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|---|--|--|---------------------------|
| Title: Impact assessment of a Free Trade Agreement between the European Union and Signatory Countries of the Andean Community (Columbia and Peru) | Impact Assessment (IA) | | |
| | Date: 20/12/2012 | | |
| | Stage: Development/Options | | |
| | Source of intervention: EU | | |
| | Type of measure: Other | | |
| IA No: Lead department or agency: BIS Other departments or agencies: UKTI, DfID, FCO | Contact for enquiries: Swati Yadav 020 7215 5294 | | |
| Summary: Intervention and Options | | | RPC Opinion: Amber |

| Cost of Preferred (or more likely) Option | | | |
|---|----------------------------|--|---|
| Total Net Present Value | Business Net Present Value | Net cost to business per year (EANCB on 2009 prices) | In scope of One-In, Measure qualifies as One-Out? |
| £m | £m | £m | No N/A |
| | | | No N/A |

What is the problem under consideration? Why is government intervention necessary?

The European Union on behalf of its members has been negotiating a Free Trade Agreement in accordance with WTO law with **the Andean Community (Columbia and Peru)**. **Columbia and Peru are important EU trading partners**. There are barriers to trade between the two regions in the form of tariffs and deeper behind the border barriers which distorts the market price resulting in lower competition and less choice for consumers in both the EU and the Andean community. The FTA will help reduce these barriers. The agreement will also help increase transparency as the terms of trade will all be set out in one document making it easier for EU firms to find and understand.

What are the policy objectives and the intended effects?

The objective of the agreement is to liberalise the markets between the EU and the Andean Community (Columbia and Peru), breaking down the barriers which restrict free and efficient trade. This aims to increase the available export opportunities of EU business, create greater competition and thus lower prices, more innovation, investment in R&D and a greater variety of goods and services. The agreement also intends to lock in binding agreements on sustainable development, IPR, sanitary and photo-sanitary and human rights into WTO law.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Adopt the Free Trade Agreement. This is the government's preferred option and the one being taken forward.

- This measure is a regulation of the European Parliament and of the Council, therefore 'do nothing' is not an option. In addition, this agreement is expected to generate extensive benefits to both the UK industry and the UK consumer and received UK's support during the negotiation rounds.

| | | | | | |
|--|---------------------|-----------------------|-----------------------|---------------------------|---------------------|
| Will the policy be reviewed? It will not be reviewed. If applicable, set review date: Month/Year | | | | | |
| Does implementation go beyond minimum EU requirements? | | | No | | |
| Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base. | Micro Yes | < 20 Yes | Small Yes | Medium Yes | Large Yes |
| What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent) | | | Traded: N/A | Non-traded: N/A | |

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

..... Stephen Green Date: 10/10/2013

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

| Price Base Year 2007 | PV Base Year 2007 | Time Period Years 10 | Net Benefit (Present Value (PV)) (£m) | | |
|----------------------|-------------------|----------------------|---------------------------------------|-----------|----------------------|
| | | | Low: n/a | High: n/a | Best Estimate: 1,848 |

| COSTS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Cost (Present Value) |
|---------------|---|--|----------------------------|
| Low | Optional | Optional | Optional |
| High | Optional | Optional | Optional |
| Best Estimate | N/Q | N/Q | N/Q |

Description and scale of key monetised costs by 'main affected groups'

There are no monetised costs

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

Clon's 2012 Sustainability Impact Assessment estimates a reduction of approx €247m in EU's tariff revenue due to lower tariffs agreed on Colombian & Peruvian imports. Costs faced by UK are expected to be minimal as UK trade with Andean countries represents less than 1% of total UK trade. Some costs relating to adjustment costs to firms are outweighed by the overall benefits of competition. Minimal costs to firms, enforcers, customs & government officials of reading & understanding the text.

| BENEFITS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Benefit (Present Value) |
|---------------|---|--|-------------------------------|
| Low | Optional | Optional | Optional |
| High | Optional | Optional | Optional |
| Best Estimate | N/Q | £374m | £1,848m |

Description and scale of key monetised benefits by 'main affected groups'

A welfare gain to the UK economy from tariff and non-tariff barriers liberalisation. Benefits to businesses in increased export opportunities and benefits to businesses and consumers through positive externalities from an increase in competition and choice.

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

Productivity and efficiency gains as a result of the increased competition, lower prices and higher nominal wages overall.

Key assumptions/sensitivities/risks

Discount rate (%)

3.50

The benefits are a rough estimate of the total potential welfare effects of full liberalisation in the FTA. Liberalisation is expected to gradually accrue over 10 years with 20% coming upon implementation of the FTA and a further 9% each year, until the full benefit is achieved in year 10. The benefits have been estimated using a general equilibrium model. The assumptions and sensitivities with this model are outlined in the evidence base section.

BUSINESS ASSESSMENT (Option 1)

| Direct impact on business (Equivalent Annual) £m: | | | In scope of OIOO? | Measure qualifies as |
|---|-----------------|------------|-------------------|----------------------|
| Costs: | Benefits: 1,848 | Net: 1,848 | No | N/A |

Evidence Base

There is discretion for departments and regulators as to how to set out the evidence base. However, it is desirable that the following points are covered:

- Problem under consideration;
- Rationale for intervention;
- Policy objective;
- Description of options considered (including do nothing);
- Monetised and non-monetised costs and benefits of each option (including administrative burden);
- Rationale and evidence that justify the level of analysis used in the IA (proportionality approach);
- Risks and assumptions;
- Direct costs and benefits to business calculations (following OIOO methodology);
- Wider impacts (consider the impacts of your proposals, the questions on pages 16 to 18 of the IA Toolkit are useful prompts. Document any relevant impact here and by attaching any relevant specific impact analysis (e.g. SME and equalities) in the annexes to this template)
- Summary and preferred option with description of implementation plan.

Inserting text for this section:

Replace the notes on this page with the text for the evidence base.

To maintain consistent formatting, apply Styles from the toolbar. The **Paste Without Format** toolbar button can be used to paste text from other documents in the current style here.