

IPC Issue Brief 23
July 2007

Economic Partnership Agreements Between the EU and Africa: The Importance of Trade and Development



IPC finds practical solutions that support the more open and equitable trade of food & agricultural products to meet the world's growing needs.

© 2007 International Food & Agricultural Trade Policy Council

All rights reserved. No part of this publication may be reproduced by any means, either electronic or mechanical, without permission in writing from the publisher.

Published by the International Food & Agricultural Trade Policy Council

Layout and Design: Yvonne Siu

Membership of the International Food & Agricultural Trade Policy Council

Piet Bukman (Chairman), The Netherlands

Bernard Auxenfans, France
Malcolm Bailey, New Zealand
Joachim von Braun, United States
David Blackwell, United States
Csába Csáki, Hungary
Pedro de Camargo Neto, Brazil
Luis de la Calle, Mexico
Leonard Condon, United States
H.S. Dillon, Indonesia
Cal Dooley, United States
Franz Fischler, Austria
Michael Gifford, Canada
Tim Groser, New Zealand

Marcelo Regúnaga (Vice-Chairman), Argentina

Shannon Herzfeld, United States
Carl Hausmann, United States
Jikun Huang, China
Nicolas Imboden, Switzerland
Rob Johnson, United States
Hans Jöhr, Switzerland
Timothy Josling, United Kingdom
Rolf Moehler, Belgium
Raul Montemayor, Philippines
Nestor Osorio, Colombia
Carlos Perez del Castillo, Uruguay
C. Joe O'Mara, United States
J.B. Penn, United States
Michel Petit, France
Per Pinstrup-Andersen, Denmark
Henry Plumb, United Kingdom
Caspar Ridley, Switzerland
Eugenia Serova, Russia
Hiroshi Shiraiwa, Japan
Jiro Shiwaku, Japan
James Starkey, United States
Jerry Steiner, United States
Robert L. Thompson, United States
Carlo Trojan, The Netherlands
M. Ann Tutwiler, United States
Ajay Vashee, Zambia

Economic Partnership Agreements Between the EU and Africa: The Importance of Trade and Development¹

The European Union has longstanding trade and development ties with its members' former colonies, referred to as a group as the "ACP" – African, Caribbean and Pacific countries. The founding treaty of the European Community of the original six member countries, The Treaty of Rome of 1957, included a provision to extend cooperation with some 22 countries and territories, all of which still had colonial ties to EC member states. In 1964, the Yaounde Convention was signed between the EC and some eighteen independent African states, followed by Yaounde in 1969 with some eighteen African states. The Lome Convention signed in 1975 included a number of substantial changes. With the UK having joined the EC, the Lome Convention was negotiated with some forty-six African, Caribbean and Pacific Countries, thus including Commonwealth countries. Moreover, the Lome Convention instituted unilateral EC trade preferences to the ACP, whereas up until 1975 the emphasis had been on reciprocal free trade. The basic provisions were not significantly altered through the various Lome Conventions: Lome II (1980-85); Lome III (1985-90), and Lome IV, which ran from 1990-2000, although the number of ACP signatories increased every five years.²

While building on the preceding Lome Conventions, the signing of the Cotonou Agreement in 2000 with 77 ACP countries signaled a number of important changes in EC-ACP relations. On the trade front, it was agreed that the EC would negotiate Economic Partnership Agreements with regional groupings to be concluded at the end of 2007, an objective which was confirmed by the May 2007 ACP-EC Joint Council of Ministers, despite acknowledgement by both sides that the negotiations are behind schedule.

The EPA negotiations are taking place at the same time as the multilateral Doha Development Round negotiations, and in fact are covering more territory, including the so-called "Singapore issues" (investment, competition, government procurement) in addition to trade facilitation, which were dropped from the Doha Development Agenda due to opposition from developing countries. Moreover, the EPA market access negotiations – unlike the Doha Negotiations - are from applied rather than bound tariff rates and require commitments also from least developed countries. With the exception of a FTA established with South Africa in 1999, these are the first free trade areas the EU is negotiating with Sub Saharan African countries. The US embarked on FTA negotiations with the Southern African Customs Union (SACU), but these talks were put on hold after insufficient progress was made. The EPAs – which will be free trade areas - are a novel and ambitious chapter in EU-ACP trade relations, and as such involve considerable challenges. Some six months prior to their planned conclusion, major issues remain outstanding, among them market access and accompanying measures, in particular development finance and EPA related adjustment costs, and it is possible that a framework agreement is concluded by the end of the year in order to meet the deadline, but that some outstanding issues will be dealt with as part of a built-in agenda.

Critics of EPAs have argued that it is inappropriate to set up free trade areas between a group of developed and developing countries. This paper – focusing primarily on Africa - will examine the major trade elements of the negotiations and argue that a more ambitious approach may in fact serve the ACP countries well. However, this is not because African countries stand to gain a lot of additional access to the EU market. Rather, the major potential benefits would result from their own liberalization and regional integration. It would be wrong, however, to expect that liberalization alone can integrate Africa into the world economy, promote

¹This paper was finalized by Charlotte Hebebrand following discussions of a previous draft at the IPC plenary meeting held June 2-3, 2007 in Lusaka, Zambia.

sustainable development, and contribute to poverty eradication. The reality is that the very significant supply constraints that continue to exist in Africa cannot be overcome through trade liberalization alone.

Trade Issues

What can the EU offer in market access?

The ACP already enjoys good market access to the EU, which places the EU into a bit of a bind since it is not able to offer significant market access incentives for concluding the EPAs. Among the 77 ACP countries, there are 41 LDCs and 36 developing countries and each EPA grouping includes both developing and least developed countries. All LDCs, including those in the ACP, already benefit from the EU's Everything But Arms Scheme (EBA). Adopted in 2001, the EBA provides duty free access to imports of all products from LDCs except arms and munitions. Imports of certain commodities were phased in for bananas (January 2006), and are still being phased in for sugar (July 2009) and rice (September 2009). The EBA does not include any quantitative restrictions with the exceptions of tariff rate quotas, which are being enlarged annually in sugar and rice until they are completely liberalized. The EBA was incorporated into the EU's GSP scheme, where it is now one of five arrangements, and clearly the most far-reaching.³ ACP LDCs therefore do not stand to gain from an EPA as far as increased access to the EU market is concerned, since they already enjoy the EU's most generous preferences.

The EU's announcement of April 4, 2007, that it is prepared to extend EBA status also to the non-least-developed ACP countries is a welcome development, since it provides that set of countries with improved market access as a result of concluding an EPA. A number of EU member states originally called for this step but it was not included in the final Council Mandate for the negotiations, which demonstrates the sensitivities on the European side. Although the ACP developing countries presently enjoy better preferences under the Cotonou Agreement than other non-ACP developing countries under the EU's four non-EBA GSP arrangements, and around 98% of ACP exports to the EU already come in duty free,⁴ there are remaining restrictions on sensitive temperate zone agricultural products and sensitive processed products.⁵

Longstanding commodity protocols between the EU and the ACP for sugar, bovine meat and bananas represent another set of trade preferences – while these also provide duty free or reduced duty market access to the EU for a set amount of imports, they also guarantee the payment of EU level prices. The Cotonou Agreement states that the Parties agree on the need to review the commodity protocols in the context of the new trading rules, so as to make them WTO compatible, but also with a view to safeguarding the benefits derived from them.

The banana protocol is already being dismantled following several successful WTO challenges against it. The sugar protocol provides quota-restricted duty free access and the beef quota provides quota restricted access with reduced special duties and both offer the internal EU price, although those prices have declined due to CAP reforms. Beneficiaries of the commodity protocols will possibly end up with larger or no quotas, but also with tougher competition and further declines in price.

Although the EU's offer to extend EBA market access to all ACP countries is to be welcomed, it will be important to accompany it with improved rules of origin than those presently in place for EBA beneficiaries, which are in fact more strict than those presently applying under the Cotonou Agreement. The less favorable rules of origin under the EBA arrangement versus Cotonou has in fact led some ACP LDCs to export under the

Cotonou Agreement rather than EBA.⁶ While rules of origin for the EC's different preference schemes vary, they all extend to products wholly obtained in the beneficiary country and products derived from the "donor country of origin," i.e. a product from Europe, which is processed in an ACP country, does have coverage under the preferences. Products from third countries processed or manufactured in an ACP country are only considered as originating from an ACP country if they have undergone sufficient processing or manufacturing. What constitutes sufficient processing or manufacturing varies not only among the EC's different preference schemes but also within them, i.e. they can differ among different chapters of the EC's customs code and even within different tariff headings within those chapters. These requirements can be in the form of technical criteria, added value or other economic criteria or a change in tariff heading.⁷

The EPA rules of origin should allow for regional cumulation of origin, which allows products manufactured in or with inputs from two or more EPA grouping countries to qualify for preferential market access, and thus fosters regional integration. Moreover, given the plans to establish an African Economic Community by the year 2028, this cumulation of origin should also apply to all countries in the four African EPAs. The fact that EPA groupings include both LDCs and DCs, and these categories may end up with different access to the EU market, such rules for cumulation of origin risk becoming complicated.

Although rules of origin are intended to ensure that preferences for beneficiary countries are not exploited by third countries by requiring a substantial value added in the beneficiary countries, and thus have been thought to foster greater processing in developing countries, the evolution of global trade and the rise of global value chains necessitates a rethinking of this requirement.

"Technological advances in information, logistics, and production have enabled corporations to divide value chains into functions performed by foreign subsidiaries or suppliers and to become more footloose. The availability of real-time-supply-chain data has allowed for the shipping for large distances not only of durable goods, but also components for just-in-time manufacturing – and important for developing countries such as those in Africa – perishable goods. The result has been the rapid growth of intra-industry trade – "network trade" – relative to the more traditional inter-industry trade of final goods and services. In this environment, it is hard to imagine that the future of Africa's economic development can be isolated from these networks."⁸

This network trade has led to an increasing number of globally dispersed production systems, and often encompasses labor-intensive goods, including apparel and food. What this means in practice, therefore, is that if the value added requirements in rules of origin are not lessened, Africa risks being left out of this increasingly important trade network. Put in other words, rules of origin that are intended to encourage high domestic value are outdated in today's world of global sourcing.

The debate surrounding this reality is demonstrated by the US' trade preferences for African countries under the so-called African Growth and Opportunity Act (AGOA) enacted in 2000. The impressive increase in African apparel exports to the US stem from the third country fabric provision, which – contrary to the EU rules of origin - allows African countries to use fabric from third countries in their garment production. Originally set to expire in September 2007, the provision has been extended until 2012.⁹

The European Commission stated in a March 2005 Communication that it planned to draw up new simpler rules of origin scheme. A major announced change is that the new scheme will use the added value test as its most important way of assessing what constitutes a sufficient amount of processing or manufacturing. Given

the changes in global processing and trade, the EU would be well advised to set low value added thresholds for its new rules of origin. The Blair Africa Commission report proposed a simple 10% value added criterion for the EU's new scheme.¹⁰ A recent study by the Overseas Development Institute shows that the current value added thresholds used under the Cotonou Agreement tend to be much higher than the actual value added taking place in low-income countries, and argues for a significant downward revision of added value percentage requirements.¹¹

The EU should be encouraged to include a simplified set of rules of origin for the EPA regional groupings. Such a simplification should encompass a reduced administrative burden on recipient countries, allow for cumulation of origin among all countries in an EPA region, but also allow more liberal use of products from third countries or conversely, relaxed requirements on the amount of processing or manufacturing that is required in ACP countries. The World Bank has also stressed the importance of simple rules of origin, which would increase the benefits of preferences by making several export products competitive in the European market.¹²

Regional Integration

While market access gains to the EU for African countries may be limited, the negotiations' focus on regional integration may well be a much more important benefit. The EPAs are being negotiated between the EU and regional groupings among the ACP countries; by negotiating with groupings that already are or will commit to establishing regional free trade areas or customs unions, the EU is emphasizing the need for South-South integration given the limitations posed by small and segmented markets. Through this regional approach, the EU wishes to foster the integration of the ACP into the world economy, provide for economies of scale, stimulate investment and lock in required trade reforms.

Greater regional integration for political but also economic purposes in Africa is certainly not a new idea and has been seen to be a viable instrument for increasing Africa's economic and bargaining power. The Organisation of African Unity (OAU) adopted the Lagos Plan of Action in 1980, which was complemented in 1990 with the Treaty establishing the African Economic Community (AEC). With the aim of promoting economic, social and cultural development as well as economic integration, the AEC Treaty called for the AEC to be set up by the year 2028 in stages via coordination, harmonization and the progressive integration of the activities of existing and future regional economic communities (RECs) as building blocks. Existing RECs were the Arab Maghreb Union (AMU), the Economic Community of Central African States (ECCAS), the Common Market of Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and the Economic Community of West African States (ECOWAS), and there are now some 14 RECs. As pointed out by the FAO, despite the multiplicity of groupings, however, African regional groupings have not been very effective in creating trade and economic growth. Among the reasons cited by FAO are the following:

- Intra-regional trade in Africa as a share of total foreign trade has traditionally been low compared to other regions.
- Most African states have suffered from severe macroeconomic disequilibria, foreign debt service burdens, over-valued currencies, lack of trade finance, and a narrow tax base, with customs duties a substantial source of revenue. The protective import substitution strategies adopted by most countries since independence resulted in a host of regulations restricting trade such as licensing, administrative foreign exchange allocation, special taxes for acquiring foreign exchange, advance import deposits etc.

- Thus the economic context has been unfavorable to the development of regional commitments.
- The design of African integration schemes around inward-looking industrialization meant that the economic costs of participation for member states are often immediate and concrete (in the form of lower tariff revenues and greater import competition), while the economic benefits are long-term and uncertain and are often unevenly distributed among member states.
 - The dominance of a few countries and the huge disparities in size among members of regional groupings led to concerns about the distribution of benefits. Regions have found it difficult to address the equitable distribution of gains and losses from integration. Mechanisms to provide compensation to the less developed members of groupings have been either absent or ineffective.
 - The dependence of many African countries on their former colonial powers tended to work against viable regional groupings. The importance of North-South linkages (Franco-African and Commonwealth links and various Lomé Conventions) may have distracted commitment from intra-African groupings.
 - Regionalism has been driven from above by public sector organizations and has lacked the support and involvement of the private sector and the general public. Cooperation has been seen as involving bloated and expensive bureaucracies, rather than opportunities for growth and development.
 - Institutional weaknesses, including the existence of too many regional organizations, a tendency towards top-heavy structures with too many political appointments, failures by governments to meet their financial obligations to regional organizations, poor preparation before meetings, and lack of follow up by sectoral ministries on decisions taken at regional meetings by Heads of State.
 - Integration is hampered by the existence of weak states and political opposition to sharing sovereignty. Integration arrangements are not characterized by strong supranational bodies and virtually all integration institutions are intergovernmental.¹³

In 2004 the United Nations Economic Commission for Africa painted a picture of mixed performance, indicating that some regional economic communities had undergone substantial liberalization, with others falling short and called for RECs to accelerate integration as “revitalized regional integration offers the most credible strategy for tackling Africa’s development challenges.”¹⁴ A recent look at African tariffs found that “while rich countries reduced their average applied tariffs by 84 percent between 1983 and 2003, SSA countries reduced theirs by only 20 percent.”¹⁵

The table below documents the percentage of intraregional and intra-African trade as a percentage of total trade for key regional groupings and for all of Africa. Most of these groupings saw an increase in intraregional trade, but others actually witnessed a decline. Total intra-African trade remains quite low at 9.3% of imports and 10.2% of exports.

Table 1.

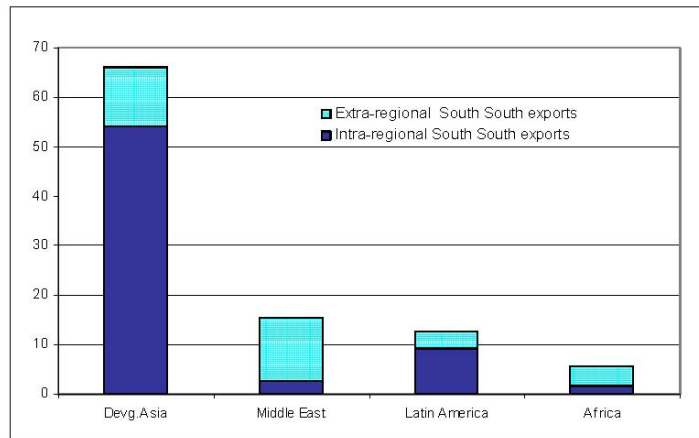
Intraregional and intra-African trade (as a percentage of total trade)

<u>Exports</u>	<u>1970</u>	<u>2003</u>
CEMAC	4.9	1.4
COMESA	9.7	8.6
ECOWAS	3.1	10.1
SADC	9.4	6.0
UEMOA	7.9	16.2
Africa	8.8	9.3
<u>Imports</u>		
CEMAC	5.0	2.9
COMESA	6.7	5.8
ECOWAS	3.3	11.5
SADC	4.9	6.3
UEMOA	6.4	13.3
Africa	7.4	10.2

Source: Yan and Gupta (2005), Table 3, p. 17.

These percentages are significantly lower than intra-regional trade among other developing country regional groupings, in particular in Asia and Latin America.

Figure 1. Intra-developing country merchandise trade as a percentage of total developing country merchandise trade, 2001 (percentage)



Source: Priyadarshi, 2003

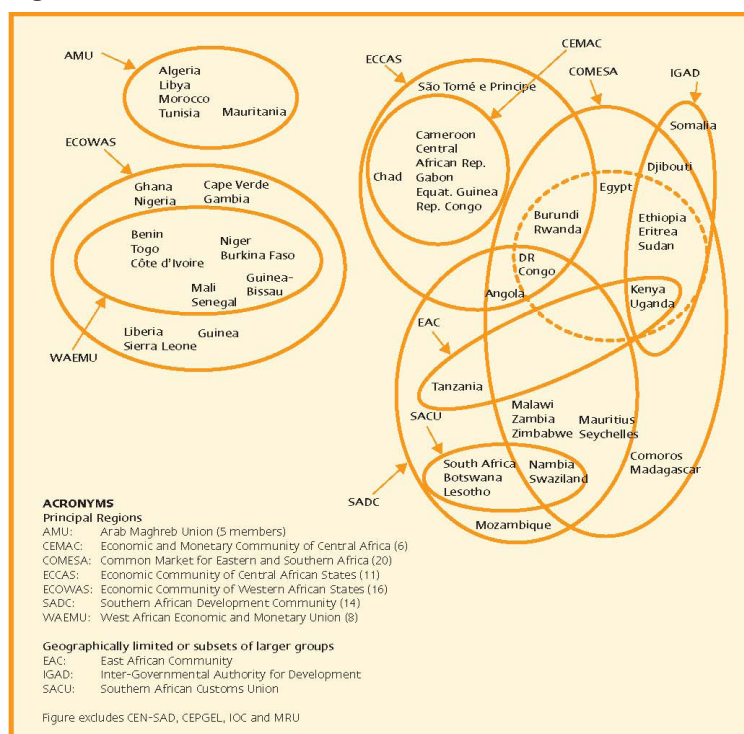
By negotiating EPAs with groupings engaged in a regional economic integration process, the EPAs seek to cement “South-South integration” into “South-South-North integration.” The EPAs therefore bring a new element to regional integration in Africa. The Cotonou Agreement leaves the configuration of regional groups negotiating the EPAs up to the ACP, but the EU would like each of the negotiating groups to have attained customs union level status, or at least free trade area status by the time the EPAs are to come into force in 2008.

Six separate EPA negotiations are underway. One EPA each is being negotiated with the Pacific and Caribbean members of the ACP group, with the four remaining ones in Africa. Two of these four regional EPA groupings are being negotiated with clearly recognizable regional groupings. The EPA groupings with Southern Africa and with Eastern and Southern Africa, are not as straightforward, since they do not neatly align with existing regional blocs and include members that are party to several different blocs. See Annex I for a listing of the EPAs being negotiated with four groupings of African countries.

Countries belonging to free trade areas can and do belong to more than one, since members of an FTA remain in charge of their trade policy vis-à-vis countries outside of that FTA. However, when countries form customs union, thus establishing a common external tariff, they are no longer free to set their own trade policy vis-à-vis third countries, but must work through the customs union, and it is therefore not for a country to belong to two customs unions unless they align their common external tariffs with each other. Thus, negotiations in EPA groupings that include countries belonging to two or more regional groupings with different integration objectives will be markedly more difficult. EPAs could provide a beneficial impetus to further regional integration in Africa. African countries belonging to two or more conflicting regional groupings could decide to choose one regional grouping or specify that they only intend to follow the trade/integration agenda of one group, but remain involved in non-trade aspects of the other(s), and thus the issue of overlapping membership – which is an issue with or without EPA negotiations - could be addressed. Aside from the question of

overlapping membership, a number of these groupings have significant further regional trade liberalization to undertake, which may not be sufficiently advanced by 2008, and could thus risk being stymied in an EPA. This point was stressed in a communication from a number of regional farmers' organizations, which argued that negotiators have underestimated "the scope of the preliminary reforms to be designed, negotiated and implemented both at national and at regional levels in order to create the conditions for an effective participation of the ACP regions in an EPA."¹⁶

Figure 2.



Source: adopted from the World Bank

Reciprocal Trade Relations

The EPAs will move away from longstanding unilateral EU trade preferences towards a reciprocal trading relationship between the EU and the ACP. The EU has stressed the need to move in this direction in order to be fully compliant with its WTO obligations. Preferential trade arrangements by their very nature are discriminatory, and thus run afoul of the GATT/WTO's golden rule of non-discrimination. The WTO's Enabling Clause does allow the extension of preferential trade arrangements as special and differential treatment for developing countries, but trade preferences which are focused on a subset of developing countries, such as the EU-ACP Lome preferences, because they discriminate among groups of developing countries, require a special waiver. The existing waiver, granted in 2002, expires at the end of 2007. The EU has argued that in order to be WTO compliant, trade relations with the ACP need to become reciprocal free trade areas, which, according to WTO rules, need to cover "substantially all trade."

Not surprisingly, the move towards reciprocal trade has been considered controversial by a number of stakeholders in the ACP, but also in the international NGO community. While there is agreement that trade preferences to date have not had sufficiently beneficial impact, the views differ on whether they should therefore be abolished. At a recent workshop held in Brussels, Nigeria's Trade Minister Aliyu Modibbo provided a statement, in which he pointedly asked "If 30 years of preferential market access did not improve the ACP

countries' economies, how can reciprocal relations do better?" asked the Minister. "It will instead widen the gap and destroy the little development we have achieved."¹⁷

The question about the impact of unilateral trade preferences has been looked at quite closely due to concerns that a successfully concluded Doha Development Round would lead to preference erosion and thus negatively impact the exports and economies of countries to whom preferences have been extended. IPC has summarized these findings in a previous publication:

"There is increasing evidence that preferences have not helped developing countries as much as is sometimes assumed or averred. Preferences have locked countries into certain commodities for which they might not have a comparative advantage. Preferences have also shielded producers from competition and many are now so high-cost and inefficient that they cannot compete on world markets. Importers, not farmers, often capture the economic rents from preferences. Finally, preferences are very inefficient ways to transfer incomes to farmers in developing countries. Thus, it behooves most developing countries to begin to transition away from trade dependence on preferences and toward more sustainable and competitive sectors."¹⁸

The impact of the EU's non-reciprocal trade preferences for the ACP has been disappointing: ACP countries' share of the EU market declined from 6.7% in 1976 to 3% in 1998.¹⁹ These results, however, mask that some individual countries have in fact benefited significantly from trade preferences, although the poorest ACP countries have generally not been the largest beneficiaries.

These statistics could of course also stem from the fact that unilateral preferences often are anything but straightforward. The impact of preferences may be limited because of coverage restrictions, administrative burdens and stringent rules of origin. Moreover, supply side constraints can keep countries from being able to fully take advantage of preferences.²⁰ In a sense, the debate over why preferences have not been more successful is moot since the EU preferences for the ACP have already been significantly eroded with the expansion of its GSP program over the years and its Everything But Arms (EBA) package extended to all LDCs in 2001.

The key question, therefore, is whether the new demand placed on ACP countries to provide reciprocal access to the EU is a move that will in fact increase their exports and economic growth. Economic literature has shown that open trade regimes are clearly associated with higher economic growth. Increased international trade allows producers to take advantage of economies of scale and to specialize in areas of comparative advantage. Generally, a liberalized trade regime allows producers access to more affordable inputs and while some inefficient producers will be hurt by increased imports of competing goods, others will improve their performance and output as a result of more competition. Moreover, a liberalized trade regime is also an excellent method of attracting more investment, crucial for sustained economic growth – a factor that is often not captured by economic models on the benefits of open trade.²¹ The EC has pointed to this important fact by pointing out that a reciprocal, WTO compliant trade arrangement will facilitate the transfer of technology through triggering long term investment and the importance of preferences no longer depending on "purely internal EU decisions or WTO politics anymore."²²

Economic literature has also stressed that many developing countries actually stand to benefit more from their own trade liberalization than from reforms undertaken in OECD countries. There are however divergent views on whether free trade areas are a sound step towards general trade liberalization or not. There is, on the one hand, the argument that by liberalizing trade vis-à-vis one partner, subsequent trade liberalization vis-à-vis all one's trading partners is facilitated; that trade liberalization is best accomplished in stages. On the other hand, such a step-wise approach is derided by others who argue that it will not necessarily result in

further liberalization beyond that specific free trade area, and will therefore cause significant trade diversion away from possibly more competitive exporters towards EU exporters. In particular, this is because the EPA tariff negotiations are undertaken from applied rates, while WTO negotiations always begin from bound rates. To the extent that EPAs can in fact prepare African countries to undertake further liberalization, by getting accustomed to liberalization vis-à-vis one partner before others, they could play a useful role in ensuring a further integration of Africa into the world economy. Another concern that has been voiced about the creation of free trade areas with the EU is that the EPAs may turn into “hub and spoke” operations. The worry is that if African countries within one EPA grouping do not sufficiently increase intra-regional trade, they will rely solely on trade with Europe and thus impede further regional integration.

While there are clear benefits from trade liberalization for developing countries, there are some important caveats. It would be wrong to view trade liberalization as a panacea, since flanking measures by developing country policymakers are crucial for the benefits of trade to occur. There is also general agreement that the move towards trade liberalization requires an adjustment period, so as to create time and space to implement the correct accompanying measures and to overcome supply-side constraints. WTO rules call for free trade areas to cover “substantially all trade,” and although this has never been precisely defined in quantitative terms, it is generally assumed to mean somewhere around 80-90% of tariff lines. It is expected that the EC will open up its market more than the ACP countries – and under this scenario, the EC might undertake a close to 100% opening and the ACP an 80-90% opening, but some have expressed that this places too great a demand on the ACP. There has been a longstanding approach of “Special and Differential Treatment” in multilateral trade negotiations for developing countries, which allows them a greater amount of exemptions and longer phase in periods than developed countries. The Doha mandate asks that SDT also become an integral part of regional trade agreement negotiations and African countries have asked that the WTO article XXIV on RTAs be amended so as to provide greater leeway for developing countries engaged in FTA negotiations with developed countries. Some have argued that the EPA negotiations should be put on hold until it is clear how the WTO RTA rules will be clarified as a result of the Doha Round. While greater clarity on this point would be welcome, it is arguably not a requirement for the EPA negotiations, as there has never been clear consensus on what the term “substantially all trade” covers. There appears to be considerable scope for flexibility even without greater clarification for the negotiating partners to agree on a long transition periods for ACP countries with particular economic, social and environmental constraints and limited capacity to adapt their economies to the liberalization process. Any transition period to be agreed upon should also be used in order to further increase intra-regional trade.

The Doha Development Round Negotiations have proven to be difficult to conclude, in part, over the question of how much developing countries should be able to exempt themselves from trade liberalization, with the G-33 calling for an exemption for at least 20% of their tariff lines, which was perceived as too restrictive by OECD countries as well as by developing countries interested in building further trade amongst developing countries. The correct balance for special and differential treatment will clearly also be an issue in the EPA negotiations, and ACP countries would do well to define their position on special products for both sets of negotiations. There are likely to be calls for significant exemptions from liberalization, in particular in the agricultural sector. Farmers’ organizations from the regional EPA groupings have called the creation of a free trade zone with the EU “totally inappropriate for the agricultural sector given the enormous differences in productivity and competitiveness between the ACPs and the EU, differences which are amplified by the considerable public support from which European agriculture benefits.”²³ African agricultural producers are rightly concerned about not being able to compete given the substantial domestic support and export subsidies provided by the EU to the agricultural sector. In the EPA context, agricultural products will also have

to compete with industrial products for the designation of sensitive products, and industrial products tend to have higher tariffs than agricultural products in the region.

Thus, if moving towards reciprocal trade with the EU is followed or accompanied by a liberalization also vis-à-vis Africa's other trading partners, and if it is undertaken in a gradual and asymmetric fashion, accompanied by correct flanking measures and specific aid for trade funds, such reciprocity can have a salutary impact on ACP producers and economies. A move towards reciprocal trade arrangements – if carefully managed – can provide an important boost to African countries' exports and economic performance.

Supply Constraints

The most salutary impact of EPAs may well be their emphasis on regional integration and trade liberalization among African countries. However, it would be remiss to view the trade elements of the EPAs as sufficient instruments for addressing the very significant supply constraints that exist in African countries. These supply constraints are particularly problematic in the agricultural sector which – unlike in Europe—is responsible for a large share of Africa's GDP, employment and export earnings. As an example, only 7% of arable land in Africa is irrigated, which compares to 10% in South America, 29% in East Asia and 41% in Southeast Asia. Africa also lags behind other regions in terms of crop yield; use of agricultural inputs such as fertilizers and machinery.²⁴ Beyond such constraints that inhibit agricultural production, Africa is also beset with constraints that lead to increased processing and marketing costs (i.e. poor and unreliable infrastructure).²⁵ There are also additional costs arising from trade liberalization, such as the loss of government revenue from import taxes that occurs when tariffs are lowered. In the EPA context, these losses can be quite substantial for those countries that import a large percentage of their imports from the EU.²⁶

The EU has been emphatic in stating that EPAs as such do not include but are accompanied by development assistance measures, but unavoidably these measures have become the subject of negotiations. The EU has a longstanding tradition of development assistance for ACP countries, provided both at a bilateral level from individual member states and jointly pooled in and channeled through the European Development Fund (EDF). Each EDF is negotiated with recipient countries and has a life span of around five years, thus providing for a donor-recipient dialogue and a long-term perspective often missing from other OECD countries' development assistance. The ninth EDF, running from 2000-2007 provided for a total of Euro 15.2 billion and the tenth EDF, to run from 2008-2013 will provide for a total of Euro 22.7 billion. Funds from the EDF are disbursed according to priorities agreed to by the EC and its ACP partners. The EU has been criticized for not disbursing funds from the EDF in a timely manner and more than 20% of EDF funds were left undisbursed at the end of the 8th and 9th EDF funding cycle.

In October 2006, the EU announced that it was willing to provide an additional Euro 2 billion per year by 2010 as "aid for trade," with Euro 1 billion coming from the member states' bilateral development programs and 1 billion from the EDF (taken from funds that were undisbursed in previous EDFs). This announcement, however, has not satisfied its negotiating partners, and the question of aid for trade continues to be a major issue in all six EPA negotiations, with some ACP groupings calling for a suspension of the talks until there is greater clarity on EU commitments.

Considering that EPAs will – despite their benefits - also bring substantial adjustment costs in ACP countries, and only offer improved market access for ACP countries if the EU agrees to widen access in sensitive agricultural products and to revise its rules of origin, it is not surprising that ACP EPA groupings have asked for the EPAs to be accompanied by significant additional funds. Although the tenth EDF does provide a greater

envelope than the ninth EDF, concerns have been raised that the overall amount is not sufficient to cover both traditional development assistance and trade-related assistance.

The ACP demands for increased trade-related assistance in the EPA context coincide with the spotlight the WTO has shone on aid for trade, most recently with the release of recommendations of its task force.²⁷ The WTO's focus on aid for trade is welcome, because it emphasizes the need for additional and targeted development assistance to help developing countries build the supply-side capacity and trade-related infrastructure to help them take advantage of new market access opportunities. Many, if not all, of the recommendations are of relevance in the EU-ACP context, most importantly the call for additional, predictable, sustainable and effective financing by donors and a commitment to country ownership and country-driven as well as regional approaches.

Considering the novel approach of the EPAs, the EU should clarify and if possible, increase its aid for trade funds for ACP EPA partners. ACP countries, however, should not only focus on quantity but also ensure quality of funds by putting forward regionally coordinated and specific requests for trade related assistance that seek to overcome supply-side constraints and as such can also help increase intra-African trade. Such requests should be formulated with the active participation of stakeholders and in particular, the private sector. Moreover, there are certainly actions that can be taken by African governments themselves so as to address some supply constraints. The emphasis that has been placed on the agricultural sector under the Comprehensive African Agricultural Development Program (CAADP) is to be applauded as it sets objectives for African governments but also calls for development assistance to be consistently provided through this Africa-led set of priorities.²⁸

Trade liberalization will, as argued above, bring important economic benefits to African countries, but of equal importance is that longstanding supply constraints be addressed. Aid for Trade, an improved and more targeted way to provide financial assistance to increase capacity building, will be helpful. However, there are also a number of policy options and choices that African policymakers can take to facilitate the participation of the private sector in new trade opportunities, and to ensure that gains from liberalization can be spread more broadly across society.

Conclusions and Recommendations

The EPA trade negotiations are indeed ambitious and broad, but will incorporate a considerable transition period and asymmetric trade opening. With or without greater clarification of SDT in WTO article XXIV, there appears to be sufficient room for flexibility for interpreting the requirement to cover "substantially all trade," in particular since developed countries engaged in FTAs have taken this requirement rather lightly themselves.

As the EU already offers quite far-reaching access to the ACP countries, the EPA's greatest benefit for Africa may thus not lie with increased exports to the EU, but rather increased trade amongst themselves. To the extent that the EPA negotiations serve to speed up regional integration in Africa, they should be quite beneficial.

Nonetheless, the EU should provide additional market access as an incentive for concluding agreements and the EU's offer to extend EBA market access to all ACP countries is a good step. To be truly meaningful, it must be accompanied by a system of revised, simpler and more development-friendly rules of origin.

There is no doubt that African countries' negotiating capacity are stretched due to the simultaneous EPA and Doha Round negotiations, but given uncertainties about the outcome of the Doha Round, they are wise to pursue both sets of negotiations. Both the EU and US are keen to pursue bilateral trade talks as a "back up" plan in case multilateral talks remain stalled, so why should the same not also hold for Africa? Trade negotiations between developed and developing countries are by definition fraught with imbalance, demonstrated in this case by the fact that EU funds are being used to pay for ACP negotiators. But to argue that it is therefore preferable not to engage in such negotiations is a mistake. Such an approach may only lead to the self-fulfilling prophecy that the future of world trade will consist of a framework of bilateral and regional trade agreements among developed and emerging market countries, with the developed and least developed countries being marginalized.

It would be equally wrong, however, to argue that a trade agreement is a sufficient instrument for overcoming a range of supply constraints which hinder signatories from taking advantage of a liberalized environment, and certainly the European integration experience demonstrates the need to take a more comprehensive approach. ACP countries are rightly concerned about entering into reciprocal trade arrangements without having the means to address serious supply side constraints. Moreover, in light of the little market access to the EU they are likely to gain, they are justifiably asking for increased funding as an incentive. Simply increasing the amount of development assistance, however, is not enough. More serious work remains to be done by both sets of partners in order to best operationalize the aid for trade concept.

Annex I

EPAs in Africa:

1. West Africa – (16) Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guineau Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo

The EC's negotiating partner for the West Africa region is ECOWAS which collaborates with UEMOA. This grouping includes all members of ECOWAS/The Community of West African States, which is a regional group of fifteen countries founded in 1975, but also includes Mauritania, which withdrew from ECOWAS in 2002 to join the Arab Maghreb Union. The main objective of forming ECOWAS was to achieve economic integration and shared development so as to form a unified economic zone in West Africa. Later on, the scope was increased to include socio-political interactions and mutual development in related spheres. ECOWAS is a FTA, with elements of trade liberalization still needing to be implemented.

This region includes the UEMOA/West African Economic and Monetary Union which was formed in 1994 and includes eight members: Benin, Burkina Faso, Ivory Coast, Mali, Niger, Senegal, Togo and Guineau Bissau (which joined in 1997). UEMOA is a customs and monetary union between some ECOWAS/Economic Community of West African states; it has a common external tariff but still retains some trade barriers among its members.

In the West Africa EPA grouping, the non-UEMOA countries decided in 1999 to adopt the same common external tariff as UEMOA countries, a process which is still being implemented. A remaining inconsistency is created by Mauritius' membership in the Arab Maghreb Union and not ECOWAS, although it is negotiating the EPA along with the ECOWAS members.

2. Central Africa – (8) Cameroon, Gabon, Equatorial Guinea, Congo Brazzaville, Democratic Republic of Congo, Chad, Central African Republic, Sao Tome e Principe

The EC's negotiating partner for the Central Africa Region is CEMAC and CEEAC/ECCAS.

CEMAC is the Communauté Economique et Monétaire de l'Afrique Centrale / The Economic and Monetary Community of Central Africa, an organization of states of Central African established to promote economic integration among countries that share a common currency, the CFA franc. It includes Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea and Gabon. CEMAC is a customs union with an established common external tariff, but still has remaining trade barriers among its members.

CEEAC is the Communauté Economique Des Etats de l'Afrique Centrale / Economic Community of Central African States (ECCAS) and constitutes a larger grouping of Central African states: Angola, Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Democratic Republic of Congo, Equatorial Guinea, Gabon, Rwanda, Sao Tomé and Principe. While there is overlapping membership in CEMAC and ECCAS, not all members of ECCAS are negotiating under the Central African grouping - only Sao Tome and Principe will be linked to CEMAC through an FTA and belong to the Central African EPA.

(On 24 January 2003, the European Union concluded a financial agreement with ECCAS and CEMAC, conditional on ECCAS and CEMAC merging into one organization, with ECCAS taking responsibility for the peace

3. Southern Africa – (7) Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland, Tanzania and more recently also South Africa

The EC's negotiating partner for the Southern African Region is SADC, the Southern Africa Regional Development Community, but does not include all members of SADC. Moreover, this grouping has members that belong to other regional groups, i.e. Angola (ECCAS), Tanzania (EAC) and Angola, Namibia and Swaziland (COMESA).

The Southern African Development Coordination Conference (SADCC) was formed in 1980 as a loose alliance of nine majority-ruled States in Southern with the main aim of coordinating development projects in order to lessen economic dependence on the then apartheid South Africa. SADCC was transformed from a coordinating conference into a Development Community (SADC) in 1992. The Member States are Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

The Southern African EPA grouping included until recently only four out of five SACU members – Botswana, Lesotho, Namibia, and Swaziland – but not South Africa, which already signed a FTA with the EU in 2000. SACU is a functioning customs union. A SADC customs union has been proposed to be established by 2010, if established, its external tariff would thus have to be aligned with that of SACU. This EPA grouping requested that South Africa become a member and after lengthy deliberations, the EU has agreed to associate South Africa with the SADC EPA grouping.

The EAC, composed of Tanzania, Kenya and Uganda, became a customs union in 2004; whereas Kenya and Uganda also belong to COMESA, Kenya does not. Moreover, Tanzania negotiates under the Southern Africa EPA, whereas the other two ECA members are negotiating under the Eastern and Southern Africa EPA.

4. Eastern and Southern Africa (ESA) – (15) Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Malawi, Mauritius, Madagascar, Rwanda, Seychelles, Sudan, Uganda, Zambia, Zimbabwe

The EC's negotiating partner for the ESA region is COMESA.

The Common Market for Eastern and Southern Africa/COMESA, established in 1993 to replace a previous preferential trade area, includes Angola, Burundi, Comoros, D.R. Congo, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. COMESA was originally scheduled to become a fully functioning Customs Union by 2004, but implementation has been delayed.

Some of COMESA's members are not participating in this EPA grouping, whereas some of this grouping's members also belong to other groupings: Kenya and Uganda are in the EAC; Burundi, DRC, Rwanda in ECCAS; Djibouti, Eritrea, Ethiopia and Kenya are in IGAD; Comoros, Madagascar, Mauritius, Seychelles in IOC; and Mauritius, Seychelles, Zambia and Zimbabwe in SADC.

Endnotes

- 1 (see page 3) This paper was finalized by Charlotte Hebebrand following discussions of a previous draft at the IPC plenary meeting held June 2-3, 2007 in Lusaka, Zambia.
- 2 For an exhaustive review of EC-ACP relations, see “The European Community and the Developing Countries” by Enzo Grilli, Cambridge University Press The EPA negotiations are taking place at the same time as the multilateral Doha Development Round negotiations.
- 3 Generalised System of Preferences – “EBA” – Everything But Arms Initiative: User’s Guide to the EU’s GSPs – Special Arrangements for Least Developed Countries
- 4 UNCTAD and UNDP Trade Negotiations and Africa Series: No.3 “Policy Issues for African Countries in Multilateral and Regional Trade Negotiations”
- 5 Some agricultural goods are not covered by Cotonou preferences because the EU’s MFN tariff is zero. Other products, however, are not covered because they are deemed sensitive, ie. malt and olive oil. Agriculture and Development in the EPA Negotiations, Swedish Board of Agriculture, December 2006.
- 6 Agriculture and Development in the EPA Negotiations, Swedish Board of Agriculture, December 2006, p.20
- 7 EC Rules of origin are set forth in Regulation (EEC) NO.2454/93, as amended by Regulations 12/97, 1602/2000 and 881/2003.
- 8 World Bank, “Africa’s Silk Road: China and India’s New Economic Frontier,” 2006
- 9 African non-oil exports to the US increased by some 144% to almost \$2b since 2000, and much of this increase is in apparel. See letter from group of businesses and NGOs to key members of Congress and the US Administration of October 5, 2006, urging them to extend the third country provision of AGOA.
- 10 Blair Commission Report, “More Trade and Fairer Trade,” p. 41. <http://www.number10.gov.uk/files/pdf/Chapter%208-final.pdf>
- 11 ODI Briefing Paper 23 “Creating Development Friendly Rules of Origin in the EU,” November 2006
- 12 World Bank Trade Note, “Economic Partnership Agreements: Does Preferential Access of Non-LDC African Countries Increase?” July 2007
- 13 FAO Regional integration and food security in developing countries - <http://www.fao.org/docrep/004/y4793e/y4793e0a.htm>
- 14 UN ECA – Assessing Regional Integration in Africa, 2004
- 15 Cato Institute Policy Analysis “Trade Liberalization and Poverty Reduction in Sub-Saharan Africa,” by Marian L Tupy
- 16 Midterm Review of the Economic Partnership Agreements: Independent contribution of the regional networks of farmers’ organizations – http://www.bilaterals.org/article.php3?id_article=6812
- 17 Leading Ministers of ACP states criticize EPA process, content by Martin Khor, Brussels, 14 Oct 2006
- 18 IPC Issue Brief June 2005 “Building on the July Framework Agreement: Options for Agriculture”
- 19 Overview of the Cotonou Agreement http://ec.europa.eu/comm/development/body/cotonou/overview_en.htm
- 20 USDA’s Economic Research Services has prepared a report on “Agricultural Trade Preferences and the Developing Countries,” which provides an overview of the EU and US programs and their impact, May 2005
- 21 For more on trade liberalization, in particular in agriculture, see IPC Issue Brief 14 “Making Agricultural Reform Work for the Poor,” June 2005
- 22 European Commission, “Economic Partnership Agreements – Means and Objectives”
- 23 Midterm Review of the Economic Partnership Agreements: Independent contribution of the regional networks of farmers’ organizations – http://www.bilaterals.org/article.php3?id_article=6812
- 24 For an overview of such constraints in the agricultural sector in Africa, see <http://www.agritrade.org/events/speeches/zambia/Mkandawire.pdf>
- 25 A good overview of such constraints is provided in the FAO Agrifood Systems Brief “Overcoming Constraints to Agricultural Exports”
- 26 The Oxfam report “Unequal Partners: How EU-ACP Partnership Agreements (EPAs) could harm the development prospects of many of the world’s poorest countries,” points out that in the worst-case scenario, Gambia and Cape Verde stand to lose nearly 20 percent of their total government revenue.
- 27 WT/AFT/1 27 July 2006 Recommendations of the Task Force on Aid for Trade
- 28 For more on CAADP, please see http://www.agritrade.org/events/strengthening_african_markets.html

About IPC

The International Food & Agricultural Trade Policy Council (IPC) promotes a more open and equitable global food system by pursuing pragmatic trade and development policies in food and agriculture to meet the world's growing needs. IPC convenes influential policymakers, agribusiness executives, farm leaders, and academics from developed and developing countries to clarify complex issues, build consensus, and advocate policies to decision-makers.