

Brussels, 11 January 2008

Update: Economic Partnership Agreements

The EU and the African, Caribbean and Pacific countries (ACP) have been working to put in place new Economic Partnership Agreements by the start of 2008. These agreements aim at progressively removing barriers to trade and enhancing cooperation in all areas related to trade. They are also aimed at providing an open, transparent and predictable framework for goods and services to circulate freely, thus increasing competitiveness of the ACP.

Why is it important to put these agreements in place?

The EU and ACP were jointly working against the deadline of 1st January 2008, by which time they had promised non-ACP developing countries that they would have put in place a new system compatible with WTO rules. On 1 January 2008 the legal waiver non-ACP developing countries have extended to cover the existing trade arrangements between the ACP and the EU expired. The European Commission has now initialled interim Economic Partnership Agreements with SADC, East and Southern Africa and key trading partners in the Pacific. These interim agreements cover market access and other areas including development cooperation.

- In all cases the EU has offered to remove all remaining tariffs and quotas for all exports from the ACP. This will apply from 1 January 2008, with a short transition period for sugar and rice.
- Liberalisation in ACP countries is gradual, taking place over many years. Where trade is liberalised at once or in the short term, tariffs for the products in question are in many cases already set at 0%. For example in the EAC countries, 64% of trade already enters at 0% tariff, and this is the focus of early liberalisation.
- The EU and the ACP have sought the greatest possible flexibility to exclude sensitive products from liberalisation – most ACP countries have opted not to liberalise most agricultural goods and many other important local products.
- The EU and the ACP have prioritised the need to provide shelter for growing industry from external competition. Sensitive industrial sectors have been excluded and an 'infant industry clause' has been agreed that will allow ACP countries to reinstate tariffs in future if they wish to protect a growing industry.

The whole process will be backed up by a considerable package of development assistance. The ACP countries will receive €23billion in development assistance over the next seven years. African, Caribbean and Pacific countries will also be major beneficiaries of the decision to increase Europe's spending on aid for trade to €2billion a year, with a priority given to measures that help implement 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.

What is the logic of 'two step' Economic Partnership Agreements?

Rather than refuse to sign an agreement until every part of a negotiation is complete, the EU and the ACP have agreed that so long as they can reach agreement on the question of trade in goods, we believe we will be on solid ground in the WTO. This means that the EU will be in a legal position to further extend preferential access to the EU market. We will then complete discussions early in 2008. Only a comprehensive agreement will deliver the full development potential. But reaching an interim agreement on trade in goods will prevent a disruption to ACP trade with Europe.

Interim Economic Partnership Agreements

Southern African Development Community (SADC)

On November 23 in Brussels senior negotiators from the European Commission and the Southern African Development Community initialled an interim Economic Partnership Agreement including a WTO-compatible market access schedule and provisions on development co-operation and other issues. This agreement will apply initially to the EU side and to Botswana, Lesotho, Swaziland and Mozambique on the SADC side. Angola made clear its wish to join as soon as possible. South Africa will determine its participation in the agreement in the coming weeks. This agreement was initialled by Namibia on December 11. EU and SADC negotiators confirmed that the agreement was open to other parties in the region to join when they wished. Both sides agreed to continue negotiations towards a full EPA in 2008 and a rendezvous clause is included in the agreement to this effect.

Goods Covered

The agreement allows for 100% liberalisation by value by the EU as of 1 January 2008 (with transition periods for rice and sugar) and 86% liberalisation by value by Botswana, Lesotho, Namibia and Swaziland. For 44 sensitive tariff lines liberalisation is envisaged by 2015. Three further lines will not be liberalised until 2018. The tariff offer from Mozambique covers 80.5% of trade, most of which is liberalised at entry into force. Some 100 additional tariff lines will be liberalised by 2018.

Goods Excluded

Exclusions focus on agricultural goods and some processed agricultural goods and are based chiefly on the need to protect infant industries or sensitive products in these countries.

Other features

A Development Cooperation Chapter has been included which covers cooperation on trade in goods, supply-side competitiveness, business enhancing infrastructure, trade in services, trade-related issues, Institutional capacity building, and fiscal adjustments. Parties agreed to negotiate on Competition and Government procurement only when adequate capacity has been built.

East Africa: East African Community (EAC)

On November 23 in Uganda the European Commission and the East African Community initialled an interim EPA agreement. This agreement will apply to the EU and to Kenya, Uganda, Tanzania, Rwanda and Burundi. Negotiators agreed that the first phase of negotiations for an EPA had been successfully completed and that they would continue negotiations towards a full EPA in 2008 and a rendezvous clause is included in the agreement to this effect.

Goods Covered

The agreement allows for 100% liberalisation by value by the EU as of 1 January 2008 (with transition periods for rice and sugar) and 82% liberalisation by value by the East African Community (64% in two years, 80% in 15 years, the remainder in 25 years). It covers 100% of EU tariff lines and 74% of EAC tariff lines.

Goods Excluded

Exclusions include: agricultural products, wines and spirits, chemicals, plastics, wood based paper, textiles and clothing, footwear, glassware. The main criterion of these exclusions is the desire to protect infant industry.

Other features

The agreement contains an extensive fisheries chapter, mainly aiming at reinforcing cooperation on sustainable use of resources.

East Africa: Eastern and Southern Africa (ESA)

The European Commission initialled an interim trade agreement with the Seychelles and Zimbabwe of the ESA region in Brussels on 28 November 2007, with Mauritius on 4 December 2007 and with Comoros and Madagascar on 11 December 2007. The deal includes a WTO-compatible market access schedule, provisions on development cooperation, fisheries and other issues. Negotiators confirmed that the agreement is open to other parties in the region, who are expected to join in the near future. The agreement is a framework towards the completion of a comprehensive Economic Partnership Agreement by the end of December 2008.

Goods Covered

The agreement allows for 100% liberalisation by value by the EU as of 1 January 2008, with transition periods for rice and sugar. The Seychelles will liberalise 97,5% of its imports from the EU by 2022: 62% of their imports will be liberalised after five years, 77% by 2017 and the remaining 20,5% by 2022. Zimbabwe will liberalise 80% of their imports from the EU by 2022: 45% by 2012 with the remaining 35% of their imports being liberalised progressively until 2022. Mauritius, on its part, will liberalise 95.6% of its imports from the EU: 24.5 % in 2008, 53.6% by 2017, and the remaining 42% will be liberalised in 2022. Coverage for Comoros and Madagascar is over 80% of their imports from the EU. In the case of Comoros, 21,5% of their imports will be liberalised after five years, and the remaining 59,1% will be progressively liberalised by 2022. In the case of Madagascar, 37% of their imports from the EU will be liberalised after five years, the remaining 43,7% will be progressively liberalised by 2022.

Goods Excluded

Several products from different sectors have been excluded from liberalisation, mainly due to the need to protect sensitive products or infant industries in the countries. In the case of Seychelles, these include meat, fisheries, beverages, tobacco, leather articles, glass and ceramics and vehicles. In the case of Zimbabwe, excluded products include products of animal origin, cereals, beverages paper, plastics and rubber, textiles and clothing, footwear, glass and ceramics, consumer electronics and vehicles. Mauritius excluded from liberalisation live animals and meat, edible products of animal origin, fats, edible preparations and beverages, chemicals, plastics and rubber articles of leather and fur skins, iron & steel and consumer electronic. In the case of Comoros, the excluded goods are mainly of animal origin, fish, beverages, chemicals and vehicles. For Madagascar, the excluded products comprise meat, fish, products of animal origin, vegetables, cereals, beverages, plastics and rubber, articles of leather and fur-skins, paper and metals among others.

Other features

The Parties will cooperate to facilitate the implementation of the Agreement and support regional integration and development strategies. They agreed that cooperation will be based on the ESA Development Cooperation Strategy and a jointly agreed Development Matrix. They will cooperate to mobilise resources additional to the financial framework of the EU, from EU Member States and other donors, in particular expanding Aid for Trade commitments, relating specifically to EPA support requirements and adjustment costs.

The agreement contains an extensive fisheries chapter, mainly aiming at reinforcing cooperation on sustainable use of resources.

Papua New Guinea and Fiji

On November 29 the European Commission initialled an Interim Partnership Agreement with the two main economies and exporters in the Pacific region, Papua New Guinea and Fiji. The agreement enables both countries to benefit from significantly improved market access to the EU as from 1 January 2008. This will be an immediate boost for investment and growth in Papua New Guinea and Fiji due to new trade opportunities in sectors of interest to these countries, in particular fishery products. This Interim Agreement is open to any other interested Pacific State. All sides reaffirmed their commitment to the ongoing negotiations on a comprehensive Economic Partnership Agreement containing arrangements for trade in goods and services, development co-operation, fisheries, trade related rules and other aspects with the whole Pacific Region. This comprehensive EPA is foreseen to be concluded by the end of 2008.

Goods Covered

The Interim Partnership Agreement allows for 100% liberalisation by value by the EU as of 1 January 2008, with transition periods for rice and sugar. It allows for 88% liberalisation by Papua New Guinea by value and 80 % liberalisation by Fiji over a time period of 15 years. It covers 100% of EU tariff lines and 82% of Papua New Guinean and 80% of Fijian tariff lines.

Goods Excluded

Certain agricultural and forestry products as well as non agricultural processed goods are excluded from liberalisation by both Papua New Guinea and Fiji. The main criterion of these exclusions is the desire to protect infant industry and maintain fiscal revenues.

Other features

In the agreement the European Commission offers new and improved rules of origin, in particular for fishery products and textiles. It is expected that these will help new investment and employment opportunities in Fiji and Papua New Guinea.

West Africa: Ivory Coast and Ghana

On December 7 the European Commission initialled a stepping stone Economic Partnership Agreement with Ivory Coast and on 13 December with Ghana. The agreement enables Ivory Coast and Ghana to benefit from significantly improved market access to the EU as from 1 January 2008. This will be an immediate boost for investment and growth in these countries. Negotiations on a similar stepping stone EPA are ongoing with other West African countries. In any event, negotiations on a full EPA covering all West African countries and covering also trade in services, in vestment and trade related rules, will continue in 2008.

Goods Covered

The stepping stone EPA allows for 100% liberalisation by value by the EU as of 1 January 2008, with transition periods for rice and sugar. It allows for 80.8% liberalisation by Ivory Coast over a time period of 15 years. It covers 100% of EU tariff lines and 88.7% of Ivory Coast tariff lines. In respect to Ghana, it allows liberalisation of 80.48% of the EC imports in value and 80.01% in tariff lines over 15 years 80.8%.

Goods Excluded

Certain agricultural as well as non agricultural processed goods are excluded from liberalisation by Ivory Coast and Ghana. The main criterion of these exclusions is the desire to protect certain existing industries or infant industry and maintain fiscal revenues.

Other features

Both Agreements contains a title on Development Cooperation covering priority areas of development cooperation for accompanying the implementation of this Agreement. The main areas identified are the reinforcement and upgrading of productive sectors, the cooperation in respect to fiscal adjustment, to foster the improvement of business climate, and the implementation of trade rules contained in the Agreement. The parties agree to cooperate in these areas notably in the context of the Cotonou Agreement.

The agreement also contains a detailed dispute settlement mechanism.

New and improved rules of origin will be annexed to this Agreement in the short future. It is expected that these will help new investment and employment opportunities in Ivory Coast and Ghana.

Full Economic Partnership Agreement: the Caribbean

On December 16 the European Commission initialled an Economic Partnership Agreement with Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Saint Christopher and Nevis, Surinam, and Trinidad and Tobago (the CARIFORUM countries) covering all areas under negotiations.

Goods liberalization

The coverage of goods liberalised by CARIFORUM countries under this Agreement amounts to 61.1% of EC imports in value over 10 years, 82.7% over 15 years (85.1 % of tariff lines) and 86.9 % over 25 years (90.7 % of tariff lines). The main exclusions are agricultural and processed agricultural products; some chemicals, furniture and other industrial products. The Agreement covers all provisions necessary for a FTA agreement, such as provisions on import and export duties and charges, non-tariff measures, trade defence instruments (anti-dumping and countervailing measures, multilateral and bilateral safeguards), special provisions on administrative cooperation in custom matters, a protocol on rules of origin.

Services liberalization

The Agreement includes a Title on Services, Investment and E-commerce and the related schedules of commitments, which give rise to an agreement compatible with GATS article V. The sectoral coverage is significant with more than 80 percent for Dominican Republic, and between 50 to 62 percent of services sectors for all others except Haiti and Bahamas who will join the services and investment part of the agreement within 6 months. On the EC side, there are important new commitments in the areas of movement of service providers (sellers of goods, investors, short term business visitors, graduate trainees), as well as for entertainers, artists, chefs de cuisine and fashion models. Beyond market access the Agreement contains significant regulatory principles in a number of sectors, in particular tourism at the request of Cariforum, to help them develop competitive services sectors and ensure benefits for the region and its citizens. In addition the EPA includes provisions to cooperate against corrupt practices of investors, as well as binding provisions on non-lowering of standards in the environmental and social fields and for cultural diversity laws and regulations. Finally the EPA also incorporates the first Protocol on culture implementing the UNESCO Convention on cultural diversity and providing Cariforum artists with easier movement of persons and co-production market access.

Other features

The Agreement contains provisions on Customs and Trade Facilitation, Technical Barriers to Trade, Sanitary and Phytosanitary Measures, Agriculture and Fisheries, Current Payment and Capital Movements, Competition, Innovation and Intellectual Property, Public Procurement, Environment and Social Aspects. Part I of the Agreement contains Development Cooperation provisions setting out priority areas of action for the implementation of the Agreement. In turn each individual substantive chapters of the Agreement includes specific areas of cooperation. A Development cooperation declaration establishes the link with the Aid for Trade strategy and recalls the Commission and Member States' intention to contribute to the funding of a regional development fund. Finally, the agreement contains a detailed dispute settlement mechanism, as well as general, final and institutional provisions.

ACP Market Access outlook 1 January 2008

Non-LDCs are shown in **bold** and South Africa is not included as it continues to benefit from the TDCA

	EPA (9 LDCs, 26 non-LDCs)			EBA (32 LDCs)		GSP (10 non-LDCs) ¹
Caribbean	Antigua & Barb Bahamas Barbados Belize Dominica	Dom. Republic Grenada Guyana Haiti Jamaica	St Kitts & Nevis St Lucia St Vinc & Gren. Surinam Trinidad & Tob			
Central Africa	Cameroon			Central African Rep. DR Congo Chad	Equatorial Guinea São Tome	Gabon Rep. Congo
Eastern / Southern Africa	EAC Burundi Kenya Rwanda Tanzania Uganda	ESA Comoros Madagascar Mauritius Seychelles Zimbabwe	Djibouti Eritrea Ethiopia Malawi	Somalia Sudan Zambia		

¹ The Pacific countries (with minimal goods trade with the EU) and Nigeria declined to negotiate an interim agreement

	EPA (9 LDCs, 26 non-LDCs)			EBA (32 LDCs)			GSP (10 non-LDCs) ¹	
Pacific	Papua New Guinea Fiji			East Timor Kiribati Samoa	Solomon Islands Tuvalu Vanuatu		Cook Isl Tonga Marsh. Isls Niue	Micronesi a Palau Nauru
West Africa	Côte d'Ivoire Ghana			Benin Burkina Faso Cape Verde ² Gambia Guinea	Guinea Bissau Liberia Mali Mauritania	Niger Senegal Sierra Leone Togo	Nigeria	
SADC	Botswana Lesotho	Namibia Mozambique	Swaziland	Angola				

¹ The Pacific countries (with minimal goods trade with the EU) and Nigeria declined to negotiate an interim agreement

¹ Cape Verde loses its LDC status in 2008 but has been granted a period of transition allowing to benefit from GSP EBA for 3 years

What will an Economic Partnership Agreement do?

1 An EPA will provide the best access to the EU market of any trade regime.

For an ACP country, an EPA means no EU duties or quotas for any products (other than short transition periods for sugar and rice) and long term security for traders and investors with no more waivers, time limits or periodic renewals. Unlike the system they replace, they meet WTO rules, so they are safe from legal challenge.

2 An EPA will encourage processed exports with simpler and improved 'rules of origin'.

Under EPAs, ACP countries have 'rules of origin' specifically negotiated to support the development of ACP industries that import materials to make goods for onward export to Europe, particularly in key sectors like textiles, fisheries and agriculture. This is one reason a number of Least Developed Countries signed EPAs, even though they benefited from duty and quota free market access under the EU's "Everything But Arms" initiative.

3 An EPA will help attract much-needed investment.

Region by region, ACP countries can negotiate provisions to help attract investment such as co-operation to help meet international product standards, agreements on trade in key services like telecommunications, banking and construction that support a growing economy and measures to protect intellectual property like local brand names.

4 An EPA will help the ACP countries engage in the global economy on their own terms.

EPAs end the ACP dependence on preferences, waivers and exclusions from the multilateral system that have helped lock them into basic commodity trade for more than thirty years. They will help create viable regional economies with supply chains that can compete internationally. Crucially, they provide a platform to introduce and manage changes over many years while still protecting sensitive or growing industries.

² Cape Verde loses its LDC status in 2008 but has been granted a period of transition allowing to benefit from GSP EBA for 3 years

5 An EPA will include chapters on development cooperation and measures to build capacity to trade.

In this way, reform and change are linked to the measures needed to build greater capacity to trade as well as implement reforms. The types measures being proposed include regional EPA funds, business development programmes, provisions to cushion any initial drop in government revenues from reduced border tariffs and arrangements to review and monitor the impact of trade reform.

Six common misconceptions about Economic Partnership Agreements (EPAs)

Misconception #1: ACP countries have been forced into interim EPAs by European Commission pressure

This is not true. The pressure came from the expectations of other WTO members, including non-ACP developing countries, that the EU and the ACP would respect their commitment to make their trade relations WTO-compatible by 1 January 2007. The countries that signed interim EPAs recognised they need to do this to be part of the multilateral trading system and made clear their strong commitment to the objectives of the agreements and their conviction to build on them to agree full regional Economic Partnership Agreements in 2008.

Misconception #2: Countries that have signed interim EPAs will see their markets flooded with cheap European imports

This is not true. The suggestion that the EU was motivated by commercial self interest in the EPAs is wrong: EU companies want integrated supply chains that build up processing in ACP countries, not barriers that prevent it. EU companies export very little to the ACP and EU investors show too little interest in building up companies in these markets, not too much!

Under the terms of the interim EPAs, the ACP countries are free to exclude a wide range of sensitive goods and sectors from any liberalisation. Perhaps you have heard that Ghana's chicken farmers would be overwhelmed by EU imports if they signed an EPA? Well, the EU and Ghana agreed early in their negotiations to exclude all chicken products from liberalisation, so under an EPA there will be no change at all in the tariffs Ghana uses to protect its poultry sector.

Misconception #3: By signing interim EPAs with individual countries the EU has undermined attempts at regional integration.

This is not true. The ACP and EU commitment to regional integration and building regional markets among ACP countries has not changed. The EU and the Caribbean signed a full regional EPA in December 2007 but elsewhere the overriding priority had to be to secure market access for the remaining 22 ACP countries that are not Least Developed Countries - they otherwise faced the risk of increased tariffs on 1 January 2008 because they do not benefit from the EU's Everything But Arms initiative. The interim agreements not only avoided this risk but are specifically drafted to lay the basis for negotiations towards full regional EPAs to continue.

Misconception #4: Cuts in import duties as ACP countries liberalise will undermine government revenue

ACP countries have excluded many products from any liberalisation at all and will liberalise other tariffs over ten to fifteen years, lowering the tariffs on imports that the ACP economies need first. This will prevent dramatic changes in revenue. This said, the EU is ready to assist with fiscal reform and adjustment to help cushion any net fiscal losses observed as a result of EPAs and has the means to do so.

Economically, moving away from high tariffs is an important part of economic reform and the right thing to do. Replacing customs tariffs by other sources of fiscal revenue makes sense because taxes on imports suppress economic activity and are better replaced by sales, excise or other revenue taxes. These other forms of taxes are a more sustainable way to finance much needed basic social services such as health and education. In the early stages of liberalisation customs revenues can even increase as trade is stimulated when tariffs begin to come down.

Misconception #5: The EU has suggested that future development funds are conditional on the signing of an EPA

This is not true. The EU never tied development finance to the signing of EPAs. For example, on 9th December 2007 in Lisbon, the Commission signed strategy papers allocating €8 billion of the 10th European Development Fund (EDF) to 31 African countries for 2008 – 2013 using development criteria independent of the country's position on EPA (half of them have not agreed any form of EPA). The regional financing element of the EDF does support ACP regional integration but its programming guidelines *do not* specify that this must involve an EPA. It states only that where there is an EPA, funds must support the smooth implementation of any related commitments.

Misconception #6: The EU is still insisting on negotiating on issues such as investment and services in full EPAs, even where ACP countries do not want to do so

This is not true. The EU has never said that it would insist on these issues being covered by EPAs. But it has said that it believes that there are good development reasons why they should be. Services like telecommunications, banking and construction are the backbone of a growing economy and most ACP countries desperately need to attract foreign investment in these sectors and others. Every ACP investment report published says that breaking the dependence on basic commodity exports requires a transparent secure, rules-based investment climate. EPAs can help establish this and many ACP countries agree: as an example, both the full Caribbean EPA and the interim EPA with Pacific countries already include services chapters.