

The real costs and benefits of EPAs

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Key facts:

- The EC's offer to open up its markets to ACP imports would only improve conditions for a paltry 0.46% of ACP exports to the EU, but ACP markets would have to open up significantly netting EU exporters \$1.9 billion in West Africa alone.
- The EC isn't addressing the real barriers to ACP trade that are costing them millions of dollars in foregone earnings. Exacting EU standards raise costs for ACP exporters by around 2-10%. 57% of African exporters surveyed in 1998 reported goods refused entry after border inspections.ⁱ
- Ghana will lose out on \$23 million of trade with its West African neighbours, if it opens up trade with the EU at the same time as to its regional partners.
- Zambia's options are to lose \$15.8 million in government revenue, equivalent to its annual HIV/AIDS spending or to lose its membership of its regional market or to force one of its neighbours to bear the brunt of adjustment.
- The government of Burundi stands to lose \$7.6 million in revenue, this translates to one less dollar per head of the population that could potentially have been spent on education or healthcare.
- Contrary to the EC's claims, it is questionable that there will be sufficient money to foot the €9.2 billion adjustment bill to successfully implement EPAs. It would also require a radical improvement in EC aid delivery and effectiveness.
- No amount of funding would ever compensate for countries being forced into arbitrary timetables and targets for opening their markets. Christian Aid has estimated that two decades of inappropriate liberalisation cost Africa \$272 billion, roughly what it has received in aid over the same periodⁱⁱ.

Background brief:

The ACP will give more, the EU will gain more

The European Commission (EC) recently announced that, under EPAs, they would give all ACP exporters tariff and quota free access to European markets.ⁱⁱⁱ

For 36 of the 76 ACP countries negotiating EPAs, this access is already available to them under the EU's "Everything but Arms" initiative for least developed countries. For the remaining non-LDCs currently exporting under Cotonou preferences, an EBA that continues to exclude bananas and sugar would improve access for only 0.46% of current exports^{iv}. Whilst for individual ACP industries these gains can be significant, for example Namibia could earn an extra \$2-6 million from increased exports of seedless grapes, this is clearly not a high-cost offer for the EU.

The value of the EU offer is even less when you consider that it will not tackle the real problems stopping ACP exports reaching European markets – exacting standards and other non tariff barriers, such as rules of origin. Rules of origin determine where countries can source parts and materials for their exports, and how much processing needs to be done in the country before they can qualify as being “made in the ACP” and thus eligible for more favourable tariff treatment. A telling example is the textiles sector. US rules require African countries to only complete one stage of processing before they get special treatment under the AGOA scheme. African countries have been able to use this arrangement to increase their textile exports to the US by 250% (from \$600 to \$1500 million) between 2000 and 2005, creating thousands of new jobs in Lesotho and Swaziland. By contrast, the equivalent EU scheme has seen Lesotho’s exports of clothing to the EU virtually cease.

Whilst the EC’s offer is not high cost, in order for it to remain on the table, the ACP will need to open their markets to EU imports to a significant degree. A likely scenario is that ACP countries will need to eliminate tariffs on around 80% of imports from the EU^v. This will be at high cost to their own economies, to the detriment of ACP efforts to develop strong regional markets and to the considerable benefit of European firms.

- In the Eastern and Southern Africa (ESA) region, member countries stand to lose US\$212million worth of trade with each other, while the EU will increase its exports to the region by \$1.1 billion.
- In West Africa, Ghana’s exports to countries in the region will decline by \$23 million, whilst EU countries will benefit from increased exports of more than \$1.9 billion.

This diversion of trade and its benefits to the EU over regional partners undermines the development of strong regional markets which is a key development strategy of ACP regions and a stated objective of the Cotonou Agreement. Regional integration allows ACP countries to benefit from economies of scale, encourages more investment, makes feasible joint infrastructure and industrial development projects, to name just a few of the benefits that will be foregone under EPAs.

The EC claims that it will allow sufficient flexibility for ACP countries to liberalise their regional markets before opening up to the EU, but studies show that flexibility would need to be much greater for every country in the region to avoid the risks associated with tariff elimination of lost government revenue or of jeopardizing sensitive sectors important to employment and food security, for example^{vi}.

These costs of liberalisation can be extremely high

Many ACP governments earn a significant proportion of their revenue from imposing tariffs on imports. African governments rely on import taxes for an average of 25% of their revenues^{vii}. For them losing tariffs will literally mean losing money. The hardest hit will be those who trade most with the EU – Nigeria for example will lose \$427 million – and those who still have high tariffs – Cameroon will lose \$149 million^{viii}.

Even, the significance of smaller losses must be put into context:

- Zambia's potential deficit of \$15.8 million is enough to cover the government's annual spending on HIV/AIDS or to secure the livelihoods of the 8.8 million Zambians who live on less than two dollars a day.
- Malawi's tax loss of \$7 million is almost enough to cover the budget allocation on pro-poor agriculture initiatives to support over 10 million Malawian farmers.
- Mozambique's revenue reduction of \$7.6 million coupled with increased EU imports will worsen both the current account and state deficit of the country.
- \$7.6 million might not seem a dramatic loss for Burundi's government, but this translates to one less dollar per head of the population that could potentially have been spent on education or healthcare.

IMF research has shown that it is difficult for countries to replace this revenue through reforming their tax regimes^x As the foreseen 10-15 year transition period for tariff reduction provides little time to set up new systems and enforcement measures, major fiscal imbalances or savage cuts in spending will result from EPAs.

Experience of liberalisation in Africa under structural adjustment in the 1980s and 1990s demonstrates other significant costs associated with market opening without sufficient flexibility to tailor the pacing and sequencing of liberalisation to development progress and local development strategies.

Can the EU cover the costs of EPAs?

All trade agreements, even good ones, carry costs:

- to finance the changes to laws and institutions required for their implementation,
- to help cope with adjustment such as workers retraining for new jobs or inefficient factories close to be replaced by new ones, and
- to help exporters and producers take advantage of new opportunities overseas.

Nearly all governments set aside money to finance this adjustment. The EU recently announced a globalisation fund of €500 million per year just to help workers made redundant because of the "increased openness" of the EU to global trade to look for new jobs or entrepreneurial opportunities and to retrain.

These costs are higher for ACP countries, as their adjustment is greater, their economies are less able to cope with shocks and any costs are greater in proportion to their limited financial resources.

The EU has promised the ACP that it will provide adequate financial resources to fund EPA-related adjustments. The ACP have rightly disputed this.

Under the 10th EDF, €22.7 billion has been earmarked for the ACP. However, €21.3 billion is already needed to fund the costs of the existing aid portfolio^x. The EU member states have pledged a further €1 billion for "aid for trade", the majority of which would be directed to the ACP. An OECD study has pointed out that aid for trade commitments are not additional to previous pledges^{xi}. All this makes clear that

if any more money is forthcoming to finance EPA adjustment, it will necessarily be diverted from other areas of spending or other countries.

According to the Commonwealth Secretariat, the overall minimal cost of EPA adjustment will be around €9.2 billion over ten years. The majority (€5.5 billion) of this would also need to be delivered early on, within the first five years after signing of EPAs.

Even if we could conclude that there would be sufficient funds to cover EPA adjustment, it would still be necessary to radically overhaul the timing and effectiveness of EC aid. It has been calculated that funds from the 9th EDF to Botswana, Lesotho and Swaziland would at best be disbursed by 2013. This money was in theory available in 2000, the same year as the signing of the EU's trade deal with South Africa which would have had serious implications for the trade conditions of these countries.

Another telling example is the EC funding of a fiscal restructuring programme in Swaziland which aimed to help the government reduce its dependence on tariff revenue and diversify its tax base. In the first four years of implementation: dependence on tariff receipts actually increased. The creation of a single revenue authority and introduction of a VAT system was running more than 2 years behind schedule).^{xii}

ⁱ "Impact of Sanitary and Phytosanitary Measures in Developing Countries", Henson, Loader, Swinbank, Bredahl, Lux, University of Reading, 2000

ⁱⁱ "The economics of failure: The real cost of 'free' trade for poor countries", Christian Aid, June 2005

ⁱⁱⁱ "EU offers full market access to Africa, Caribbean and Pacific regions in EPAs negotiations" presse release, Brussels, 4 April 2007 http://ec.europa.eu/trade/issues/bilateral/regions/acp/pr040407_en.htm

^{iv} EC memo to Article 133 Committee "Economic Partnership Agreements: Key Political Issues and Background" Brussels 25 October 2006

^v UNECA Regional Integration Study 2006 referenced in Perez (2006) – "Are Economic Partnership Agreements a first-best optimum for the African Caribbean and Pacific Countries?"

^{vi} UNECA estimates that ACP regions would need to be able to maintain tariffs on 40% of EU imports, as opposed to 20% currently offered "flexibility" by the EU. ODI studies also show that the flexibility on offer is inadequate at a regional level (see ODI briefing paper "The Effects of Reciprocity").

^{vii} "On the potential fiscal impacts of an EPA", Bilal and Roza, ECDPM, 2005

^{viii} "Economic and Welfare Impacts of the EU-Africa Economic Partnership Agreements", ATPC briefing No 6, UNECA

^{ix} "Tax revenue and or Trade Liberalisation?" , IMF Working Paper 05/112, Baunsgaard and Keen, IMF, 2005

^x Oxfam International (2006) Unequal Partners: How EU-ACP Economic Partnership Agreements (EPAs) could harm the development prospects of many of the world's poorest countries

^{xi} OECD Report on aid for trade: Making it effective, 2006

^{xii} Joint Annual Report 2004, Swaziland-European Community, section 4.3