

Economic Partnership Agreements between Africa and the EU: What to do now?

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Background

As the Lome-Cotonou agreements governing Africa-EU trade since 1975 were about to expire, and after five years of slow and contentious negotiations, the EU adopted a more flexible stance towards negotiating Economic Partnership Agreements (EPAs) in the last months of 2007. This resulted in 18 African countries signing interim EPAs.¹ These interim EPAs provide for WTO-compliant reciprocal liberalization of merchandise trade. In addition, negotiations towards full EPAs have continued in 2008 (focused on regional trade integration, service trade, foreign direct investment, and trade-related regulations). A recent Bank study (*“Economic Partnership Agreements between Africa and the EU: What to do now?”*) considers the extent to which EPAs will help to accelerate export growth and diversification in Africa. It aims to help inform the implementation of interim EPAs and further negotiations of full EPAs.

Summary of Findings

Interim EPAs have prevented a loss in market access, but by themselves are unlikely to provide a platform for improved export performance. In compliance with WTO rules, the interim EPAs provide the African signatories immediate tariff-free, quota-free access to EU markets for goods (with transition periods for rice and sugar until 2010 and 2015, respectively) combined with less restrictive rules-of-origin (RoO) provisions for clothing than prevailed under the Cotonou Agreement. EPA-signatories are required to reciprocate by gradually providing tariff-free access to their own markets for 80-85% of EU exports in no more than fifteen years. The combination of interim EPAs (for 18 African countries) and the EU’s EBA and GSP programs (for other countries) will ensure Africa maintains preferential access to the EU market and avoid significant disruption of current Africa-EU trade. However, they do not improve market access for LDCs (with a notable exception more liberal RoO for clothing) nor do they help to address supply side constraints. Consequently, in the absence of further measures, there is little reason to expect that export performance will improve.

To avoid potential negative effects of interim EPAs, actions are needed by both African governments and their development partners. The preferential elimination of tariffs on imports from the EU under interim EPAs could lead to distorted tariff structures, some trade diversion and monopolistic pricing, a reinforced pattern of “hub-and-spoke” trade between the EPA signatories and the EU, and some losses of tariff revenues. To avoid such negative effects, EPA-signatories need to unilaterally (or regionally, in case of customs unions) reduce tariffs on imports from all countries. To compensate for lower tariff revenues, EPA-signatories also need to take actions now to strengthen their domestic revenue systems. In addition, the EC, its member countries, and other development partners will need to ensure adequate external support for the necessary in-country reforms.

The most important remaining market access issue is restrictive and complicated rules of origin, which seriously limit the benefits of the tariff-free, quota-free market access provided under interim EPAs. To improve the potential development impact of EPAs, on its side, the EU should

¹ Fifteen of the 18 countries also fall within regional framework-EPAs initialed by the EAC (Kenya, Burundi, Rwanda, Tanzania and Uganda), ESA (Comoros, Madagascar, Mauritius, Seychelles and Zimbabwe), and SADC (Botswana, Lesotho, Namibia, Mozambique and Swaziland) EPA-groups. The remaining three interim EPAs are free-standing, country-specific EPAs signed by Cameroon, Côte d’Ivoire, and Ghana. A nineteenth country, Zambia, initialed an interim EPA in October 2008.

simplify its rules-of-origin and make them less restrictive by eliminating all of its complex product-specific rules of origin and adopting, instead, a uniform change-of-tariff heading or 10% value-added rule.

Without addressing supply-side and competitiveness constraints, African countries will not be able to take advantage of improved market access to accelerate growth and diversify exports. Examples of the general types of complementary reforms needed at the country level to spark a strong supply response include improvements in the business climate, investments in infrastructure, and liberalization of trade in services. Most of the reforms necessary to provoke a strong supply response require unilateral domestic actions, and each EPA-signatory will need to work out its own country-specific reform program.

Full EPAs, currently under negotiation, can provide an opportunity to advance regional trade integration. However, a radical departure from past decades' emphasis on unsuccessful inward-looking common regional trade policies will be required to take advantage of this opportunity. Since international trade is, and will remain, much more important than intra-continental trade for Africa, regional integration policies need to be outward-oriented; and supporting the expansion and diversification of international trade should be a primary objective of regional integration efforts. The essential components of a such open trade policies are elimination of protectionist NTBs, reductions in MFN tariffs, trade facilitation, and effective implementation of measures (such as export processing zones) to ensure that exporters have ready access to competitively-priced duty-free inputs. The priority for regional trade policy will also need to be on phased implementation of truly free intra-African trade. In addition, because of the wide differences among the members of the various EPA-groups in trade interests, trade policies, and political readiness to liberalize, continuation of the flexible variable-geometry approach to EPAs adopted in 2007 will also be essential.

Full EPAs also provide an opportunity to address issues concerning trade in services and investment. Because of the underdeveloped start of the service sector in most African economies, the most important gains from liberalization of services trade are likely to come from the liberalization on the import side rather than the export side. In fact, liberalization of foreign direct investment in service sectors (such as finance, telecommunications, transport, and energy) offers the largest potential for generating efficiency gains that are needed for increasing the competitiveness of Africa's merchandise exports and its economies more generally. Inclusion of trade in services and investment in full EPAs could provide an important opportunity for participating countries to liberalize their service sectors and investment regimes globally and regionally.

For countries negotiating full EPAs, and additional ones considering entering into interim EPAs, the main benefits will come from using these to accelerate domestic reforms needed for faster global and regional trade integration. The usefulness of EPAs in each country will depend upon the priority for each country of the trade-related reforms and its willingness and capacity to implement these reforms. For countries where catalyzing trade-related and investment climate reforms is a priority, full EPAs could provide a significant opportunity to accelerate, deepen, and lock-in useful reforms affecting regional trade integration, trade in services, and the regulatory framework as well as merchandise trade. On the other hand, for countries where such reforms are not a priority, reliance on the EBA program, an existing interim EPA, or GSP for access to the EU market would maintain current market access but miss the opportunity for leveraging reforms and accelerating growth.