Lomé Negotiating Brief

The EC's Impact Studies on Regional Economic Partnership Agreements

In November 1998, the European Commission released five studies on the impact on ACP countries of its proposed Regional Economic Partnership Agreements. This Brief presents the main results of these five studies; a sixth study on Francophone West Africa was not available when the Brief was being prepared.

The Controversy about REPAs

To replace existing non-reciprocal trade preferences, the European Union (EU) proposes that "Regional Economic Partnership Agreements" (REPAs) be signed with different ACP regions or countries. REPAs represent a form of free trade agreements, in which there would be "more than free trade" (they would include provisions for economic cooperation in other fields)[1]. ACP partners in such agreements would retain their current preferential access to European markets, but would have to reciprocate by progressively opening their own markets to imports from Europe on a preferential basis. These agreements would be put in place starting in 2005. A lively debate on the potential impact of such agreements on ACP economies is ongoing.

Optimists stress that REPAs would bring prices down in the ACP - benefiting consumers and importers -, foster trade and other economic reforms, and make the economic environment more conducive to domestic and foreign investment. REPA sceptics fear that they would lead to the closure of many companies in ACP countries. They also suggest that unemployment would rise and revenues from import duties would fall.

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February 1999

It is likely that ACP countries will encounter all of these effects, to various extents. The question is whether REPAs would, overall, have positive or negative impacts on ACP economies. So far, we have no examples of REPAs - between the EU and groups of developing countries - from which to draw lessons. The closest examples are the free trade agreements between the EU and some countries in North Africa and the Middle East (Lebanon, Morocco, Tunisia).

The Impact Studies

In 1998, the European Commission (EC) asked some independent consultants to analyse the feasibility of such agreements and the economic impact they would have on the ACP if they were established. The terms of reference did not require a comparison with existing agreements. Instead, the studies aimed to:

- describe the present situation with respect to regional integration, trade policies and trade structure;
- identify one or more liberalisation plans for the post-Lomé period IV, and in particular;
- assess the economic impact of the liberalisation plans.

For each region, two scenarios beyond 2005 were compared: One without a REPA (a "base" scenario), and one with a REPA. In the former, least-developed countries (LDCs) keep their non-reciprocal Lomé preferences, non-LDCs are transferred to a slightly improved GSP, and commodity protocols are discontinued. In the REPA scenario, ACP partners liberalise at least 90 per cent of their imports from the EU within 10 to 12 years, with no sector completely excluded. Commodity protocols remain in place.

The six impact studies looked at possible agreements between the EU and CARICOM/Dominican Republic, EAC, the Pacific, SADC, UDEAC-CEMAC, and UEMOA (see box at right).

It should be noted that:

- other groupings were not considered (COMESA, ECOWAS, IOC,…);
- one of the six groups is not legally, nor technically, a trade region (the Pacific), and
- Ghana, Nigeria and sixteen least-developed African ACP countries do not belong to any of the regions.

Although the EC insists that the terms of reference do not represent its thinking for any future implementation, some strong assumptions are made:

- the non-REPA scenario is a gloomy one for many non-LDCs, for whom protocols have been the most valuable part of the Lomé trade regime;
- the REPA scenario indicates that strict WTO-compatibility would be observed, conforming with the formal EU mandate, but contrasting with the EC's call for flexibility during the negotiations;
- according to the EC, the choice of six ACP regions for the studies does not mean that it plans to sign REPAs with them - nor does it preclude agreements with other regions or countries such as Nigeria - it is bound to be seen as a shape of things to come.

CARICOM (*Caribbean Community*): Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St Kitts & Nevis, St Lucia, St Vincent & Grenadines, Suriname, Trinidad & Tobago. [The Bahamas are members of the Community, but not the common market. The Dominican Republic is negotiating a FTA with CARICOM].

EAC (*East African Cooperation*): Kenya, Tanzania, Uganda.

Pacific (no regional organisation): Papua New Guinea, Fiji, Kiribati, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

SADC (*Southern African Development Community*): Angola, Botswana, DR Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.

UDEAC-CEMAC (*Union Douanière et Economique de l'Afrique Centrale – Communauté Economique et Monétaire de l'Afrique Centrale*): Cameroon, Central African Republic, Congo, Gabon, Chad, Equatorial Guinea.

UEMOA (*Union Economique et Monétaire Ouest Africaine*): Benin, Burkina Faso, Mali, Niger, Côte d'Ivoire, Senegal, Guinea-Bissau, Togo.

Not in regions above: Burundi, Cape Verde, Comoros, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Liberia, Madagascar, Mauritania, Nigeria, Rwanda, Sao Tome & Principe, Sierra Leone, Somalia, Sudan.

Good or Bad? No Simple Answers

Some may think that the studies tell less than they had expected, insofar as they do not make a clear case for or against REPAs. In fact, no clear-cut overall conclusion can be drawn from the studies, especially from the quantitative results, because:

- the results of the calculations depend on the many assumptions that were made, many of which were necessarily a simplification of reality (e.g. in assessing the degree of substitution between local goods and imports from Europe, or between imports from Europe and from somewhere else);
- the studies were mainly desk-based, often relying on data that was not readily available or of poor quality. Any quantitative assessment is at best a rough estimation of trends;
- the six studies are not easy to compare as they used different methodologies and sometimes different assumptions (e.g. the CARICOM and SADC studies rejected the assumption that protocols would cease for non-LDCs in the non-REPA scenario).

Despite these limitations, some general conclusions can be drawn:

- in most cases, LDCs have little to gain from REPAs. They can keep non-reciprocal trade preferences anyway;
- the loss of non-reciprocal preferences would hardly affect the export performance of many ACP countries;
- by contrast, the direct or indirect effects of not renewing the protocols *could* dramatically affect the exports of some ACP countries. However, none of the studies estimated these effects as this would have required separate studies;
- the negative impact on customs revenues varies considerably, but could be substantial for some.

Some questions that the studies could not address remain unanswered. For instance:

- the eventual growth-enhancing dynamic effects of REPAs on ACP economies (the "lock-in" effect on economic reforms in the ACP, the positive "stabilisation" impact on investment, etc.)
- the testing of alternative trade liberalisation scenarios, such as a gradual opening of ACP markets on a multilateral basis, towards Europe and elsewhere.

Below we summarise the main conclusions of each study (except UEMOA), distinguishing between the feasibility of a REPA, and its potential impact on ACP economies.

The Results by Region

SADC

While, in the long run, SADC would be a natural REPA partner for the EU, institutional, political and economic constraints make it difficult, if not impossible, for SADC to conclude a REPA in the timescale envisaged by the EU. The fourteen SADC members have made uneven progress towards trade liberalisation, and a lot remains to be achieved before a FTA, let alone a customs union, could be in place. The report suggests the following course: First, extend the EU-South Africa free trade agreement to other SACU members (Botswana, Lesotho, Namibia, Swaziland). Then, conclude some form of REPA with the three remaining non-LDCs (Mauritius, Seychelles, Zimbabwe), temporarily leaving out six LDCs that are better off outside a REPA. A SADC-wide REPA with the EU might be envisaged beyond 2010.

Expected trade creation gains are very small, while trade diversion losses are substantially greater, especially for the Seychelles (2% of GDP) and Mauritius (1.7% of GDP)[2]. The agricultual sector would be mostly affected, especially by subsidised European exports. Estimated losses in government revenues vary, ranging from negligible amounts for the BLNS to losses of 9% and 8% for Mauritius and Tanzania, and 30% for the Seychelles. In the longer term, the report sees positive benefits in a SADC-wide REPA since it would "lock" the SADC countries in their own FTA and underpin regional integration. In the short term, however, the gradual approach proposed above could be rather detrimental to the process of regional integration.

EAC

The EAC study is more optimistic about a REPA. The three members are likely to have formed a customs union by 2005 and a REPA could provide them with an incentive to pursue trade liberalisation. Tanzania would nevertheless be in a tricky situation, as a member of both EAC *and* SADC.

Within EAC, Kenya is the only non-LDC, and therefore would be most affected if no REPA was signed. It must be noted that available Kenyan data was particularly poor and the results should be treated very carefully. The overall effect of a REPA was that net welfare could fall in the three countries, although the loss was small relative to GDP. By contrast, losses of tariff revenue were estimated to be quite large. All the trade effects were concentrated in the (relatively small) manufacturing sectors and the adjustment problems were expected to be modest.

UDEAC-CEMAC

Even more than SADC, CEMAC brings together countries that lack both a real sense of common interests in implementing trade liberalisation, as well as the technical capacity for implementing it. While a REPA might support the trade reform process, the report casts serious doubts on the capacity of CEMAC to negotiate and implement it.

If a REPA were signed, only Cameroon exporters would obtain significant benefits, largely because exports of bananas would probably cease under the "GSP-only" scenario. As for imports, no trade diversion or trade creation effects were noticeable, and imports from the EU would increase by just over 5%. Finally, the fiscal impact was estimated for two groups of countries: Cameroon, Equatorial Guinea and Gabon, facing an 8% decrease in government revenues, would be able to adjust their fiscal systems over time, though with some difficulties. By contrast, for Congo, Central African Republic and Chad, a REPA was regarded as "at best a very low priority and at worse counter-productive", given their weak economic performance and their problems of government finance.

CARICOM/Dominican Republic

CARICOM is the most integrated of the ACP sub-regions, and has institutional mechanisms capable of negotiating with the EU. It is currently at an advanced stage of negotiating a FTA with the Dominican Republic. Together this could soon be an entity the EU could sign a REPA with. If CARICOM granted preferential treatment to the EU, it would have to extend it to the US and Canada, with whom it has trade agreements. CARICOM has also entered, or has plans to enter, into trade negotiations with Mexico and several Latin American countries, and would take part to the wider Free Trade Agreement of the Americas (FTAA). The main recommendation of the study was therefore that any negotiation of a REPA should be coordinated with those, and thus should not necessarily fit the 2005-2015 timetable proposed by the EU.

As for the impact of a REPA, results indicate that trade creation would substantially exceed trade diversion, although the former was estimated at only 10% of CARICOM/DR imports. The analysis indicated that there would be significant losses in terms of revenue from import taxes, on which CARICOM/DR countries, especially the smaller Caribbean states, rely heavily. Since a REPA would probably be introduced along with hemispheric trade liberalisation, the induced adjustment cost will be very high, and thus call for special attention by aid donors, including the EU.

The Pacific

The eight Pacific ACP countries are not organised as a regional group, but all belong to the South Pacific Forum along with eight other countries. The report suggests that a FTA could be negotiated with the Melanesian Spearhead Group (MSG), a sub-group comprising Papua New Guinea, Fiji, Solomon Islands and Vanuatu. A more general Partnership Agreement could cover all eight Pacific ACP countries (although it is not clear how this would operate). The lack of institutional capacity of the MSG would need to be addressed. Besides, the interests of the other members of the South Pacific Forum would need to be taken into account, notably Australia and New Zealand. The latter in particular would probably require the same access to the ACP Pacific countries as granted to the EU, as a condition of continued duty-free access to their markets under the present SPARTECA preferential agreement.

The termination of the sugar protocol and the preferences for canned tuna would have large implications for Fiji in terms of employment, export earnings and thus the government's budget. Even if the protocols remained, both sectors will need to adjust, probably with some support from donors. For the seven other Pacific ACP countries, the termination of Lomé preferences would have no significant effect. Effects on imports are also likely to be small.

Future Studies

The impact studies are an important contribution to the debate on future EU-ACP trade relations. Building on their results, the ACP may now want to carry out their own impact studies, with different approaches:

- on sub-regional groupings, for instance by including Nigeria in a West Africa group;
- on adverse effects of REPAs on trade between sub-regional groups, and on measures required to minimise these effects;
- with more fieldwork in ACP countries to assess the impact of alternative forms of a REPA on countries and sectors;
- including areas such as competition policy, enhanced guarantees of access to the EU market through the elimination of anti-dumping and safeguard measures, agreements regarding the implementation of technical, sanitary and phytosanitary standards which can act as barriers to trade, and enhanced disputes procedures on the application of the agreement (as incorporated in the EU agreement with Morocco);
- on EU assistance required to implement the REPA and to enable the ACP economies to smoothly adjust their structures and government revenues;
- by reconsidering the strong assumption that the protocols be terminated if a REPA was not signed, and carrying out studies on the status of the protocols and their future in the world trading system.

Acronyms

ACP	Africa, Caribbean, Pacific
BLNS	Botswana, Lesotho, Namibia, Swaziland
COMESA	Common Market for Eastern and Southern Africa
ECOWAS	Economic Community of West African States
FTA	Free Trade Area
GSP	Generalised System of Preferences
IOC	Indian Ocean Commission
LDC	Least-Developed Country
REPA	Regional Economic Partnership Agreement
SPARTECA	South Pacific Regional Trade and Economic Co-operation Agreement
WTO	World Trade Organisation

Notes

1. The use of the term *Economic Partnership Agreement* in place of *free trade agreement* sometimes suggests that the former *may* not necessarily comply with a strict interpretation of WTO rules on free trade agreements (e.g. REPAs could provide for longer periods of transition, or the exclusion of more sensitive products). The terms of reference of the studies assumed REPAs would be strictly-WTO compatible FTAs. The formal EU mandate also stresses the need for such agreements to conform strictly to WTO rules.
2. *Trade creation* gains would arise if inefficient local production in the ACP was displaced by more competitive imports from Europe. *Trade diversion* costs would occur if imports from non-EU suppliers were displaced by European products, although the former are more efficient, because of preferential treatment given by the ACP to the latter.

The European Centre for Development Policy Management (ECDPM) is an independent foundation that aims to improve international cooperation between Europe and countries in Africa, the Caribbean, and the Pacific. It does this through capacity building for policy management, the promotion of policy dialogue between ACP countries and Europe, and through the provision of information and facilities for knowledge exchange.

Lomé Negotiating Briefs are designed to provide information on key issues relating to the current EU-ACP negotiations. This Brief draws heavily on an ECDPM Discussion Paper by Matthew McQueen (University of Reading). It was prepared by Henri-Bernard Solignac Lecomte, with Geert Laporte and Kathleen Van Hove. It is published with support from the Swedish Ministry of Foreign Affairs. For further information contact Kathleen Van Hove (kvh@ecdpm.org).