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International Trade Committee

Trade and the Commonwealth: developing countries: Government Response to the Committee's Fifth Report of Session 2017–19

Seventh Special Report of Session 2017–19

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International Trade Committee

The International Trade Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for International Trade and its associated public bodies.

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Publications

Committee reports are published on the Committee's website and in print by Order of the House. Evidence relating to this Report is published on the inquiry publications page of the Committee's website.

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The current staff of the Committee are Jake Barker (Committee Specialist), Hannah Barlow (Committee Assistant), Matthew Chappell (Committee Assistant), Nina Foster (Media Officer), Sean Kinsey (Second Clerk), Ben Shave (Media Officer), Dr Gabriel Siles-Brügge (ESRC IAA/POST Parliamentary Academic Fellow), Anna Sydorak-Tomczyk (Committee Specialist), David Turner (Committee Specialist), Andrew Wallace (Senior Committee Assistant) and Joanna Welham (Clerk).

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You can follow the Committee on Twitter using @CommonsIntTrade.

Seventh Special Report

The International Trade Committee published its Fifth Report of Session 2017–19, *Trade and the Commonwealth: developing countries*, on 29 November 2018 (HC 667). The response from the Government, and an accompanying letter from the Secretary of State for International Trade, were received on 5 April 2019 and are appended below.

Appendix 1: Letter from the Secretary of State for International Trade

I would like to thank the Committee for its report published 21 November 2018 on Trade and the Commonwealth: developing countries. Your work plays a vital part in providing important scrutiny and debate.

The Commonwealth is a diverse network of nations, representing every geographic region and all levels of development. The 2018 Commonwealth Heads of Government Meeting (CHOGM) demonstrated that the Commonwealth continues to be an important network that can influence and drive change.

As Chair-in-Office, the UK has continued to work with the three pillars of the Commonwealth – the Commonwealth Secretariat, its member states, and its organisations and networks to deliver a future that is fairer, more sustainable, more prosperous, and more secure.

The UK Government has a long-standing commitment to support developing countries to reduce poverty. This means investing in development to build a safer, healthier, more prosperous world. The government also continues to deliver improved support to developing countries by helping them break down the barriers to trade, supporting critical trade infrastructure like ports and roads, and building trade skills in those countries, so that they can take better advantage of trading opportunities.

My Department is working closely with the Department for International Development and with other government departments, to ensure development and global prosperity are at the heart of UK trade and investment policy.

I enclose a formal response to the conclusions and recommendations made in the Committee's report, and I welcome continued engagement with you.

March 2019

Appendix 2: Government Response

In relation to the International Trade Committee's Fifth Report of the Session 2017–2019 on Trade and the Commonwealth: developing countries, the Committee published twenty conclusions and recommendations. Recommendations and conclusions made by the Committee are indicated in bold italicised text.

Current unilateral trade arrangements – Recommendations

1. (***Paragraph 29): Although continuity in the short-term is to be welcomed, the Government should give consideration to how it can improve the unilateral preferences it grants in the longer-term. The Government should commit to reviewing these schemes and set a time limit for doing so. The review should consider a range of options, including extending eligibility for certain preferences, and streamlining the preferences offered. Rules of origin must also be reviewed with the aim of improving preference utilisation. As part of this review, the Government should also consider how best to ensure countries do not face a cliff-edge when graduating out of eligibility for certain preferences. Of course, in considering extending the reach of the schemes, it is important to balance the benefits of providing greater access with the negative impacts that can be caused by preference erosion. The Government should also give due regard to possible implications of changing the unilateral preference arrangements it has with developing countries in terms of the ability of developing country exporters to subsequently benefit from diagonal cumulation between the UK, the EU, and the developing country concerned. The Government should consider a more flexible approach to rules of origin cumulation across different categories of least developed countries (e.g between beneficiaries of Everything But Arms and parties to Economic Partnership Agreements) in order to assist developing countries build viable supply chains regionally, where this is compatible with World Trade Organization arrangements***.

Our first priority for the UK's trade with developing countries is to deliver continuity in our trading arrangements on leaving the EU. This is what UK businesses and developing countries have been asking for. The Taxation (Cross-Border Trade) Act enables the UK to put in place a UK trade preferences scheme for developing countries after our departure from the EU. The Act also enshrines into UK law the commitment contained in the UN Global Goals to provide duty free quota free trade access for Least Developed Countries. Secondary legislation to create a trade preference scheme is already well advanced and regulations will be laid in Parliament ahead of leaving the EU. This means that on Day 1 after exit, we intend to have in place a trade preference scheme which maintains the preferential market access we currently offer to around 70 developing countries under the EU's Generalised Scheme of Preferences (GSP). UK trading partners will be affected by the temporary changes to tariff arrangements in a No Deal scenario announced by the Government on 13 March. DFID and the DIT are taking steps to secure the interests of these countries, including Commonwealth members, and have protected tariffs on more than 130 products that we know are important to developing countries.

In the future, we want the UK's unilateral preferences to be as effective and simple to access as possible, to best support the economic development in poor countries across the globe and to support UK business to access competitively priced inputs and goods for UK consumers. The UK will have the freedom to do this once we have left the EU. The

Government agrees with the Committee's recommendation to therefore consider a range of options in the future, this might include extending eligibility for certain preferences, streamlining the preferences offered, reviewing rules of origin, cumulation provisions and country graduation. This chimes with feedback we have received from other stakeholders. For example, the Government held roundtables with representatives from civil society, business and academia on trade with developing countries as part of the Trade White Paper consultation. Respondents suggested areas of improvement including: extending preferences to a wider set of countries, simplifying rules, and extending the range of products that can benefit from zero or reduced tariffs. The Government will consider these recommendations as part of any future revisions to the scheme. We will continue to listen to stakeholder views and ensure that the UK's future scheme is as effective as possible. This is just the start of a process of listening to views from both businesses and beneficiaries.

Economic Partnership Agreements – Recommendations

2. ***(Paragraph 46): Economic Partnership Agreements are a controversial aspect of the EU's trading arrangements with developing countries. Despite this, as we recommended in our previous report on Continuing application of EU trade agreements after Brexit, Economic Partnership Agreements need to be rolled-over at least in the short-term to ensure continuity in trading arrangements between developing countries and the UK after Brexit. We appreciate the Minister's frankness in saying that there may be challenges in the roll-over, but this has come very late in the day. Until now, the Government has reassured us that roll-over will be straightforward. Given that we are in the final months before the UK leaves the EU, we would like monthly updates from the Department, in the form of correspondence from the Minister, about progress with roll-over, including the identification of challenges and how the plans to address them***.

3. ***(Paragraph 47): Although some witnesses pointed to the benefits of Economic Partnership Agreements, the evidence also pointed to the negative effects that they can have. We reiterate our recommendation from our March 2018 report into the Continuing application of EU trade agreements that the Government should bring forward proposals for a mechanism whereby rolled-over Economic Partnership Agreements will be subject to review in respect of issues such as Most Favoured Nation clauses, rules of origin, requirements for economic liberalisation, and sanitary and phytosanitary measures, with a view to potential renegotiation in due course. It may be most beneficial for this review to take place alongside the review of the unilateral preferences, as these and Economic Partnership Agreements are closely linked. The Government should set a time limit for such a review and consider whether an explicit review clause would be appropriate for inclusion in the transitioned Economic Partnership Agreements. It should take account of the recent finding of the CARIFORUM Economic Partnership Agreement review, which was that future reviews of the agreement should take place more frequently than at five-year intervals, with the option of yearly targeted "snapshots".***

The Government's priority remains to replicate the effects of the EU's Economic Partnership Agreements (EPAs) with African, Caribbean and Pacific countries to minimise disruption for developing countries as the UK exits the EU. On 31 January 2019, the Minister of State for Trade Policy signed an Economic Partnership Agreement between the UK and Eastern and Southern Africa (ESA) and on 14 March 2019 signed an Economic Partnership Agreement with the Pacific Islands, providing continuity for businesses, exporters and consumers as the UK prepares to leave the EU. Ministers and officials are continuing to work with other EPA partner countries to conclude agreements and put them in place for day 1 of exit or as soon as possible afterwards.

The Minister of State for Trade Policy sent a letter to the Chair of the Committee on 31 January to notify the Committee that he had signed the ESA EPA. The Secretary of State for International Trade sent a letter to the chair of the Committee on 14 March to notify the Committee that he had signed the Pacific EPA, and we will continue to inform the Committee as and when each EPA is signed.

The Government has provided high-level updates on transitioning continuity agreements at regular intervals to the Committee through oral evidence; by the Secretary of State for the Department for International Trade on 6 February 2019 and on 6 December 2018; and by the Minister of State for Trade Policy on 28 November 2018 and 4 September 2018. Most recently, on 13 February 2019, the Secretary of State for the Department for International Trade committed to update the House further; *"the Government clearly wants to give business an indication of where we think a trade agreement may not be able to be rolled over on time. I will do that in the coming days, following an assessment of where we are at the present time, and I will make a written ministerial statement to the House as well… Where we believe that it will not be possible fully to replicate, we will set out a technical notice in the coming days… and will continue to inform the House as soon as further agreements are signed, in line with our established parliamentary procedures."*

Given the proximity to EU exit, in order to provide more information to stakeholders about the status of transitioning continuity agreements, the Government has published a Written Ministerial Statement and guidance to businesses on gov.uk which outlines those agreements that are on or off track to be in place in the event of a "no-deal" between the UK and EU.

Transitioning the EPAs is not the limit of the Government's ambition. As set out by the Minister of State for Trade Policy when speaking to representatives from the African, Caribbean and Pacific group of states on 24 October 2018, *"I recognise that EPAs have not always been universally popular, and we want to work with you to improve them." And, as stated by the Secretary of State for International Development on 15 January 2019, "I will develop alongside the Department for International Trade a bold new Brexit-ready proposition to boost trade and investment with developing countries and promote sustainable economic development and job creation."* In line with the Committee's recommendation, in the future we will look to review implementation and see how we can improve on the EPAs through close discussion with our EPA partner countries, once we have left the EU. For example, the UK-ESA EPA already includes a shared ambition to seek to expand the agreement, including on services, technical barriers to trade and sanitary and phytosanitary provisions.

The Commonwealth – Recommendations

4. ***(Paragraph 67): There is a possibility of piloting new initiatives, especially linked to trade facilitation, in the Commonwealth (within World Trade Organization rules). The Government should review how it may do this and report back its findings to us.***

5. ***(Paragraph 68): The UK should use its time as Chair-in-Office of the Commonwealth to promote trade with developing countries and promote commitments made at the Commonwealth Heads of Government Meeting.***

As Chair-in-Office, the UK continues to work with the three pillars of the Commonwealth – the Commonwealth Secretariat, its member states, and its organisations and networks – to promote inclusive economic growth and deliver a more prosperous future for our citizens.

To support the ambition of increasing intra-Commonwealth trade to beyond £2 trillion by 2030, the UK chaired the first Senior Trade Officials Meeting on the 'Commonwealth Connectivity Agenda for Trade and Investment' in June 2018. With an implementation framework now agreed, member states are increasing cooperation on the six areas of connectivity highlighted in the declaration: Physical Connectivity, Digital Connectivity, Regulatory Connectivity, Business-to-Business Connectivity, Supply-Side Connectivity, and an overarching theme of inclusive and sustainable trade.

Initiatives announced by the Prime Minister at CHOGM are already increasing cooperation on these important issues. The UK-funded Commonwealth Trade Facilitation Programme is helping to promote physical connectivity by supporting the implementation of the WTO Trade Facilitation Agreement through in-country capacity building. Scoping missions have already taken place in Eswatini, Tonga and Zambia and Guyana; and technical support has already been delivered in Sierra Leone and Malawi.

The Commonwealth Standards Network, which now includes 38 Commonwealth countries, is promoting regulatory connectivity by increasing their capacity to use and participate in the development of international standards. And, to support inclusive and sustainable trade, the UK has partnered with the International Trade Centre to deliver 'SheTrades Commonwealth'. The project aims to promote women's economic empowerment by helping women-owned businesses to trade internationally. Following its launch in Bangladesh, Ghana, Kenya and Nigeria, over 2,300 women entrepreneurs have registered with the initiative and 518 companies have attended capacity building events.

Finally, we have sought to strengthen cooperation in international organisations. In Geneva, two UK-funded trade advisors took up office in the Commonwealth Small States Office in January. This dedicated resource will help increase the meaningful participation of small and developing states in international trade and facilitate their integration into the multilateral trading system. New Zealand has also facilitated increased cooperation by hosting several meetings of Commonwealth Permanent Representatives to discuss key issues on international trade, including WTO Reform.

The Government looks forward to continuing to develop these partnerships, particularly ahead of the Commonwealth Trade Ministers Meeting in autumn 2019 and the next Commonwealth Heads of Government Meeting in summer 2020.

Trade and gender – Recommendations

6. ***(Paragraph 90): The Department for International Trade should publish an analysis of its understanding of the relationship between gender and trade. We also consider that before any trade negotiation, the Department, in close collaboration with***

the Department for International Development, should conduct impact assessments relating to the impact of any agreement on gender inequality. We welcome the Minister's commitment at the evidence session to examine this proposal further.

7. ***(Paragraph 91) There is not yet enough evidence of whether gender chapters in Free Trade Agreements have a positive impact, but the Government should evaluate such chapters where they are in place; analyse the circumstances in which they might be most effective; and use this analysis to guide future trade policy.***

Response to Paragraph 90: We will publish Scoping Assessments prior to the beginning of negotiations for the UK's new free trade agreements. Based on available information, these assessments will give due consideration to the effects of implementing these trade deals on different groups, including gender groups, in line with our requirements under the Equalities Act.

Building a credible body of evidence to understand the multifaceted gender impacts from trade agreements is central to trade and gender equality policy development. We made an international commitment to this at the WTO as a signatory to the Joint Declaration on Women's Economic Empowerment which committed us to develop the evidence-base, address the barriers limiting opportunities for women and share best practice.

The OECD Statistics and Data Directorate is working closely with statistical offices in Member States (including the ONS) to develop more granular data and address data limitations in this area of statistics. In DIT, the statistics team is collaborating with the OECD and ONS to deliver better trade and gender analysis.

The Government will continue to work to ensure that we have the data, research and analysis on gender to enable evidence-based policy making and delivery, while recognising that there is currently limited information and some significant challenges in improving the statistics and measurement.

Response to Paragraph 91: The government agrees with this recommendation. We will continue to take an evidence-based approach to trade policy. As we develop our independent trade policy we will seek opportunities to further our global leadership on gender equality, reinforce our existing commitments and increase international cooperation.

Support for investment and exports – Recommendations

8. ***(Paragraph 138): In order to effectively support trade with developing countries, the Government should encourage investment into these markets that supports sustainable development, particularly in the area of infrastructure. Stronger links should be developed between the UK and developing country investment promotion agencies.***

The Government agrees. Sustainable economic development and growth is essential for overcoming poverty. Life-changing progress comes from growth that transforms economies; that creates productive jobs and private sector investment; and that spreads benefits and opportunities right across society. No economy can achieve high, sustained growth without the right infrastructure.

DIT is using the UK's skills and expertise to build the capacity of investment promotion agencies in key partner countries, to support trade with developing markets and encourage investment. The Investment Promotion programme, funded by the Prosperity Fund, will support partner countries to improve the quality of their services, build effective promotion campaigns and grow the investment projects they facilitate, which will create a better investment environment for global business.

Encouraging investment will help lay the foundations long-term economic development and stability as well as creating the quality jobs needed to tackle poverty for good. It will also help create new and more attractive investment opportunities for global and UK businesses to invest overseas, as well as increasing potential for exports.

DFID's infrastructure work addresses energy, transport, and water and sanitation needs with a particular focus on energy provision. DFID is also stepping up its work on cities and urban development to maximise the economic development potential of urban areas.

Through the Economic Development Strategy published in January 2017, DFID is seeking to increase investment and mobilise finance, including in the most challenging environments, to close the infrastructure financing gap. DFID is a global leader in catalysing private finance to support the wider development agenda. As the UK's development finance institution, CDC brings much-needed capital to the poorest and most fragile countries to support businesses to thrive. It has made pivotal investments across sectors including finance, mobile telecoms and infrastructure. DFID is also the largest investor in the Private Infrastructure Development Group (PIDG), which was set up by DFID and a number of other donors to deliver pioneering infrastructure in the poorest and most fragile countries.

In 2017, PIDG committed $487m to infrastructure projects, facilitating $2.5bn of additional investment, benefitting more than 9 million people in some of the world's lowest-income countries. The 20 PIDG-supported projects which reached financial close in 2017 expect to create 6,235 direct short-term jobs and 10,335 long-term jobs in the operation of the infrastructure.

CDC has invested over £700m into infrastructure projects into countries in Africa and South Asia over the past three years. Illustrative examples of CDC investments include:

- CDC's partnership with Norway's DFI to take ownership of UK based Globeleq, the largest private developer, owner and operator of independent power plants in sub-Saharan Africa. CDC's investment aims to address the limited supply in the development of power projects in Africa, and boost power generation to Africa by adding at least 5,000 megawatts (MW) of generating capacity over the next 10 years.

- CDC's use of new financing solutions – such as the US$20m of local currency loans to Mkpoa's off-grid solar home system business in East Africa. This investment is part of a broader strategy to demonstrate the viability of local currency investments into a sector with high development impact.

DFID is committed to mobilising greater volumes of international and domestic private capital at scale to meet the UN's Global Goals. To this end, DFID supports both the expansion of existing instruments and is also helping set up new financial products to address specific market failures preventing the flow of high-quality sustainable investment into Emerging and Frontier markets. Amongst a range of contacts, networks in the City of London and across UK financial services, DFID is collaborating with the Sustainable Development Capital Initiative, whose mission is to grow and consolidate the City's role as the development finance hub for the world.

DFID is providing support for infrastructure for trade. For example, DFID's support to improve Tanzania's main port and regional trade gateway aims to enhance infrastructure and cargo clearance procedures. The programme will also help pave the way for further major World Bank investment to double port capacity by 2023 and develop the transport corridors that Tanzania and the region need.

Aid for Trade – Conclusion

9. ***(Paragraph 123) Despite successes in Aid for Trade, trade and development policy have not always been as aligned as they could be. The Government should be mindful of this, and not expect that the alignment of the policies will happen without a significant degree of effort from both the Department for International Trade and Department for International Development. We welcome recent joint-working programmes between Department for International Development and Department for International Trade. This collaboration should be built upon, as it will be critical for ensuring that the UK has effective and holistic trading relationships with developing countries after Brexit, but ensuring that the UK has a coherent trade policy will also mean close alignment with other relevant departments, such as the Foreign and Commonwealth Office, Department for Business, Energy and Industrial Strategy, Department for Environment, Food and Rural Affairs and Department for Exiting the European Union. Mechanisms for ensuring effective co-ordination within government should be considered.***

(Paragraph 124) We commend the commitment to Aid for Trade in addition to existing Official Development Assistance finance, and the blueprint that this establishes in Departments working with each other on cross-cutting issues. Consideration should be given, however, to whether additional funding for Aid for Trade is needed through the Department for International Trade.

(Paragraph 126) In the short-term, the Department for International Development should work to target supply side constraints in order to facilitate the participation of developing countries in global supply chains. To do this, greater collaboration with both UK companies working with developing countries in their supply chain, and companies based in developing countries, will be necessary.

Response to Paragraph 123: DFID has been sharing its expertise in delivering quality prosperity programming to help support DIT's ambitions to be part of the prosperity solution in developing countries. This means working together to build inclusive growth in developing countries and the wider global economy, using the full range of expertise the British government can offer.

DIT is also engaging with the FCO, Joint Funds Unit and BEIS to ensure a similarly joined-up approach in relation to wider work on trade and investment activity in developing countries.

Response to Paragraph 124: Promoting trade is one mechanism through which DIT can promote the economic development and welfare of a developing country. DIT has a unique position within government to help reduce poverty through its expertise in trade promotion, its relationship with business, understanding of market access barriers and interface with UKEF. DIT will be part of the government's wider strategic intent to bring the development agenda closer to prosperity objectives and to help re-set HMG's economic partnerships with fast-growing developing markets.

Response to Paragraph 126: As part of the division of functional roles between DFID and DIT in the prosperity space, DIT is exploring ways in which it could partner or participate in existing HMG programming (such as DFID's Alternative Livelihoods programme). DIT's competence would lie in working with UK businesses to bring them into local supply chains thus broadening the international markets for companies based in developing countries.

Impact Assessments – Conclusion

10. ***(Paragraph 125) We expect the Department for International Development to play a key role in assessing the impact of, and preparing for, future trade arrangements with developing countries. We expect close alignment between the two Departments to help establish comprehensive trade and development partnerships with developing countries. The Government should commit to undertaking and publishing impact assessments before any new trade negotiations, outlining the potential impact that trade deals would have on developing countries. These should be detailed and include information on issues like human rights and gender inequality, as outlined above.***

The Department for International Trade and the Department for International Development already work together to ensure development and global prosperity are at the heart of UK trade and investment policy and to help shape the UK's future trade arrangements with developing countries. Both departments share a joint team (around 60 DFID staff embedded within DIT), which is responsible for ensuring development and global prosperity are reflected in UK trade and investment policy, and for shaping the UK's future trade arrangements with developing countries. With respect to launching new free trade agreements, as outlined in the Policy paper published by DIT on 28 February (available here: https://www.gov.uk/government/publications/processes-for-making-free-trade-agreements-once-the-uk-has-left-the-eu), prior to launching new free trade agreements, the Government will publish a scoping assessment that will consider the impact on developing countries, as well as preliminary assessments of impacts on groups with protected characteristics, such as gender. For any new trade agreements with developing countries, a similar process will be followed as outlined in the policy paper, with proportionate analysis reflecting the available data and evidence.

Trade and Sustainable Development Chapters – Conclusion

11. ***(Paragraph 127): Trade and sustainable development chapters in the EU's trade agreements have been a positive step. The UK should consider incorporating such chapters in its own future trade agreements and also ensure that it goes further than the EU has by seeking to provide adequate mechanisms for enforcement of their provisions; providing for enhanced dialogue with social partners and tailoring their provisions to the specific social and environmental needs of partner countries.***

The UK has long supported the promotion of our values globally and this will continue as we leave the EU. In line with our international obligations, the Government will continue to ensure a high level of protection of the environment and employees in new trade agreements. We are exploring all options in the design of future trade and investment agreements, including possible sustainable development provisions within these, taking into account responses to the recent Government consultations.

We are committed to upholding the UK's high standards and will consider the full range of mechanisms available to us, including on enforcement and dialogue. Alongside our regular engagement with stakeholders, the formal mechanisms that we are setting up include creating the Strategic Trade Advisory Group to seek expert insight, and carrying out a range of outreach events across the UK.