

The emerging picture on EPAs

Although 35 ACP states initialled Economic Partnership Agreements (EPAs) almost a year ago, the negotiations continue. Enough is now known to identify the main changes and plot their likely impact. But this will require country-specific analysis because much depends both on the detail of what each state has agreed and how this relates to its existing and planned policies.

At the end of 2007 Economic Partnership Agreements (EPAs) with the EU were initialled by 35 countries from the Africa, Caribbean and Pacific (ACP) Group. They did so in seven negotiating groups (see Box below). Since then one more country (Zambia) has initialled. On 15 October 2008 most of the 15 members of the Caribbean Community (CARIFORUM) followed up with signature – the next step in the approval process. A similar step by at least some of the other initialising states is likely within the next few months.

EPA impact will be set by the details

What impact will these EPAs have on development? This very good question is surprisingly difficult to answer. This is because:

- the impact of agreements like the EPAs depends critically on the ‘small print’ – precisely what will change and when;
- these details become clear only right at the end of the negotiations; and
- negotiations typically overrun, precisely because it is the final rounds that determine the impact.

Like most other such negotiations, those on the EPAs have overrun – but in a way that is not immediately apparent. The deadline for initialising full or

interim EPAs was the end of 2007, and this was largely met in two senses: at least one country in each region initialled; and the EU has withdrawn Cotonou trade preferences for its imports from the countries that did not initial. Because of the change to EU preferences the ACP countries now fall into one of three groups.

The states that initialled EPAs have received since 1 January 2008 duty free and quota free (DFQF) access to the European market under modestly improved rules of origin. This is an autonomous act by the EU which will be made contractual once the EPAs are signed and ratified – but by the same token can be withdrawn from countries that do not proceed to full approval of the agreement. The states that did not initial are subject to the ‘most favoura-

ble alternative regime’ for their exports to the EU, which is of two kinds (see Box on page 37).

Although the 2007 deadline was met, the negotiations have continued in two ways. First, talks have continued with countries that did not initial. Although Zambia is the only ‘new initialler’ so far, there may be others. Second, just because the agreements were initialled it does not mean that they were full and complete. In fact, the negotiations on details (and some major points of principle) have continued throughout 2008 and are still ongoing in all the regions except CARIFORUM.

Although six of the seven EPAs are still incomplete, a picture is beginning to emerge about their potential development impact. Analysts have been

The negotiation framework

The ACP negotiated in seven groups: the Caribbean Community (CARIFORUM), West Africa (ECOWAS), Central Africa (CEMAC), the East African Community (EAC), Eastern and Southern Africa (ESA), Southern Africa (SADC), and the Pacific ACP states (PACP). The timetable for negotiation was set out in the Cotonou Partnership Agreement (CPA) signed in 2000. This specified that a new trade regime would be in place by the end of 2007. This commitment was given further force when the EU obtained a WTO waiver to continue the pre-existing trade regime – but only up to the end of 2007.

Accordingly, there was considerable pressure on all parties to complete agreements by this deadline. Since most of the negotiations apart from those in CARIFORUM were running well behind schedule a compromise was reached. It was agreed that only *interim* EPAs had to be concluded by the deadline. These would not need to include detailed provisions on trade in services, on investment or on government procurement (all contentious issues), but they would need to include full provisions on trade in goods.

The proportion of countries in each region initialising by end 2007 ranged from a high of 100 percent for CARIFORUM and EAC to lows of 12.5 percent for ECOWAS and CEMAC. The tally as at January 2008 stood at: CARIFORUM: 15 out of 15 members; ECOWAS: 2 out of 16; CEMAC: 1 out of 8; EAC: 5 out of 5; ESA: 5 out of 11; SADC: 5 out of 7; and PACP: 2 out of 14.

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able to study the agreements initialled in 2007 and the emerging picture will change only to the extent that these texts are amended in critical areas during the final phase of negotiations.

The five routes to EPA impact

The EPA debate has been heated and controversial, and the protagonists disagree over the likely impact. For supporters EPAs are an instrument to foster regional integration and to bring ACP countries more fully and productively into the world economy. For critics they risk creating regional barriers, removing the 'policy space' countries need to develop, result in a fall in government revenue and expose poor producers to competition (possibly subsidised in some cases) from EU goods.

The impact of tariff removal.

Whether good or bad, the EPA effect will be channelled along five routes. Three of these derive from the fact that EPAs include a free trade agreement in which all parties remove most tariffs on imports from the others. The EU has already removed tariffs on all imports from EPA members apart from rice and sugar which will be phased out over the period to 2010 and 2015 respectively. This could give a boost to some existing exports (with grapes, rice, and beef seeing the greatest gain) and help countries to diversify their exports.

For their part the ACP will remove tariffs on 'substantially all' imports over a transition period. Tariffs are a tax on imports; if they are removed *and* if

Farmers in Kenya weigh the freshly picked tea leaves. In 2008, the tea harvest reached 370 million kilogrammes.



Photo: dpa-picture alliance

this tax cut is passed on to consumers, prices will fall on the domestic market of the ACP states. This will produce gains for consumers (including producers who use imports as production inputs) but increase competition for producers of similar goods. The scale of this effect will depend on how high the tariffs are now and how quickly they will be removed. High tariffs removed fast will produce much quicker effects than moderate tariffs removed over many years.

The EPAs vary sharply in the proportion of imports that will be liberalised and how fast the process will be completed. Only the EAC countries have agreed identical tariff cuts. In all other cases, each country has its own unique

tariff liberalisation schedule – even in the Caribbean despite its pre-existing customs union and single market. Many countries had to start removing tariffs during 2008 (or on signature) – but for EAC and most ESA states liberalisation does not begin for six or more years. For many countries, the implementation period for removing tariffs is 15 years, but for EAC it is 20 years and for CARIFORUM 25 years. The proportion of imports that will be liberalised by the time implementation is complete ranges from under 80 percent to over 90 percent. It seems that the details of the EPAs has depended more on what each country could negotiate than any objective 'development criterion' – with the better organised (and usually richer) states having to make fewer changes more slowly than the others.

The speed of liberalisation is particularly important because tariffs are taxes. Their removal will reduce Government revenue, which is the third tariff-related route for EPA influence. Tariffs are a particularly important source of revenue in poor countries because they are relatively easy to collect. Other taxes may well be economically more efficient but the cost and effectiveness of collection is likely to be lower. So

The trade regime outside EPAs

Most of the countries that did not initial are less developed countries (LDCs). They continue to receive highly preferential access to the EU market because their 'next most favourable' regime is the Everything but Arms (EBA) provisions. South Africa, too, has continued to export on an unchanged basis despite not initialling the SADC EPA since it is covered by its bilateral Trade Development and Co-operation Agreement with the EU.

The small number of countries that are not LDCs and have no bilateral trade agreement with the EU have faced the withdrawal of deep preferences. But they are countries that, in the main, export to the EU only goods facing low non preferential tariffs, although most have faced moderately high tariffs on a small number of exports.

Zusammenfassung

Zwar haben 35 AKP-Staaten vor fast einem Jahr so genannte EPAs (Economic Partnership Agreements – Wirtschaftliche Partnerschaftvereinbarungen) unterzeichnet, dennoch gehen die Verhandlungen weiter. Heute stehen genug Informationen zur Verfügung, um die wichtigsten Veränderungen zu erkennen und ihre wahrscheinliche Wirkung abschätzen zu können. Dies erfordert jedoch länderspezifische Analysen, weil viel davon abhängt, was jedes Land vereinbart hat und wie diese Vereinbarung in seiner aktuellen und künftigen Politik umgesetzt wird. Die EPAs sind sehr unterschiedlich in Umfang und Zeitplan, und diese Unterschiede zeigen deutlicher als jedes objektive Entwicklungskriterium, was jedes Land aushandeln könnte. Die tatsächliche Wirkung

wird ferner davon abhängen, inwieweit die aktuellen und künftigen Regierungspolitiken durch die EPA-Vereinbarungen beeinflusst werden – und inwieweit neue EPA-kompatible Wege gefunden werden, um zu den gleichen Zielen zu gelangen (z. B. der Ersatz von Gebühren durch andere Einnahmequellen für die Regierungen). Es gibt bereits einige Fallstudien, weitere sind jedoch erforderlich.

Resumen

Si bien 35 estados de Asia, Caribe y Pacífico (ACP) han suscrito Acuerdos de Cooperación Económica (EPA por sus siglas en inglés) hace casi un año, las negociaciones continúan. Mientras tanto, los conocimientos logrados permiten identificar los cambios principales y calcular su impacto probable. Pero esto requerirá un análisis específico para cada

país, porque mucho depende de los aspectos de detalle acordados por cada estado y de cómo se relacionan con las políticas existentes y planificadas. Existen muchas diferencias entre el alcance y los plazos de los EPA, las cuales en realidad reflejan más bien lo que cada país estuvo en condiciones de negociar que un “criterio de desarrollo” objetivo. A ello se agrega que el impacto real dependerá del grado en que las disposiciones de los EPA restrinjan las políticas gubernamentales existentes y planificadas – y del espacio existente para hallar nuevos caminos, consistentes con los EPA, para lograr las mismas metas (tales como reemplazar los aranceles por otras fuentes de ingresos gubernamentales). Ya se cuenta con algunos estudios de caso, pero se requiere un mayor número de análisis.

it will take time (and money) to put in place alternative taxes.

Differences in the scale and speed of liberalisation are one reason why the likely impact of an EPA will need to be assessed on a country by country basis. Another is that the competitiveness of domestic markets (which varies) will determine how far any tariff cuts are passed on as lower prices or pocketed by exporters, importers or other intermediaries. And the ability of governments to raise alternative taxes also varies. Island economies will generally find it easier than the landlocked to switch to a sales tax, for example, because so many goods are imported (and can have the tax imposed on arrival by the customs).

The impact of other EPA provisions on goods. Even more country-specific, though, are the two other routes for EPA impact. The agreements include a large number of other ‘rules’ (prohibiting, for example, some intra-regional trade controls and phasing out the rest, and time limiting protection for specific sectors). The impact of these rules will depend on the extent to which they restrict existing and planned government policies – and the scope that

exists to find new, EPA-consistent ways to achieve the same ends. In regions containing one or more dominant economies, for example, such as SADC and CARIFORUM, some of the existing, mutually agreed arrangements allowing the smaller states to protect themselves are disallowed by the EPA.

Finally, and most imponderable, will be the effect of the controversial ‘most favoured nation’ (MFN) clause. This requires each party to extend to the others any better treatment that it grants to a third party in a future trade agreement. The MFN clause works in both directions. So if, for example, the EU agrees in a future trade agreement with a near neighbour or an Asian state to less onerous rules of origin it will have to extend these also to the EPA states.

Moreover, at its May 2008 meeting the European Council indicated that the MFN clause should also apply between EPAs i.e. that countries could ‘borrow’ more favourable features from other EPAs. At the same time, critics argue that the clause will make it difficult for ACP states to conclude favourable trade deals with other developing countries. The counter-argument is that

such South-South deals might not be subject to the MFN clause – but since this is unclear it cuts little ice with the critics. The countries most likely to be affected soon are those in the Pacific and the CARIFORUM regions. The former are likely to have to negotiate with Australia and New Zealand trade deals that take the EPA as a starting point, whilst the latter face the same prospect with USA and Canada.

What's next

The EPAs are still ‘work in progress’. Only the CARIFORUM accord covers all the issues on the agenda, but implementation is especially long drawn out and the main effects will start to be felt only by about 2015. In the other regions it is still uncertain whether all the states that initialled will sign – or whether some that did not will come on board. Implementation timetables in some regions are short. The impact in all regions will depend on the circumstances in each state. So it is important that a start is made soon on more country-specific studies now that the main features of the deal are known. There have already been a few case studies – but not enough.