Economic Partnership Agreements: Questions and Answers

1. What do Africa, Caribbean and Pacific countries gain from Economic Partnership Agreements?

Put simply, after more than thirty years of bilateral trade with Europe, the ACP still exports just a few basic commodities, most of which fetch lower prices than they did twenty years ago. Old recipes have not promoted diversification, competitiveness, growth. And they are no longer compatible with WTO rules on non-discrimination and have been successfully challenged. New solutions are necessary and urgent.

The EU's Economic Partnership Agreements are the agreements that the EU is negotiating with the six African Caribbean and Pacific regions that will replace the trade chapters of the Cotonou Agreement when the trade preferences of this agreement expire in 2008. We have until that date to negotiate new agreements that are WTO compatible.

The EPAs are intended to be broad agreements, helping first of all to build regional markets and diversify economies in the ACP regions before opening up trade to build increased, balanced and sustainable trade between the two regions. They will change our relationship, from one that offers tariff preferences - an eroding lifeline - to one that builds lasting and more efficient regional and international markets for the ACP.

2. Why should regional agreements work any better than the existing arrangements?

Regional integration is at the heart of the ACP's own development strategies. The fact is that ACP economies are too small to go it alone and most trade more with Europe than they do with their neighbours and more duties are paid on developing countries exports to other developing countries than to OECD countries. This means that regional integration has potential to boost local trade and create larger markets to attract trade and investment. Most ACP countries currently depend on their exports to the EU. Take the case of Ghana: 49% of their exports go to the EU, exports to its neighbour Benin only accounts for 2.6%. In Cameroon, 61% of exports go to the EU, and 55% of imports come from the EU. Eliminating barriers between neighbouring countries and creating real integration would favour trade exchanges and boost economic growth. It would also create bigger markets more attractive to investors and would facilitate trade with landlocked countries.

Where an ACP region is preparing for a customs union, as the West and Central Africa, this will boost the potential of the EPA. Otherwise, the European Union does not push for customs union to be formed if the countries are not considering or not ready for it.

3. Why ask ACP regions to liberalise their tariffs?

We will negotiate the tariff reductions necessary for a WTO compatible Free Trade Agreement but this has to be on the basis of mutual agreement, not EU imposition.

ACP countries and the EU have already agreed to revamp their trade relations and progressively remove barriers to trade between them. This is necessary to stop ACP marginalisation and contribute to ACP growth and poverty eradication. It is also a prerequisite if ACP-EU trade relations are to be legally secure by being compatible with World Trade Organisation rules on non-discrimination.

The backdrop of this is that most of ACP exports to the EU already enter into Europe at zero tariff duty under a preferential treatment. EU products exported into the ACP, on the other hand, do not benefit from the same treatment. Obtaining such access to ACP markets is not an EU interest; the EU seeks only the treatment necessary to comply with WTO rules. Nevertheless, the experience seen in emerging economies in Asia also shows that a progressive and targeted reduction of customs tariffs benefits consumers and companies (that need cheaper machinery, raw materials and parts for assembly) and local products become more competitive when exposed to well designed foreign competition.

The European Union has never proposed either a total elimination of tariffs, nor that ACP should open their markets as widely or as the EU has already done nor at reckless speed. It has also never proposed that the lowest applied rates by any ACP state become the basis for regional liberalisation, or for a single external tariff.

On the contrary, the EU has clearly said that long transition periods, a phased introduction of tariff dismantling, exemptions from liberalisation for sensitive products and a strong asymmetry between EU and ACP opening are perfectly acceptable and reasonable.

4. How will the ACP replace the revenues they lose by reducing tariffs and continue to pay for public services?

This question is not as acute as some would have it and answers are available. Replacing customs tariffs by other sources of fiscal revenue is a reform most countries have made because other fiscal revenues are more efficient both for the economy as a whole and the government.

A much better long term solution is to shift dependence from tariff revenues to fiscal revenues (through excise duties, sales taxes or taxes on revenues) but also by increasing the tax base through boosting trade and economic growth. These other forms of taxes are a more sustainable tax base to finance much needed basic social services such as health and education.

Some studies have overestimated the impact of tariff reduction on fiscal revenues, without considering other aspects. The assumption of rapid liberalisation on the ACP side is clearly mistaken. Current high tariffs encourage smuggling and corruption, and theoretical revenues are often lost through derogations and irregularities. Lower tariffs would reduce the incentive for these practises. Customs revenues would also increase by an increase in trade and these benefits would largely compensate the initial losses.

This said, the EU is ready to assist with fiscal reform and adjustment to any net fiscal losses observed as a result of EPAs and has the means to do so. We have increased our budget support, which is the most appropriate way to assist in this transition. We are also ready to discuss regional financing mechanisms to that effect.

5. Why should EPAs include rules related to investment?

Asia and Latin America are channelling foreign investment into the infrastructure and job creation their developing economies need. The October 2006 UNCTAD report on global investment in developing countries highlighted the extent to which Sub Saharan Africa in particular is falling far behind the rest of the developing world in attracting the foreign investment that is vital for development. Africa in particular is trapped by barriers to inward investment, nationalised industrial fiefdoms and fractured regional markets. Africa's own investors choose to invest outside of the continent.

One of the key ambitions of the Economic Partnership Agreements is precisely the creation of integrated regional markets that will help attract inward investment and keep African investment from flying abroad. The EU is prepared to help improving conditions in these economies for inward investment: clearer rules and rights for all companies. Policy frameworks at regional level will further help consolidating national markets and make them individually and collectively more attractive.

The UNCTAD report offers the clearest argument why EPA are a pro-development agenda. Those who dismiss the EU's position in these negotiations as 'forcing open' these markets to unwanted EU investment misrepresent the EU's intentions

6. What are the timeframes for liberalisation?

The European Union is not pushing a simple ‘liberalisation’ agenda. The EPAs aim at long transition periods for the ACP (certainly more than the 12 years used in other agreements) and will maintain exceptions for sensitive products – exceptions that Peter Mandelson has said he will defend in the WTO if necessary. Studies and experience show clear economic evidence that regional integration and trade liberalisation between the ACP countries themselves brings clear economic benefits.

The idea that ACP countries are always threatened by imports is mistaken. In any case, it is healthy for countries, including developing economies, to take in new imports. These can be the very inputs necessary for local producers to develop and diversify away from the current dependence on commodities and into areas such as value-added industries.

Although the EU is often accused of having an aggressive liberalisation agenda in ACP markets it is important to bear in mind that the EU exports to ACP markets represent a tiny fraction of its external trade, and most agricultural goods from the EU already enter at low or zero tariff rates. It has no mercantilist agenda in these markets. We have made clear that we will remove export subsidies on any product where the ACP removes tariffs.

7. Does the alternative to Cotonou have to be EPAs?

In theory, no. But there is simply no alternative that offers either the same development benefits or can improve on ACP market access to Europe. The WTO waiver covering the Cotonou preferences expires on 31st December 2007 and the EU can no longer continue these trade arrangements. This is one reason the ACP and EU agreed in the Cotonou agreement itself that EPAs are the best option. In the event any Least Developed Countries decides not to sign an EPA they can benefit from EBA but would lose out on all the regional integration benefits of EPAs. The EU gave a commitment to consider alternatives for any non Least Developed Country that indicated they would not sign an EPA. However, no country actually requested this and all continue to negotiate EPAs.

8. Will ACP countries get any more Aid for Trade money?

The ACP countries already benefit from substantial assistance through the European Development Fund and the EU budget: €1.6 billion over the period 2001-2005.

On October 16 EU Ministers agreed to prepare a strategy setting out the delivery of €2 billion per year of further aid by 2010 to help developing countries put in place new trade policies to boost their growth and help them integrate into global markets. Very significantly, they agreed that a substantial part of this increase in aid will be specifically targeted to African Caribbean and Pacific countries, with a priority given to measures that help put in place Economic Partnership Agreements.

The money will be available to help countries prepare new structural reforms and trade policies, adjust to the changes they bring and enhance infrastructure and competitiveness to seize trade opportunities. It will be delivered through a combination of international partnerships, EU and Member States' development programmes.

9. Could we extend the Cotonou Waiver?

There is no realistic alternative to EPAs that *has the same content and potential*.

If we fail to put a new system in place we would have to fall back on the only legal alternative which is the EU's existing Generalised System of Preferences: this is tariff only with less generous access than under Cotonou for many and no economic governance framework. For the West Africa region, for example, more than €1 billion of trade would potentially be lost, as the average tariff to be paid under GSP is in average 20%. 36% of today exports from Ivory Coast (€700 million) would face a tariff of 27% against 0% under Cotonou and EPAs, for Ghana it is 25% of exports (€240 million). For Central Africa, about €360 millions of exports would potentially be lost.

Could we not negotiate with other WTO members to extend the existing waiver beyond seven years? In practice, this would be extremely unlikely. The WTO waiver for the EPAs to be negotiated was obtained on a time-limited basis. Extending it is not an option. The idea of a new waiver sometimes comes up. But those who know the WTO will know that it's far from clear we could even obtain a new waiver. It wasn't in the deal at Doha in 2000. Non-ACP developing countries, some of whom are actually poorer than some ACP countries, already resent the favourable discriminatory benefits we provide the ACP.

The original Cotonou waiver was only secured by agreeing to cuts in the preferential access granted to ACP countries. If we were to obtain a new waiver extension a hefty price would be paid in the form of further ACP preference erosion. The best we could hope for would be to secure more years of a failing agreement and we would secure it on weaker terms, with ACP countries paying the long term price.

More information on EPAs:
http://ec.europa.eu/comm/trade/issues/bilateral/regions/acp/regneg_en.htm

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