www.fwi.co.uk/news/eu-referendum/fairer-supply-chain-needed-as-part-of-new-agriculture-bill
[39] Officially titled the Taxation (Cross-Border Trade) Bill

As a final note, we would also urge decision-makers to step back and take note of wider economic impacts as they enter the final stages of Brexit negotiations. Any economic shock, resulting from a 'no-deal' scenario or from a poor deal, may have serious consequences for voluntary ethical commitments like Fairtrade, which depends on consumer demand and functioning markets to incentivise responsible business behaviour. The devaluation of sterling in 2016 hit Fairtrade producers with UK sales hard. Negative impacts on Fairtrade sales from Brexit would also impact on UK investment in developing countries, resulting in lower sales and less Fairtrade Premium for producers. The sums involved are not insignificant.

In 2016, UK Fairtrade retail sales totalled £1.6bn and Premium investment generated through UK sales was £32.3m – money that was used to help farmers become more productive, move up the value chain, and was used to support social development in communities through education, healthcare, water and sanitation projects. We believe that this investment needs championing and protecting post-Brexit, but we need a healthy enabling environment to make that happen.

**Written by Helen Dennis with thanks to all of the external reviewers who contributed comments.**

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