N° 2008 – 04

April

CEPII
CENTRE
D'ÉTUDES PROSPECTIVES
ET D'INFORMATIONS
INTERNATIONALES

AN IMPACT STUDY OF THE EU-ACP ECONOMIC PARTNERSHIP AGREEMENTS (EPAS) IN THE SIX ACP REGIONS

Lionel Fontagné, David Laborde & Cristina Mitaritonna

NON-TECHNICAL SUMMARY

The EU's trading relations with the 77 members of the African, Caribbean and Pacific (ACP) countries have historically been framed by a series of conventions, most recently Lomé, which granted unilateral preferences to the ACP countries on the EU market. Although the ACP countries are amongst the most vulnerable countries in the global trading system, the conventions nevertheless violated WTO rules as they established unfair discrimination between developing countries. A change was therefore required. The Cotonou Agreement in 2000 paved the way for a new trading regime based on reciprocal preferences. On this basis, in 2001 the WTO agreed to give a waiver to the EU to continue providing unilateral preferences until January 2008.

Under the Cotonou Agreement, Economic Partnership Agreements (EPAs) had to be established between the EU and the ACP countries. EPAs define a new stage in the policy of the EU towards the ACP developing countries, establishing a framework which is fully compatible with the WTO trading rules, in the sense of GATT Article XXIV.

Negotiations with the EU to establish EPAs began in September 2002. For the purposes of negotiations, the 77 ACP countries have been grouped into six negotiation regions (West Africa, Central Africa, Eastern and Southern Africa, the Southern African Development Community, the Caribbean and the Pacific) based on existing regional integration institutions.

During 2007 seven Interim Agreements and a Caribbean EPA have been negotiated. All establish free trade areas for goods between the EU and various ACP countries that are compatible with the provisions of GATT Article XXIV and, in the case of the Caribbean EPA, a services agreement compatible with the provisions of GATS article V. In total 35 of the 77 ACP countries have concluded negotiations on Interim Agreements or an EPA with the EU: 9 LDCs and 26 non-LDCs. Among the remaining ACP countries, 32 LDCs benefit from duty and quota free access to the EU under the GSP "Everything But Arms" arrangement and 10 non-LDCs are eligible for the standard GSP. Negotiations will continue in 2008 towards full regional EPAs including a full range of trade in goods, services and trade-related areas to replace the Interim Agreements.

The EPAs raise several concerns amongst ACP countries. Firstly, ACP countries fear that giving preferential access to EU products, under a reciprocal arrangement, would put their producers in numerous sectors at risk of increased competition. Secondly, they also fear that cutting tariffs for EU products would result in a sizeable loss of tariff revenue that would hurt their public budgets. Thirdly, they claim that the timetable for the negotiations and their implementation is extremely tight given the numerous modalities still to be precisely determined. For example, what will be the scope and pace of liberalisation? Which products will be considered as sensitive for ACP regions and thus excluded from liberalisation? How will integration within each region be linked with ACP-EU liberalisation?

In order to better address these concerns, our study intends to present a very detailed analysis of the trade-related aspects of EPAs negotiations. We use a dynamic partial equilibrium model at the HS6 level (covering 5,113 HS6 products). The main source of trade data are Comext and BACI, while ad-valorem tariffs and Tariffs-Rate-Quotas are provided by MacMapHS6v2. The use of these data sources means that we can accurately deal with the crucial aspect of sensitive products. Two alternative lists of sensitive products are constructed, one giving priority to the agricultural sectors (H1 option), the other focusing on tariff revenue preservation (H2 option). The dynamic aspect of the model allows us to measure the impact of the agreement over different time periods. It is important to remember the strong asymmetry existing between the two trading partners. ACP countries are highly dependent on the EU market, largely due to their historical links. For the EU, on the other hand, despite this longstanding partnership, the ACP region remains of more modest economic importance, accounting for very little in terms of trade. The ECOWAS group alone accounts for half of total EU imports from the whole region. On the export side, ACP countries tend to be highly specialised in a few key products. This strong concentration mainly derives either from the abundance of minerals and natural resources in many African countries (petroleum, gold, diamonds and uranium and radioactive elements) or a heavy reliance on a few unprocessed agricultural commodities such as coffee or cotton.

Looking at protection levels, ACP regions apply differing tariff rates on EU exports. CEMAC, COMESA and Pacific regions appear to be the most protective. Tariff structures present the usual shape. The highest level of protection is in agriculture, with high peaks in agro-food and vegetable production. In manufacturing, CEMAC and SADC still protect textiles while COMESA has high tariff rates in the metallurgic sector. On the other hand, EU trade policy is quite generous to ACP countries. The Cotonou agreement gives largely free access on all industrial products. The only protection remains in agriculture. However, given the high level of specialisation of many ACP countries on agricultural products, some of which are still protected, the average protection they face is often higher than that applied by the EU to the rest of the world.

To be WTO compatible, the EPAs had to satisfy GATT’s Article XXIV, including the liberalisation of “substantially all” trade. However, this reciprocity is not the only objective of EPAs and, as the European Parliament has rightly pointed out there is the need “to be vigilant that the issue of compatibility does not take precedence over the overall aim of sustainable development”. In this sense, EPAs include several other elements, including support for deep integration and development assistance.

Although both of these elements can be important catalysts for growth, due to difficulties in their integration into the model, they are not quantified in this study. On the other hand, such elements are missing in the intermediary agreements signed with most ACP. However they should not be overlooked when it comes to the interpretation of the results. In other words our results need to be seen in the light of broader positive effects that can be expected from EPAs, but which are not modelled here.

To define what "sustantially all trade" means in terms of share of trade, we have followed the guidelines of the EU Commission. They consider that a Preferential Trading Agreement (PTA) is WTO compatible if 90 percent of bilateral trade is fully liberalised.[1] We use this criterion to simulate EPAs for each negotiating regional block. We assume that the full implementation of EPAs will be achieved within 15 years. To reflect the asymmetry between partners, the EU is modelled as granting free access to all ACP exports in 2008. The selection of sensitive products for the ACP is a key issue. Two approaches have been chosen in our modelling, inspired by the actual negotiation. Under the H1 scenario, priority is given to agricultural products, to reflect the political sensitivity of the sector. Under the H2 Scenario, sensitive products are selected such that tariff revenue losses are minimised at the regional level.

The framework for the analysis is a partial equilibrium model focusing on the demand side. Different simulations are performed in order to assess the impact of both potential outcomes from the EPA negotiations and alternative scenarios in the event that EPAs are not signed. This counterfactual is particularly relevant for ACP that ultimately did not embark in agreements with the EU. In the latter context, firstly, we consider the end of Cotonou, no EPA and GSP tariffs applied to non-LDC ACP countries (Everything But Arms-EBA-will still provide market access for LDCs). Secondly, we model the end of Cotonou, no EPA and the GSP+ tariffs applied to non-LDC ACP countries (EBA for LDCs). Lastly, we consider the end of Cotonou following successful EPA negotiations, using the H1 and H2 scenarios. As a sensitivity analysis, we also examine the H1 case in circumstances where the Doha round of multilateral negotiations is also completed, in order to measure the magnitude of potential preference erosion.

The consequences of EPAs are assessed through different indicators: changes in exports and imports, changes in tariff income and the countries' current accounts. We avoid to put emphasis on the effects on domestic production, due to the fact that information at the product level is scarce and of low quality.

All the results have to be interpreted as deviations from the reference situation, which is not the status quo (which is no longer legally tenable) but rather the only current legal alternative, which is a combination of GSP for ACP-non LDCs and EBA for ACP LDCs. For instance, when considering the impact on trade, ACP exports to the EU are forecast to be 10 percent higher with the EPAs than under the GSP/EBA option. In percentage terms, the largest increases in exports will occur in the livestock sector, which is forecast to at least double in the EPA scenario. Exports of agricultural products (excluding meat and cotton) and textile products are forecast to increase by 40 percent. On the import side, a 7 percent average increase overall is forecast for ACP countries in 2015, against 17.7 percent in 2022. This low forecast in the short run is explained by the limited liberalization of ACP imports over this time horizon.

---

[1] This quantitative requirement (90 per cent of free trade) is achieved considering both 90 per cent of bilateral trade in volume and 90 per cent of tariff lines in the Harmonised System.

On average ACP countries are forecast to lose 70 percent of tariff revenues on EU imports in the long run, under the central scenario (H1). The most affected region is ECOWAS. Yet imports from other regions of the world will continue to provide tariff revenues. Thus when tariff revenue losses are computed on total ACP imports, losses are limited to 26 percent on average in the long run under H1, and 19 percent under H2 (when the product lists are optimised).

Furthermore, the final impact on the economy depends on the importance of tariffs in government revenue and on potential compensatory effects. Some positive impacts can be expected from EPAs, whenever an enlargement of the fiscal basis upon which other public incomes are based is achieved. However this long term and less visible effect will mainly depend on the capacity of each ACP country to reorganise its fiscal base, shifting to other forms of taxation.

Some improvements in the efficiency of the customs administration could be attained, as a consequence of diminished trade flows to tax and monitor. Considering a 50 percent increase in the collection rate, we find that tariff revenue losses could be significantly alleviated.

J.E.L. Classification: F13, F15, O55.

Keywords: Preferential Trade Agreements, Africa, EPAs, Simulations.