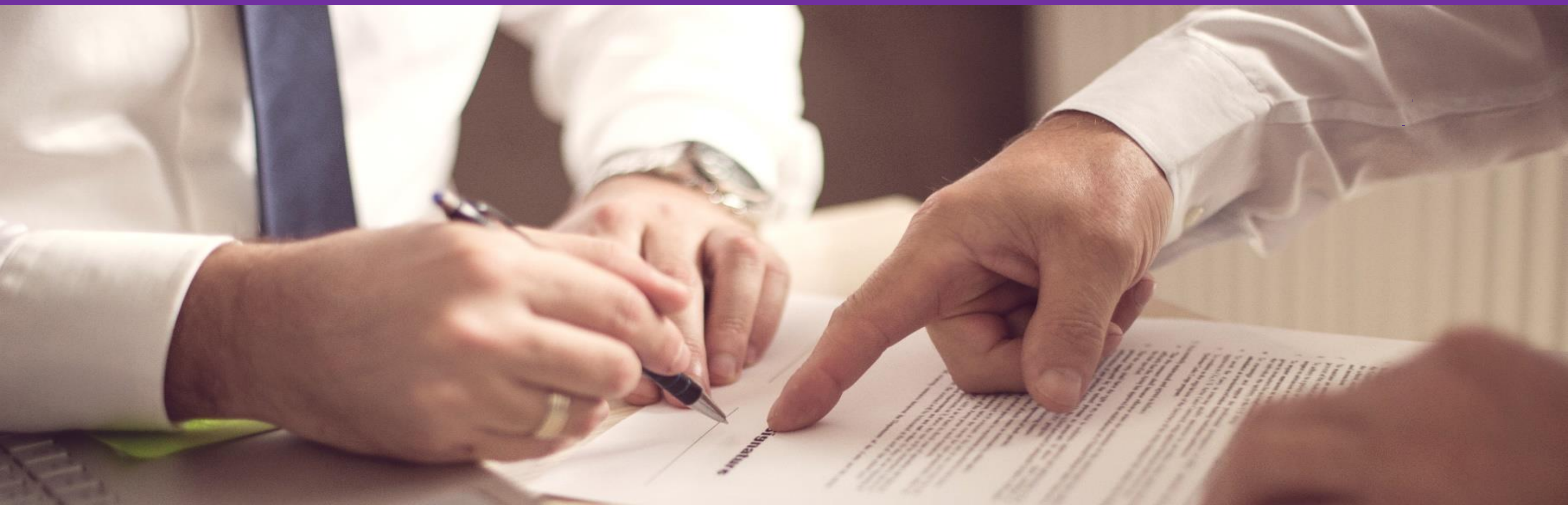
Supply chain

UK Kenya Economic Partnership Agreement

UK-Kenya Economic Partnership Agreement



INSIGHTS

Introduction

The prospects and potentiality of the United Kingdom (UK)- Kenya trade deals were eventually formalized into an Economic Partnership Agreement (EPA) that was signed by both parties on 8 December 2020.

An Economic Partnership Agreement also commonly referred to as a trade agreement is an economic arrangement that eliminates barriers to the free movement of goods, services, and investment between participating countries.

The catalyst to this move (formation of the agreement) was the withdrawal of the United Kingdom from the European Union (EU) on 31 January 2020 (" Brexit").

The UK's exit from the EU was backed by reasons that include but not limited to protection of national sovereignty, the poor economic performance and inconsistent handling of the UK migration crisis.

The action is poised to see the UK regain control over immigration and its own borders as well as enhanced national Decision making.

It is imperative to note that the Brexit has an implication on the African Caribbean Pacific (ACP) countries.

While the UK was in the EU, the ACP countries among others were at liberty to buy and sell goods across EU borders without paying taxes (tariffs).

This implies that in the absence of a UK-EU trade deal post the Brexit, the ACP countries would be subject to duties, taxes and other impediments to trade.

Additionally, Kenya's overall exports to the EU were bound to decline post Brexit.

This is because Kenya depends heavily on the UK market for exports of particular products to the EU, such as black tea, fresh cut roses and buds, fresh or chilled beans and other fresh or chilled vegetables and flowers.

In the absence of more favorable trading arrangements, ACP countries exports to the UK could face a double impact, namely:

- First, certain products could face higher Most Favored Nation tariffs.
- Second, this would expose them to greater competition in the UK market, particularly from non ACP developing countries.

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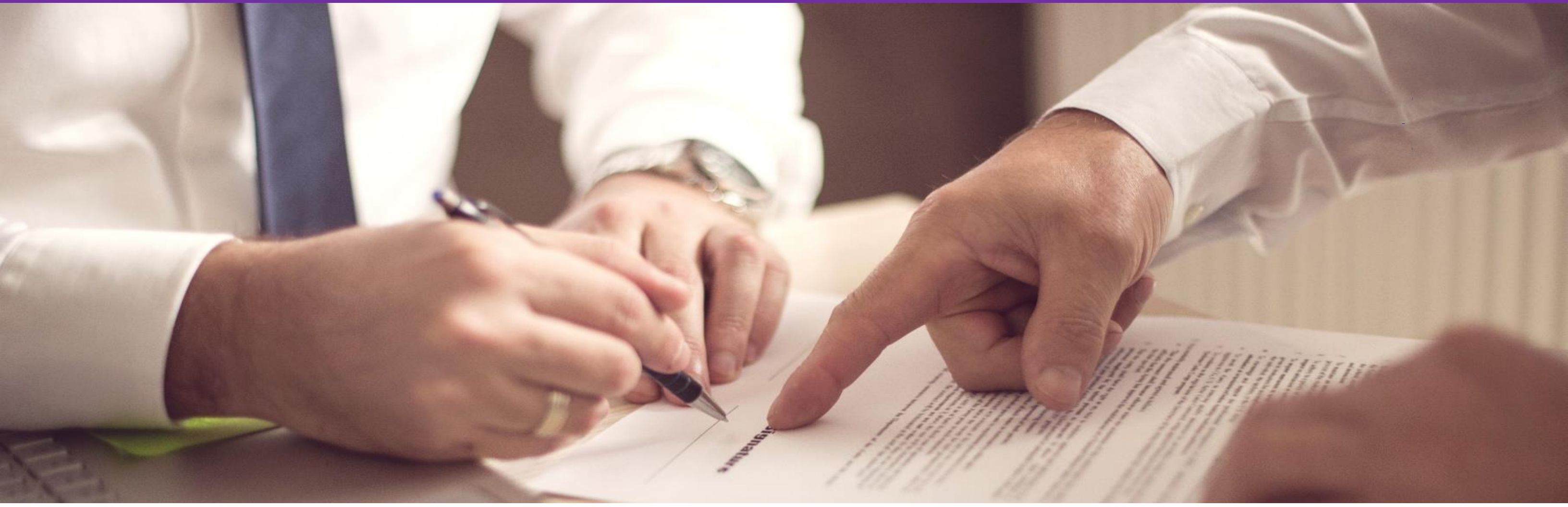

INSIGHTS

To avoid possible trade disruptions arising as a result of post Brexit policy shifts and to deter any immediate adverse outcomes, the UK offered temporal, unilateral preferential access to developing countries that currently have access to the UK market through Free Trade Agreements (FTAs) and EPAs.

Another considerable factor to the haste in signing the agreement is that Kenya has the status of a lower middle income country.

This implies that Kenya would not enjoy the benefits and preferential treatment on many levels unlike other East African Community (EAC) member that would otherwise be accorded more favors in the trade context by virtue of their Least Developed Countries (LDCs) status.

It is against this background that Kenya signed a trade deal with the UK.

In the event that Kenya failed to adhere and meet the deadline to sign the agreement with the UK, Kenya's Economy would be adversely impacted.

However Kenya was able to sign the trade deal on time an action that deterred any form of trade disruptions that would occur as result of the Brexit.

Key Note:

The agreement is not an opening up of (market) liberalization in a day or a month but rather a gradual process that is phased over a period 7 to 25 years.

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Implications & Other Aspects

UK-Kenya Economic Partnership Agreement

- It will support jobs and economic development in Kenya.
- It will avoid possible disruption to UK businesses such as florists who will be able to maintain tariff-free supply routes for Kenya's high-quality flowers.

- Kenya is a major exporter of tea, coffee and horticultural products to the UK market.
- Kenya accounts for the for 27% of the fresh produce and 56% of the black tea market in the UK market.

- The agreement will positively benefit approximately 2,500 UK businesses that export goods to Kenya annually.
- It will also benefit UK suppliers of machinery, electronics and technical equipment, where continued tariff-free access will be guaranteed.

- The agreement will grant Kenya and the UK certainty and continuity of smooth trade operations with limited or no trade disruptions.

- The agreement also includes provisions that would only succeed if the EAC works as a unit.
- For example, there is a clause for parties to constantly consult on a Customs Duty regime that does not contradict the region's overall Customs Union

- The Kenya-UK trade deal provides for other EAC member states to join in by 2025.

- This strategic EPA is aimed at "doing more trade with less friction" between the UK and the six-nation East African Community bloc.

Disclaimer

“This alert is not an in-depth analysis but rather depicts insights from the UK-Kenya Trade/Economic partnership agreement that was brought into force on 8 December 2020. While all reasonable attempts have been made to ensure that the information contained within this document is accurate, Grant Thornton accepts no responsibility for any errors or omissions it contains whether caused by negligence or otherwise. This alert should not be relied on solely and we advise you to seek appropriate professional advice before making any decision. Information contained in this alert is meant for exclusive use by clients of Grant Thornton and no part of it may be reproduced and circulated without prior written consent.”

Get in Touch

Please get in touch with us to find out more about how this agreement will likely affect your business from a taxation perspective.

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