

Overview of the regional EPA negotiations



West Africa-EU Economic Partnership Agreement

The purpose of this *InBrief* series is to provide a synthesis of the main elements and issues at stake for the 6 African, Caribbean, and Pacific (ACP) groupings negotiating an Economic Partnership Agreement (EPA) with the European Union (EU). Each *InBrief* offers an overview of the economic and regional integration dynamics influencing the structure, pace, and outcome of the EPA negotiation process for each region. It also focuses on the main issues and challenges to be tackled by each region in order to make the new trade arrangement a development oriented instrument. Each regional *InBrief* is complemented by an update on the ongoing EPA negotiation process. Every 6 months until the conclusion of the EPAs, a new update will be produced. www.ecdpm.org/inbrief14b

Introduction

The 16 West African countries,¹ inhabited by 242 million people, with almost 130 million in Nigeria alone, form a politically and economically diverse group. Politically, situations vary from open conflict and instability verging on civil war to consolidated democracies. Economically, alarming socio-economic indicators reflect the region's acute poverty. West Africa's gross domestic product (GDP) per capita amounted to just US \$326 in 2004. Basic social indicators are below the average for sub-Saharan Africa, and the United Nations Development Program (UNDP) classifies all 16 countries, except for Ghana, as "low human development". Indeed, all of the countries, with the exception of Nigeria, Ghana and Ivory Coast, are categorised as "least developed".

Most West African economies are scarcely diversified. Manufacturing's share is weak, and commerce centres on primary products: agriculture and animal husbandry in all countries, fisheries in the coastal countries (especially Mauritania and Senegal), mining (Mali, Mauritania) and petrol (Nigeria). These features make the region highly dependent on exogenous factors, such as price fluctuations, climatic hazards and changes in importing countries' policies. Average economic growth has amounted to about 3% in the period since 1994. In 2004,

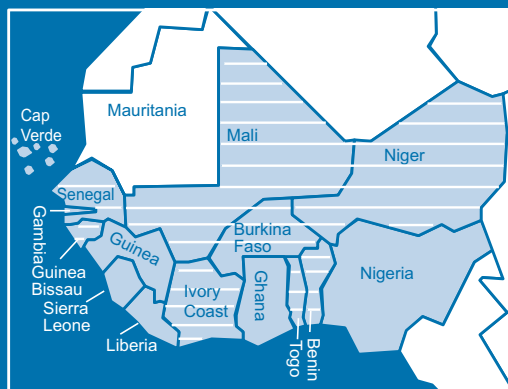
regional GDP totalled US \$78,893 million, with Nigeria accounting for more than half that amount (\$41,373 million in 2001).

Regarding intra-regional trade, official flows remain low, despite regional integration initiatives. In 2001, trade within the region accounted for a mere 13% of total trade, compared to 11% in 1996.² These weak figures are explained by the lack of complementarities among West African economies

as well as by the existence of tariff and non-tariff barriers. Official trade data, however, do not reflect the informal cross-border trade which is prominent in the region.

Looking at external trade, available global statistics show a positive evolution since 1996. In 2003, West African exports amounted to ?32,056 million, corresponding to a growth of 7.5% over 2002. The European Union is still West Africa's main trade part-

Central Africa-EU EPA regional configuration



ECOWAS (15)
UEMOA/WAEMU (8)
(The UEMOA countries are also members of ECOWAS)

ECOWAS= Economic Community of West African States
UEMOA/WAEMU= Union Economique et Monétaire Ouest Africaine/West African Economic and Monetary Union

ECOWAS (plus Mauritania) Trade in Goods with the European Union, 2005

Trade flows

- EU-bound exports: €13,764 million (growth 2004-2005: 24.8%)
- Imports from the European Union: €13,482 million (growth 2004-2005: 9.4%)
- Trade balance: €-282 million

Share of agriculture in trade

- EU-bound exports: 23%
- Imports from the European Union: 14%

Participation in EU trade:

- EU-bound exports: 1.25%
- Imports from the European Union: 1.16%

Main trade partners (2004):

- Exports: United States (32%), European Union (24%), Mexico (10%), Other (28%)
- Imports: European Union (33%), China (9%), Other (46%)

Source: Comext (2005), EU declarations and IMF (2004)

ner, accounting for 32% of the region's exports and 37% of its imports in 2003. The United States is rising in importance in trade, accounting for 27% of the region's exports and 8% of its imports in 2003. Other countries, such as India and Brazil, are becoming key importers of West African products; while China and South Korea are growing in significance as exporters to the region. Agricultural products accounted for 31% of West African exports to the European Union in 2004, although this sector's importance is masked by the value of Nigerian petrol. The region's two main export products to Europe are fuels and cocoa, accounting respectively for 45% and 21% of total EU-bound exports in 2004. Despite efforts to integrate into the world economy, West Africa has thus far been unable to benefit from the global trade liberalisation trend. Its share in world trade remains insignificant. To illustrate, EU-West Africa trade flows accounted for just 1.25% of EU exports and 1.03% of EU imports in 2004.

The West African regional integration process

The Economic Community of West African States (ECOWAS)³ was established in 1975 by the Treaty of Lagos with the global objective of creating an economic and monetary union, including the free circulation of persons, goods, services and capital within the region as well as common customs tariffs and a common commercial policy. In response to the lack of progress in implementation, the Treaty was revised in 1993 to reinforce the integration process. This led to the establishment of new entities for monitoring and refereeing (the Court of Justice and the Parliament) as well as new financial mechanisms. Current ECOWAS priorities are to strengthen its institutions, to promote regional trade liberalisation and to create a customs union, along with harmonisation of economic and financial policies towards establishment of a monetary union.⁴

Besides these regional integration priorities, ECOWAS plays an active role in developing sectoral programmes, such as in infrastructure development and private-sector promotion. ECOWAS further adopted a common agricultural policy (called "ECOWAP") in January 2005, aimed to ensure sustainable food security and decent remuneration for the region's farmers and to increase inter-regional and international agricultural trade.

Regarding intra-regional trade, the ECOWAS zone has officially been a free-trade area (FTA) since 1 January 2000, although the FTA is not yet effective in practice. Tariffs as well as non-tariff barriers continue to block the development of trade within the region, and formal cross-border trade flows remain insignificant. The same conclusion applies to the intra-regional circulation of persons and capital, both of which are still limited. With respect to the creation of a customs union, the ECOWAS Heads of State and Government agreed in December 2000 that the four-scale Common External Tariff (CET) of the West African Economic and Monetary Union (WAEMU) would be the basis for the ECOWAS CET. The seven ECOWAS countries that are not WAEMU members are currently making preparations for harmonisation and studying the impact of their adopting the CET. The ECOWAS Custom Union is scheduled to come into effect by end 2007.

The WAEMU, West Africa's second regional integration initiative, was created in 1994 in the context of the devaluation of the CFA franc. It inherited many of the institutional "acquis" of the West African Monetary Union (created in 1962) and the West African Economic Community (created in 1973), including the single West African Central Bank. WAEMU members are the seven French-speaking African countries from the former CFA zone (Benin, Burkina Faso, Ivory Coast, Mali, Niger, Senegal and Togo) plus Guinea Bissau. The WAEMU is so far the deepest and most advanced and solid regional integration process in West Africa in terms of institutions, decision processes, policy implementation and financial resources. Currently, the WAEMU's political agenda is centred on consolidation of its customs union; improvement, convergence and monitoring of national macroeconomic policies; and elaboration and implementation of sectoral policies.

In terms of trade and economic integration, the WAEMU has been a customs union since January 2000, though certain aspects are still to be consolidated. It has exclusive competence to negotiate bilateral trade agreements on behalf of its member states. It is also a finished monetary union and is on its way to becoming a common market, which implies harmonised laws and regulations affecting trade and indirect taxation, as well as free movement of goods, services, persons and capital.

Of course, one of the most crucial challenges in West Africa's regional economic integration process is the harmonisation and convergence of these two regional integration initiatives so that ECOWAS can emerge as the sole regional body. To that end, a consultation process between the institutions was launched in 2000, and several technical and political meetings have been organised to foster coordination and synergy between their respective programmes. That convergence process is most notably under way concerning macroeconomic policies, for which a multilateral monitoring mechanism was created for the whole ECOWAS region on the basis of the WAEMU's institutional acquis. Regarding the creation of a West African single market, ECOWAS and WAEMU have launched a multifaceted harmonisation process, encompassing trade liberalisation, rules and certificates of origin procedures, tariff preferences, approval procedures and fiscal losses compensation mechanisms.

International trade negotiations

In addition to their own regional economic integration processes, West African countries are involved in external trade negotiations. Except for Liberia, all of the countries are World Trade Organization (WTO) members and thus participate in the current multilateral negotiations in the context of the Doha Development Round. Besides, they are also signatories to the Cotonou Partnership Agreement, which calls for the conclusion of an EPA with the European Union by end 2007. These three processes are meant to be convergent and complementary, aimed at fostering the progressive and harmonious integration of the West African region into the world economy.

EPA Negotiations

In previous ACP-EU cooperation agreements, the ACP countries enjoyed non-reciprocal tariff preferences for their exports to the EU market. Under the Cotonou Agreement, this will change after 2008, at which time reciprocal free-trade arrangements negotiated at the regional level between the European Union and the six ACP regions will replace the previous preferential trade regime. These new agreements must be compatible with the rules of the WTO. They must further be development-oriented and build on ACP regional integration initiatives. Finally, the new trade regime is to incorporate and improve upon the Lomé/Cotonou instruments related to access to the EU market for the ACP countries.

West Africa-EU EPA Negotiation Principles

The general objectives and guidelines on which the West Africa-EU EPA negotiations are to be based are stated in three documents: (i) the Cotonou Partnership Agreement, (ii) the joint report adopted in October 2003 at the second ACP-EU Joint Ministerial Meeting on the EPAs and (iii) the joint West Africa-EU road map agreed in Accra in August 2004.

Above all, the EPA negotiations are to give priority to the promotion of sustainable economic development and reduction of poverty in the region, in line with the Cotonou Agreement's goals and principles. Furthermore, the EPA is to complement and be mutually supportive of the national development strategies in the region. The

development dimension of the EPA process is to be ensured mainly by implementation of programmes to enhance competitiveness, specifically, to develop supply capacity, to improve the business environment and to offer appropriate direct support to enterprises in the region. These programmes are to be designed to maximise the potential dynamic benefits generated by the EPA and to assist the countries in attuning their economies to the ongoing liberalisation process. In terms of financial coverage, it must be noted that both European and West African parties have agreed that all of the instruments and procedures available in the Cotonou Agreement will be utilised to this end, along with complementary funding obtained through co-financing from the EU member states and other development partners, amongst other sources.

Another fundamental principle of the negotiations is that the EPA should promote a deepening of the regional integration process in West Africa, based on priorities determined by the region. This concerns, in particular, the effective implementation of the West African FTA, as well as the gradual completion of the customs union through the extension of the WAEMU CET to the entire region. Cooperation and support measures are also foreseen in areas related to trade, such as facilitation, quality standardisation and control, sanitary and phytosanitary (SPS) measures, border protection, investment, competition and intellectual property. Here the aim is to harmonise and improve regional policies and procedures and to bolster the institutional setting. The extent of regional integration achieved within West Africa will determine the pace as well as the degree of asymmetry and flexibility of bilateral trade liberalisation with the European Union.

A final negotiation principle is the progressive establishment, in accordance with WTO rules, of an FTA encompassing all of the countries in the region (with reciprocity principles) and improved access for West African exports to the EU market.

Negotiating structure

The West Africa-EU EPA negotiations are being conducted, on the West African side, by the Regional Negotiating Committee (RNC) and, on the side of the European Union, by the European Commission (EC). Negotiations are at three levels, namely, that of the chief negotiators, that of the senior officials and that of the technical

experts. At the chief negotiators' level, the RNC delegation is led by the ECOWAS Executive Secretary and assisted by the President of the WAEMU Commission. Each member state may also designate up to three experts as part of the delegation. At the senior officials' level, the RNC delegation is led by the ECOWAS Deputy Executive Secretary for Policy Harmonisation and assisted by the WAEMU Commissioner for Tax, Customs and Trade Policy. At the technical level, the RNC delegation comprises the directors of trade from the ECOWAS Executive Secretariat and the WAEMU Commission. In addition to the formal negotiating structure, a joint contact group has been set up to provide secretarial services and coordinating support to the negotiations. Moreover, a joint structure called the Regional Preparatory Task Force (RPTF) has been created to facilitate links and coherence between the EPA negotiations and development cooperation funding. Finally, it should be noted that the participatory approach agreed on for the conduct of the negotiations implies an important role for non-state actors (NSAs), which are to be involved at every stage of the process to ensure that their concerns are taken into account.

Key issues

The regional integration process

Regional economic integration is a key tool to foster the incorporation of the West African countries into the world economy. It is also a central objective of the EPA negotiation process. Some results have already been achieved, particularly within the WAEMU zone, which is a finished monetary union and more advanced in terms of implementation of an FTA, a customs union and a single market. The regional integration process is, however, far from complete and many decisions already taken by the region's political leaders have yet to be implemented. The ECOWAS FTA, though officially in place since January 2000, is not yet effective in practice, as tariffs and non-tariff barriers continue to block intra-regional trade. Reliable information and statistics on trade in services are scant. Besides, many controls and administrative harassments continue to impede the movement of persons, and capital flows within the region are still extremely limited. Progress to make and reforms to undertake towards the creation of an ECOWAS customs union based on the existing WAEMU four-scale CET remain important. Moreover, the same conclusion applies to the harmonisation and

improvement of regional trade and economic policies and regulations, though as yet almost nothing has been done in these areas.

At the same time, obstacles and challenges remain for regional economic integration. Mauritania, while participating in the West Africa-EU EPA negotiations, is no longer an ECOWAS member, having stepped out of the organisation in January 2001. Political instability and the “colonial” division between the English- and French-speaking countries also hamper cooperation, as does the coexistence of several regional groupings (mainly ECOWAS and WAEMU), each with a different level of coherence and still no clear relationship. Further there is a lack of human and financial resources, weak institutions and decision-making processes and a shortfall of capacity and ownership at the national level to implement regional decisions.

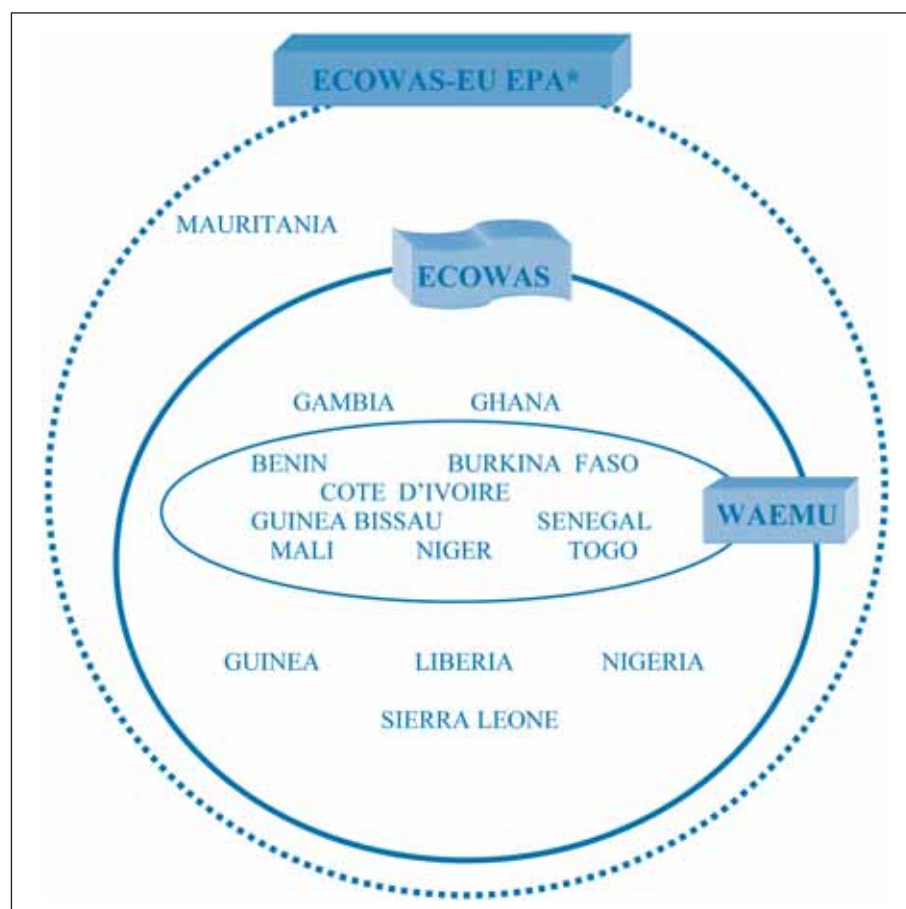
Supply-side constraints

A priority for the West African countries is to ensure that the EPA process contributes to development, given the ample evidence that market access alone rarely leads to economic diversification and development. The disappointing results from the Lomé non-reciprocal and preferential trade regime serve as a reminder. Sufficient and timely financial and technical support, to enhance competitiveness and supply capacity and to improve the business environment, is required to enable the West African economies to effectively benefit from liberalisation of trade with the European Union and to attract investment to the region. Potential areas of assistance are macroeconomic policy, infrastructure services and enterprise upgrading, as well as information and communication technology, transport and human resources development. The latter should include technical assistance and training to develop trade negotiating skills and analytical capacity to stimulate West Africa’s ownership of the EPA negotiation process. It is important that sufficient resources be made available and used effectively to support the EPA process.

Cost of reciprocity

The costs of granting the European Union enhanced access to the West African market is another central issue of the negotiation process. Potential negative effects could come from two directions. Firstly, tariff liberalisation will lead to a significant decline in government revenues and therefore possibly to severe cuts in public expenditures, most notably for social sectors such as health and education. Indeed, most ECOWAS

Figure 1. ECOWAS-EU EPA configuration and overlapping regional and sub-regional economic integration groupings



* Cape Verde has opted out of the ECOWAS-EU EPA configuration in September 2006

countries are highly dependent on customs duties, which average 14.7% of government revenue and 2.5% of GDP. This is particularly relevant for smaller countries like Sierra Leone and Gambia, which are dependent on imports and already under pressure as a result of the implementation of the ECOWAS CET. Here, as elsewhere, sound domestic fiscal reforms will be needed as well as compensation measures and mechanisms to facilitate adjustments and offset tax income losses in the short term.

Secondly, opening trade with the European Union will increase competition in the West African domestic markets. While globally beneficial for consumers, this could have severe adverse effects on local producers and firms, which generally have limited capacity to compete with EU products because of supply-side constraints. Hence it is vital for the region to use all of the flexi-

bility and asymmetry allowed in the WTO agreements when defining the product coverage and sequencing of the liberalisation process and negotiating safeguard and antidumping mechanisms.

Market access

The EPA negotiations offer an occasion for West Africa to secure, in conformity with WTO rules, greater and more remunerative access to the EU market for key export products. It is indeed widely assumed that the European Union will award the ACP regions an “Everything But Arms”-style duty and quota-free market access, this alone will not improve the access of West Africa’s exporters to the EU markets. The accent must therefore be on building the region’s capacity to comply with EU technical barriers to trade, rules of origin and, particularly, SPS requirements.

Key sectors: Agriculture

Agriculture (including agro-industry) is the centrepiece of the West African economy, employing near 70% of the working population and generating 30% to 40% of GDP. It is the most important employer in the region and is vital in generating cash income, ensuring food security and alleviating poverty, particularly in rural zones, which tend to be the poorest and most vulnerable areas. Processed as well as primary agricultural products (e.g. cocoa, cotton and "out of season" fruits and vegetables) account for a significant part of ECOWAS trade flows with Europe and are a main source of export earnings. However, the West African agriculture sector is hindered by a dominance of the informal sector, low skills and a pre-eminence of traditional technology, in addition to low productivity. Agricultural exports

are concentrated in a small range of primary products with declining and volatile world market prices. This has led to an inability to make the transition from agrarian, primary production, to industrial economies. In view of the socio-economic importance of agriculture in the region and its lack of competitiveness, any liberalisation request from the European Union, as well as any proposal or process that could devalue West Africa's current trade preferences in the agricultural sector should be approached with extreme caution and with an eye to developments at the WTO level and to regional economic processes and policies.

For the West African region, one of the key challenges will be to identify, in collaboration with the private sector and farmers' organisations, a common list of sensitive

products for which trade liberalisation should be excluded, or considered very progressively together with safeguard mechanisms. Another issue that must be addressed in the context of the negotiations is, of course, the reform of the EU Common Agricultural Policy (CAP) and its consequences in terms of trade distortion impact and declines in market prices. Regarding access of West African agricultural products to the EU market, the question of compliance with EU SPS and rules of origin requirements must be vigorously pursued in the framework of the negotiations as well as underlined in development assistance programmes. Finally, sufficient and tailored upgrading programmes need to be designed and implemented to support regional initiatives and enhance the agricultural sector supply capacity and competitiveness.

List of acronyms

ACP	African, Caribbean and Pacific	EU	European Union	UNDP	United Nations Development Program
CAP	Common Agricultural Policy	FTA	Free Trade Agreement	US	United States
CET	Common External Tariff	GDP	Gross Domestic Product	WAEMU	West African Economic and Monetary Union
EC	European Commission	IMF	International Monetary Fund	WTO	World Trade Organization
ECOWAP	ECOWAS Common Agricultural Policy	NSA	Non-State Actor		
ECOWAS	Economic Community of West African States	RNC	Regional Negotiating Committee		
EPA	Economic Partnership Agreement	RPTF	Regional Preparatory Task Force		
		SPS	Sanitary and Phytosanitary measures		

Notes

- ¹ The West African region includes the 15 ECOWAS member states + Mauritania.
- ² This statistic does not include figures for Mauritania.
- ³ ECOWAS consists of 14 countries: all of the WAEMU members plus Cape Verde, Gambia, Ghana, Guinea Bissau, Liberia, Nigeria, and Sierra Leone. Mauritania left ECOWAS in January 2001 but has maintained close trade and economic links with West Africa. Cape Verde has opted out of the ECOWAS-EU EPA configuration in September 2006.
- ⁴ In this respect, the ECOWAS countries that are not members of the WAEMU (except for Cape Verde and Liberia) decided to create a second monetary zone which will merge with the WAEMU to form a single monetary union at the ECOWAS level with a single currency called the "eco".

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- Portal on ACP-EU trade matters www.acp-eu-trade.org
- ECOWAS www.ecowas.int/
- European Commission's website, DG Trade, EPA Regional negotiations: http://ec.europa.eu/trade/issues/bilateral/regions/acp/regneg_en.htm
http://trade.ec.europa.eu/doclib/cfm/doclib_section.cfm?sec=148&lev=2&order=date
- UEMOA www.uemoa.int/
- Bilaterals.org www.bilaterals.org

Overview of regional EPA negotiations *InBrief* series for 2006-2008.

The purpose of this *InBrief* series is to allow a wide range of ACP and EU stakeholders to have a clear overview on the structure, phasing, key challenges and main developments in the negotiations of economic partnership agreement (EPA) by each of the six ACP negotiating regions: the Caribbean, West Africa, Central Africa, East and Southern Africa, Southern Africa and the Pacific. For each ACP EPA regional grouping, reference is made to other international trade negotiations and their regional economic integration processes. In addition, each *InBrief* will be complemented by a regular Update that summarises the current state of negotiations.

The *Overview of Regional EPA Negotiations InBrief series* is part of the effort by ECDPM to provide regular information and analysis related to the EPA negotiations. Other contributions include the *Negotiating EPA InBrief series* which provides non-technical overviews and syntheses of specific issues that are to be addressed in the EPA negotiations (www.ecdpm.org/epainbriefs), and the *Comparing EU FTA InBriefs series* which provides a detailed overview of the trade and trade-

related provisions of free trade agreements (FTAs) recently concluded by the EU with developing countries (www.ecdpm.org/ftainbriefs).

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The *InBriefs* are available online at www.acp-eu-trade.org and www.ecdpm.org/regionalepainbriefs

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'InBrief' provides summarised background information on the main policy debates and activities in ACP-EC cooperation. These complementary summaries are drawn from consultative processes in which the European Centre for Development Policy Management (ECDPM) engages with numerous state and non-state actors in the ACP and EU countries. The Centre is a non-partisan organisation that seeks to facilitate international cooperation between the ACP and the EC. Information may be reproduced as long as the source is quoted.

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