



EAC duties losses on imports from EU28-UK from 2015 to 2040 if the EPA is signed

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In the Brexit context it is useful to actualize the losses of duties that the EAC will face on its imports from the EU28 minus UK (EU28-UK) if the EAC-EU EPA is signed and implemented.

I – The weight of UK in the EAC exports to the EU28 post-Brexit

Table 1 shows that UK received 17% of all EU28 imports from EAC in 2015 and 27.8% from Kenya, and received 20.4% of all EU28-UK imports from EAC and 38.5% from Kenya.

For the most important Kenyan exports, those to live plants and flowers (chapter 06 of the Harmonised System of trade classification), the UK received 15.5% (€71.5 million) of the €460 million of Kenyan exports to the EU28 and 18.4% of those to the EU28-UK (of €388.7 million). For the second most important Kenyan exports, those of edible vegetables (HS chapter 07), the UK received 57.8% (€103.5 million) of the €179.2 million of Kenyan exports to the EU28 so that these exports to the UK were 36.9% larger than those to the EU28-UK (of €75.6 million). For these two HS chapters the share of Kenya in EAC exports to the EU28 or EU28-UK is overwhelming: 87.6% to the EU28 (of which 95.3% to the UK) and 86.3% to the EU28-UK for chapter 06; and 88.9% to the EU28 (of which 89.2% to the UK) and 88.3% to the EU28-UK.

Table 1 – EU28 and EU28-UK imports from EAC in 2015: total and on HS06 and HS07

€ million	EU28 extra	EAC	Kenya	Tanzania	Uganda	Rwanda	Burundi	EAC/EU	Kenya/EAC
EU total imports at CIF values									
EU28	1725566	2614.4	1330.3	695.6	485.1	64.4	39	0,15%	50,9%
EU28-UK	1463867	2171,2	960,3	656,4	463,4	53,4	37,7	0,15%	44,2%
UK	261698	443,2	370	39,2	21,7	11	1,3	0,17%	83,5%
UK/EU28	15,2%	17%	27,8%	5,6%	4,5%	17%	3,4%	111,8%	163,5%
UK/EU28-UK	17,9%	20,4%	38,5%	6%	4,7%	20,5%	3,5%	114%	188,7%
EU Imports of live plants and flowers (HS chapter 06)									
EU28	1698,4	525,2	460,2	17,3	47,6	0	0,07	30,9%	87,6%
EU28-UK	1513,2	450,2	388,7	15,2	46,2	0	0,07	29,8%	86,3%
UK	185,2	75	71,5	2,1	1,4	0	0	40,5%	95,3%
UK/EU28	10,9%	14,3%	15,5%	12,1%	3%	0	0	131,2%	108,4%
UK/EU28-UK	12,2%	16,7%	18,4%	13,8%	3,1%	0	0	136,9%	110,2%
EU imports of edible vegetables (HS chapter 07)									
EU28	4299,4	201,7	179,2	11,7	10,1	0,5	0,2	4,7%	88,8%
EU28-UK	3421,1	85,6	75,6	5	4,4	0,4	0,2	2,5%	88,3%
UK	878,3	116	103,5	6,7	5,8	0,1	0	13,2%	89,2%
UK/EU28	20,4%	57,5%	57,8%	57%	56,7%	10%	0	281,9%	100,5%
UK/EU28-UK	25,7%	135,5%	136,9%	132,5%	131,1%	11,2%	0	527,2%	101%

Source: Eurostat

Given that the UK has accounted for 35.6% of EAC exports to the EU28-UK of these two essential HS chapters, and 37.7% of Kenyan exports, it is clear that the EPA cannot be signed without a profound reassessment of its impact post-Brexit on the EAC and its Member States.

II – EAC duties losses on imports from EU28-UK from 2015 to 2040 if the EPA is signed

The following data are based on EU28-UK exports at FOB values in 2015, from Eurostat.

The EAC-EU agreement has established 4 categories of products according the schedules of liberalization, T being the year of entry into force (assuming 2015):

- Products fully liberalized immediately upon the entry into force of the EPA (annex 2a): they are already imported duty free in the EAC CET (common external tariff)
- Products taxed at 10% and progressively liberalized from T+7 to T+15 (annex 2b)
- Products taxed at 25% and progressively liberalized from T+12 to T+25 (annex 2c)
- Products totally excluded from liberalization, mostly taxed at 25%, with some taxed at 10%, 35% or 60%

Given the number of columns necessary from 2015 to 2040, the figures are shown in two tables.

EAC total duties on imports of liberalized products were of €113.227 million in 2015, based on EU exports at FOB values of €963 million, implying an average duty rate of 11.75%. Import duties were of €84.140 million on products of Annex 2b at an average duty rate of 9.98% and of €29.087 million on products of Annex 2c at an average duty rate of 24.2%¹. These duties would progressively disappear from T+7 to T+25 if we did not take into account other factors at play.

Indeed the duties losses must add four components to the EU FOB values:

- The gap between the EU FOB value and the EAC CIF value
- The large increase of the EAC population
- The trade diversion from T+7 on
- The reduction in the revenues from the value added tax (VAT) based on imports

2.1 – The gap between the EU FOB value and the EAC CIF value

We assume an average gap of 30% between the EU FOB values and the EAC CIF values. Clearly this gap varies a lot according to the products (transported by sea or by air), the EU exporting countries, the EAC importing countries.

Thus the €963 million of EU FOB exports of the liberalized products of Annexes 2b and 2c in 2015 imply €1.252 billion in CIF value and €147.195 million in import duties, of which €109.382 million on Annex 2b products and €37.813 million on Annex 2c products.

The progressive reduction of the import duties following the liberalization schedule of Annexes 2b and 2c allows to calculate an average decline of the total duties rate going from 11.75% in T (2015) to 5.49% in 2012, 2.41% in 2015, 1.07% in T+20 and finally 0% in T+25 (2040).

¹ We found several tariff lines (TLs) at HS6 digits level which were listed at the same time in Annex2b and Annex2c and even one was also listed in the exclusion list of Annex d. As the Eurostat definition of TLs at HS8 level were not the same as the TLs of the EAC agreement, we have opted to allocate all these TLs at the Annex 2b duty rate of 10%. The most important of these TLs were of the codes 271019 (oil products) for €42.055 million, 961 900 (sanitary towels) for €29.320 million (code which was also in the exclusion list) and 380891 (bromomethane) for €19.758 million. The EAC customs service should be able to clarify this allocation.

2.2 – The large increase of the EAC population

According to the UN Population data base revised in 2015, the EAC population would rise from 161.342 million in 2015 to 310.318 million in 2040, i.e. by 92.34%. We assume that this would raise imports from the EU by 2/3 of the population growth rate, with an annual rate of imports and of corresponding duties decreasing from 1.93% between T and T+6 to 1.56% between T+24 and T+25.

CIF imports would rise by only the population increase up to T+6, before the liberalisation begins in T+7, adding a trade diversion impact and a VAT (value added tax) impact.

If the EPA is not implemented and assuming the same composition of imports and the same CET (common external tariff) as in 2015, CIF imports of liberalized products of Annexes 2b and 2c would rise from €1.252 billion in 2015 to €1.649 billion in 2025 (T+15) and €1.941 billion in 2040 (T+25).

The losses of annual import duties based on the progressive reduction of the average duty rate from 11.75% in 2015 to 0% in 2040 and comparing the import duties without the EPA to their level with the EPA, the annual losses would rise from €24.8 million in T+7 to €154.7 million in T+15 and €228.1 million in T+25. So that the cumulative losses of duties due to the EPA would jump to €760 million in T+15 and €2.673 billion in T+25 (2040).

2.3 – The trade diversion from T+7 on

Trade diversion would foster more imports from the EU to the detriment of intra-EAC imports and of imports from third countries as these imports would continue to be taxed.

We use Fontagné et al.'s estimate that the trade diversion impact would be of 33.6% of the direct import duties losses for all ACP².

Trade diversion will add €481 million in EAC imports from the EU in T+7, €554 million in T+15 and €652 million in T+25. So that total imports with trade diversion would rise from €1.252 billion in 2015 to 1.912 billion in T+7 (2022), €2.090 billion in T+12 (2027), €2.203 billion in T+15 (2030) and €2.593 billion in T+25 (2040).

The import duties on imports due to trade diversion would fall at the same average rate of Annexes 2b and 2c products, from €48.2 million in T+7 to €13.4 million in T+15 and 0 in T+25 but the cumulative losses would rise to €291.5 million in T+15 and €362.9 million in T+25.

2.4 – The reduction in the revenues from the value added tax (VAT) on imports

The import duties on the liberalized products were of €147.195 million in 2015 and the VAT (at 16%) on imports, being based on the total of CIF value + import duties of €1.399 billion, was of €223.9 million.

Without the EPA the VAT on liberalized imports, including on the trade diversion of these liberalized imports, will rise to €342.1 million in T+7 to €393.9 million in T+15 and €463.7 million in T+25. With the EPA, given the lower duties collected, the VAT on imports would

² http://lionel.fontagne.free.fr/paper/fontalabmita_JAE.pdf

rise only from €336.8 million in T+7 to €367.1 million in T+15 and €414.9 million in T+25. Which implies a reduction in the VAT collected on imports due to the EPA, rising from €5.3 million in T+7 to €26.8 million in T+15 and €48.8 million in T+25. The cumulative loss of VAT revenues on imports would rise to €156.1 million in T+15 and €561.7 million in T+25. Finally the total annual losses of import duties on the liberalized products of Annexes 2b and 2c would rise from €78.3 million in T+7 (2022) to €194.3 million in T+15 (2030) and 276.7 million in T+25 (2040). And the total cumulative losses would rise to €1.208 billion in T+15 (2030) and €3.600 billion in T+25 (2040).

Without taking into account all the other constraints attached to the EU-EAC EPA which would hinder the EAC development – particularly the standstill clause, the MFN clause, the "rendez-vous" clause, the ceiling on export taxes, the EU refusal to take into account the huge domestic subsidies to its agricultural exports –, these huge duties losses would be largely enough to refuse to sign and implement the EPA. Even if the Brexit will not change the fact that Kenyan exports of the HS code 06 on live plants and flowers would still be submitted to MFN duties instead of GSP duties, nevertheless the annual duties to pay to the EU28-UK would be of around €59 million instead of €80 million without the Brexit, so that the cumulative losses of duties to pay for Kenyan exports to the EU28-UK over the 25 years from 2015 to 2040 would be of about €1.475 billion, or of 41% only of the cumulative losses of EAC imports duties from the EU28-UK if the EPA is implemented.

Table 2 – EAC duties losses on imports from EU28-UK from 2015 to 2040 in the EPA is signed

€ million	T0 in 2015	T+7	T+8	T+9	T+10	T+11	T+12	T+13	T+14	T+15
Import duties rates of Annexes 2b and 2c, actual duties based on the EU FOB export values and annual rates of duties losses										
Annex 2b	10%	8%	7%	6%	5%	4%	3%	2%	1%	0%
Import duties	84,140	67,312	58,898	52,859	42,070	33,656	25,242	16,828	8,414	0
Annex 2c	25%	25%	25%	25%	25%	25%	23,8%	22,5%	21,3%	20%
Import duties	29,087	29,087	29,087	29,087	29,087	29,087	27,691	26,178	24,782	23,269
Total duties	113,227	96,399	87,985	81,946	71,157	62,743	52,933	43,006	33,196	23,269
Duties losses		16,828	25,242	31,281	42,070	50,484	60,294	70,221	80,031	89,958
% of duties loss		14,86	22,29	27,63	37,16	44,59	53,25	62,02	70,68%	79,45
Rate of duties	11,75	10,01	9,14	8,50	7,39	6,51	5,49	4,46	3,45	2,41
Population growth and corresponding rates of import growth at 2/3 of population growth rates										
Population (1000)	161342	197070	202515	208054	213694	219434	225273	231214	237259	243410
Rate M growth	2/3 pop rate	1,933	1,84	1,83	1,81	1,79	1,77	1,76	1,74	1,73
EAC CIF imports	1252	1432	1458	1485	1511	1538	1565	1593	1621	1649
Annual and cumulative losses of import duties with EPA compared to without EPA										
M duties: no EPA	11.75% AV	168,1	171,2	174,4	177,5	180,7	183,9	187,2	190,5	193,8
M duties with EPA		143,3	133,3	126,2	111,7	100,1	85,9	71	55,9	39,7
Lost duties in EPA		24,8	37,9	48,2	65,8	80,6	98	116,2	134,6	154,1
Cumulative losses		24,8	62,7	110,9	176,7	257,3	355,3	471,5	606,1	760,2
Impact of trade diversion on import duties losses										
Trade diversion		481,2	489,9	499	507,7	516,8	525,8	535,2	544,7	554
M duties on trade div.		48,2	44,8	42,4	37,5	33,6	28,9	23,9	18,8	13,4
Cumulative loss		48,2	93	135,4	172,9	206,5	235,4	259,3	278,1	291,5
Total cumulative loss		73	155,7	246,3	349,6	463,8	590,7	730,8	884,2	1051,7
Losses of VAT revenues with the EPA: VAT base is 16% of (CIF imports+ import duties)										
Total CIF imports	1252	1913,2	1947,9	1984	2018,7	2054,8	2090,8	2128,2	2165,7	2203
M duties without EPA	147,2	224,8	228,9	233,1	237,2	241,4	245,7	250,1	254,5	258,9
VAT base	1399,2	2138	2176,8	2217,1	2255,9	2296,2	2336,5	2378,3	2420,2	2461,9
VAT without EPA	223,9	342,1	348,3	354,7	360,9	367,4	373,8	380,5	387,2	393,9
M duties with EPA		191,5	178,1	168,6	149,2	133,7	114,8	94,9	74,7	53,1
VAT base with EPA		2104,7	2126	2152,6	2167,9	2188,5	2205,6	2223,1	2240,4	2256,1
VAT with EPA		336,8	340,2	344,4	346,9	350,2	352,9	355,7	358,5	367,1
VAT loss with EPA		5,3	8,1	10,3	14	17,2	20,9	24,8	28,7	26,8
VAT cumulative loss		5,3	13,4	23,7	37,7	54,9	75,8	100,6	129,3	156,1
Overall annual and cumulative losses of import duties due to the EPA										
Overall annual losses		78,3	90,8	100,9	117,3	131,4	147,8	164,9	182,1	194,3
Cumulative losses		78,3	169,1	270	387,3	518,7	666,5	831,4	1013,5	1207,8

Table 1 – continue

T+15	T+16	T+17	T+18	T+19	T+20	T+21	T+22	T+23	T+24	T+25
Import duties rates of Annexes 2b and 2c, actual duties based on the EU FOB export values and annual rates of duties losses										
Annex 2b										
Import duties										
Annex 2c	17,5%	16,3%	15%	13,8%	12,5%	10%	7,5%	5%	2,5%	0%
Import duties	20,361	18,965	17,452	16,056	14,543	18,531	8,726	5,817	2,909	0
Total duties	20,361	18,965	17,452	16,056	14,543	18,531	8,726	5,817	2,909	0
Duty loss	92,866	94,262	95,775	97,171	98,684	94,746	104,501	107,410	110,318	113,227
% of losses	79,45	83,25	84,59	85,82	87,16	83,68	92,29	94,86	97,44	100
Rate duties losses	2,41	1,97	1,81	1,07	1,07	1,92	0,91	0,60	0,30	0
Population growth and corresponding rates of import growth at 2/3 of population growth rates										
Population (1000)	249666	256026	262488	269049	275706	282458	289300	296229	303236	310318
Rate M growth	1,71	1,7	1,68	1,67	1,65	1,63	1,61	1,6	1,58	1,56
EAC CIF imports	1677	1706	1735	1764	1793	1822	1851	1881	1911	1941
Annual and cumulative losses of import duties with EPA compared to without EPA										
M duties: no EPA	197	200,5	203,9	207,3	210,7	214,1	217,5	221	224,5	228,1
M duties with EPA	40,4	33,6	31,4	18,9	19,2	35	16,8	11,3	5,7	0
Lost duties in EPA	156,6	166,9	172,5	188,4	191,5	179,1	200,7	209,7	218,8	228,1
Cumulative losses	916,8	1083,7	1256,2	1444,6	1636,1	1815,2	2015,9	2225,6	2444,4	2672,5
Impact of trade diversion on import duties losses and total cumulative losses										
Trade diversion	563,5	573,2	583	592,7	602,4	612,2	621,9	632	642,1	652,2
M duties/trade diver.	13,6	11,3	10,6	6,3	6,4	11,8	5,7	3,8	1,9	0
Cumulative losses	305,1	316,4	327	333,3	339,7	351,5	357,2	361	362,9	362,9
Total cumulative loss	1221,9	1400,1	1583,2	1777,9	1975,8	2166,7	2373,1	2586,6	2807,3	3035,4
Losses of VAT revenues with the EPA										
Total CIF imports	2240,5	2279,2	2318	2356,7	2395,4	2434,2	2472,9	2513	2553,1	2593,2
M duties without EPA	263,3	267,8	272,4	276,9	281,5	286	290,6	295,3	300	304,7
VAT base on no EPA	2503,8	2547	2590,4	2633,6	2676,9	2720,2	2763,5	2808,3	2853,1	2897,9
VAT without EPA	400,6	407,5	414,4	421,4	428,3	435,2	442,2	449,3	456,5	463,7
M duties with EPA	54	44,9	42	25,2	25,6	46,8	22,5	15,1	7,6	0
VAT base with EPA	2294,5	2324,1	2360	2381,9	2421	2481	2495,4	2528,1	2560,7	2593,2
VAT with EPA	367,1	371,9	377,6	381,1	387,4	397	399,3	404,5	409,7	414,9
Loss of VAT with EPA	33,5	35,6	36,8	40,3	40,9	38,2	42,9	44,8	46,8	48,8
VAT cumulative loss	189,6	225,2	262	302,3	343,2	381,4	424,3	469,1	512,9	561,7
Overall annual and cumulative losses of import duties due to the EPA										
Overall annual losses	203,7	213,8	219,9	235	238,8	229,1	249,3	258,3	267,5	276,9
Cumulative losses	1411,5	1625,3	1845,2	2080,2	2319	2548,1	2797,4	3055,7	3323,2	3600,1

Source: Eurostat

III – Kenyan exports to the EU will lose their competitiveness and several alternatives exist to the EPA

In fact these EAC exporters to the EU28-UK, particularly from Kenya, would have to pay much lower duties to the EU as their exports would fall significantly because, beyond Brexit, the most important threat to their exports is their competitiveness erosion after the full implementation of several other EU free trade agreements (FTAs) concluded or to be concluded. Already the FTAs with three Andean countries – Colombia, Ecuador, Peru – and six Central American countries – Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama – allow them to export duty free to the EU most of their agricultural products (other than those with entry prices in the EU), particularly all those central to the EAC: of chapter 06 (of which cut flowers³) as well as of chapter 07 (including cabbages, cauliflowers, fresh or chilled beans and other fresh or chilled vegetables) which are the core of the EAC agricultural exports to the EU. Not to speak of the TAFTA, CETA and many other on-going negotiations with developing countries, particularly Mercosur, Vietnam, Philippines.

In fact there are alternative solutions to the EPA which depend only of the EU political will:

³ *What Brext means for the global flower industry*, <https://www.hortzone.com/blog/2016/07/15/brexit-means-global-flower-industry/>

- 1) A WTO waiver to return to the unilateral trade preferences of the Lomé Conventions as the Latin American countries exporting bananas and India that had prosecuted the EU on these preferences should no longer oppose it. The EU has only to follow the US example which got a ten years extension of the AGOA in 2015.
- 2) To grant the GSP+ status to Kenya provided that Kenya will rapidly ratify its missing international conventions. Given that Pakistan got the GSP+ status in December 2010 despite its violation of several international conventions on human rights⁴, it is clear that the recognition of compliance with these criteria is primarily the result of an EU political decision.
- 3) To be coherent with the EU Everything But Arms (EBA) Decision of 2001 and with the WTO plea to grant DFQF (duty free-quota free) treatment to all LDCs exports, the share of the four LDCs in the EAC exports to the EU28-UK should be deducted from the 82.5% which are to be liberalized in the EPA. As this share was of 55.8% in 2015, the percentage of EAC exports to liberalize would fall to 26.7%.
- 4) A final solution would be to establish a Regional Solidarity Fund to which the 5 EAC Member Countries would contribute to cover the export duties due by Kenyan exporters to the EU if the EPA is not signed. The contribution should rest on several factors among which the relative percentage of their extra-EAC imports and their per capita gross national income (GNI) and maybe on other factors to be agreed. The data of ITC TradeMap are only available for the 5 countries in 2011.

€ 1000	Total imports	Intra-EAC imports	Extra-EAC imports	Share of extra-EAC imports	Per capita GNI in 2015
EAC	24754,2	1497,8	23256,4	100%	778,8
Kenya	10789,2	220,9	10,568,3	45,44%	1136,5
Tanzania	8029,8	271,5	7758,3	33,36%	781,7
Uganda	4042,7	497,3	3545,4	15,25%	565,6
Rwanda	1082,9	315,1	767,8	3,30%	612,2
Burundi	809,6	193	616,6	2,65%	232,2

Source: World Bank indicators; ITC TradeMap:
http://www.trademap.org/Country_SelProduct_TS.aspx?nvpm=1||3981||TOTAL||2|1|1|2|1|3|1|1

- 5) The worst solution to be banished would be that Kenya would ratify the interim EPA as this would desintegrate the EAC regional integration which is supposed to be the first objective of the EPA. Happily this solution is impossible because, contrary to what happened with the Ivory Coast and Ghana interim EPAs, the interim EPA agreed on 27 November 2007 in EAC was already a full regional EPA and not an individual EPA with Kenya alone so that the other EAC 4 Member countries would have to agree to it, which they will clearly not do.

⁴ <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52016DC0029&from=EN>