InBrief
No. 14E - November 2006

Overview of the regional EPA negotiations

ESA-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/inbrief14e*

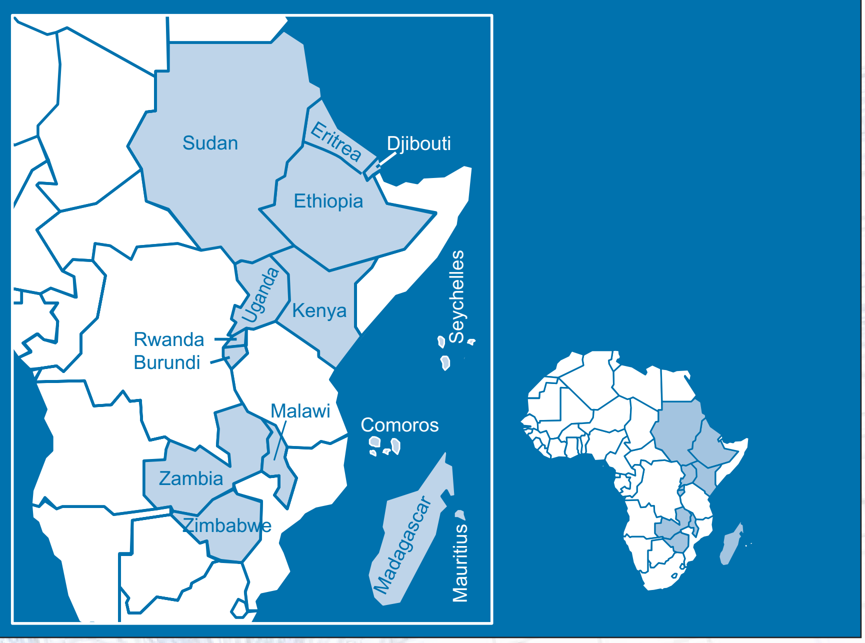
Introduction

Eastern and Southern Africa (ESA)[1] constitutes one of the continent's largest economic groupings, facing common development challenges but also displaying a significant degree of heterogeneity. Eleven of the region's sixteen members are least developed countries,[2] and the majority are also highly indebted poor countries (HIPC), spending more than half of their export earnings to service their external debt. The region has a market size of nearly 300 million people, generating a GDP of US $80 billion per annum.[3] Growth has been stagnant in recent years, with ESA economies still dominated by agriculture[4] and increasing poverty associated with economic weaknesses. This, together with the lack of basic infrastructure and social services, the political instability in several member countries as well as the high incidence of diseases like HIV/AIDS, malaria and tuberculosis, explains the extremely low life expectancy and economic welfare of the region's people.

Despite these common features, the ESA countries represent a wide range of economic performances and development levels. In 2004, for instance, Ethiopia ranked fourth as top performers in Africa (with 11.6% real GDP growth); while the Seychelles and Zimbabwe were the bottom two (with –2.0% and –6.8%, respectively). Recent reports show Mauritius, and to a lesser extent Uganda, and Rwanda, as on track to meet several of the Millennium Development Goals, although most of the other members will likely miss them all.

The region's main exports are coffee, tobacco, flowers, minerals, fish, tea and sugar (with some countries being mono-exporters of commodities).[5] ESA members are net importers of raw materials, intermediary products, foodstuffs, finished goods,

ESA-EU EPA regional configuration



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EAST & SOUTHERN AFRICA
Trade in Goods with the European Union, 2005

Trade flows
- EU-bound exports: €5,127 million (growth 2004-2005: 1.1%)
- Imports from the European Union: €5,816 million (growth 2004-2005:20.6%)
- Trade balance: €689 million

Share of agriculture in trade
- EU-bound exports:54%
- Imports from the European Union:10%

Participation in EU trade:
- EU-bound exports: 0.54%
- Imports from the European Union: 0.43%

Main trade partners (2004):
- Exports: European Union (33%), China (17%), Other (36%)
- Imports: European Union (22%), South Africa (12%), Other 36%)

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

capital equipment, tools and machinery. The European Union is the region's main trading partner, accounting, respectively, for 34% and 23% of total ESA exports and imports in 2003. Trade with the European Union underlines ESA specialisation patterns, with agriculture and machinery representing, respectively, 52% of EU imports from the region and 42% of EU exports to it. Intra-regional trade among ESA members has been steadily increasing in recent years due to regional integration initiatives.

ESA countries are currently pursuing a series of external trade negotiations, including those at the multilateral level in the context of the World Trade Organization (WTO). The region's states are also negotiating an Economic Partnership Agreement (EPA) with the European Union. The EPA, by end 2008, is to replace the thirty-year-old Lomé non-reciprocal trade regime.

The ESA Regional Integration Process

ESA member states are involved in several overlapping regional and sub-regional agreements encompassing trade and political and economic cooperation. As shown in figure 1, the countries are members of one or more of the following economic integration groupings: the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), the East African Community (EAC), the Inter-Governmental Authority on Development (IGAD) and the Indian Ocean Commission (IOC). This, together with the countries' very different sizes, backgrounds, natural features and economic interests,[6] makes the internal ESA regional integration process extremely complex.

In fact the ESA configuration is the outcome of a decision by sixteen[7] countries in eastern and southern Africa to negotiate an EPA as a single bloc with the European Union, after an intense and highly politicised debate over different options. The ESA group is therefore a new reality that is developing in the context of several pre-existing regional integration initiatives. The ESA configuration is open to all COMESA and SADC member states, with an opt-in provision for any COMESA and SADC countries that may want to join the negotiating group at a later stage. COMESA is the largest grouping and trading bloc in the region (all ESA states are part of it) as well as the most advanced in terms of scope of economic integration. In 2000 nine COMESA member states established a free trade area (FTA) eliminating tariffs on products originating from within their borders, in accordance with the schedule adopted in 1992 for the gradual removal of tariffs in intra-COMESA trade. This schedule provides for variable speed to allow countries to make the necessary adjustments before joining. The next step on COMESA's integration agenda is a customs union.[8] COMESA has also established trade and investment instruments, including the Eastern African Trade and Development Bank, the African Trade Insurance Agency and the COMESA Common Investment Area.

The second largest regional economic community in the area is SADC, which was formed in 1980 as a permanent conference to reduce southern African states´ economic dependence on Apartheid-governed South Africa. The transformation into a development community came in 1992 and the SADC Trade Protocol entered into force in 2000 with tariff reductions scheduled to achieve an FTA by 2008.[9]

Similarly, the EAC countries have long been committed to closer economic cooperation. They formally established their community in 2000, subsequently creating an East African Legislative Assembly and a Court of Justice. A Customs Union was established in January 2005, and the EAC Treaty provides for the next steps to becoming a common market, a monetary union and finally a political federation.

The multiplicity of regional memberships creates difficulties for the ESA countries, since it means they must comply with various tariff reduction schedules, rules of origin and other liberalisation requirements. For instance, countries that are members of both SADC and COMESA must implement both the SADC Trade Protocol and the COMESA FTA, though the two regional trade agreements offer different trade preferences. Similarly, although COMESA and EAC both aim to establish a customs union at about the same time, no country may belong to two different customs unions, unless the two unions have equivalent trade policies, including the same common external tariff, in which case the two could be merged. This means for example that Uganda and Kenya will have to decide whether they want to be a member of the COMESA or the EAC. The same is true for Tanzania with respect to its dual membership of SADC and EAC.

Libya has recently gained full membership to COMESA, after completing the ratification process in August 2006. Egypt joined COMESA in 1999. In doing so, these two Mediterranean states wished to intensify political and trade relationships with Eastern and Southern African countries. However, as these countries do not belong to the ACP group of states, they will not be taking part in EPA negotiations with the EU within the ESA grouping. The scheduling of the creation of a FTA as part of the Euro-Med trade cooperation with the EU by 2010 complicates relationships with the COMESA group further as Libya and Egypt would also belong to two different customs unions with, in all likelihood, diverging common external tariffs.

EPA negotiations with the European Union add another layer to these overlapping intra-regional processes, since the new partnership agreement and related tariff reductions are to be negotiated and implemented by ACP sub-regions and not individual states. Hence, countries in the region will eventually have to choose under which configuration to participate, either ESA or SADC, and this configuration should be consistent with the ongoing regional integration initiatives. Some argue therefore that the EPA negotiations can offer an opportunity to strengthen the regional integration processes and to address the problems of contradictions created by multiple membership.

International Trade Negotiations

ESA countries are currently engaged in a series of negotiations that should foster their integration into the world economy. In addition to their own regional trade liberalisation process, ESA states are involved in the EPA negotiations with the European Union. Most of them are also party to the WTO Doha Round, as well as to the economic cooperation initiative between Africa and the United States under the African Growth and Opportunity Act (AGOA).[10] Apart from intra-ESA integration processes, including the expected launch of COMESA´s customs union in 2008 and the SADC customs union planned for 2010.

Only eleven countries from the ESA region are WTO members and therefore take part in the currently stalled Doha Round of multilateral trade talks. Ethiopia and Sudan are negotiating their WTO accession.[11] Nonetheless, all ESA countries have a direct interest in the outcomes of the Doha Round. This is first because of the relevance of WTO rules to the EPA negotiations (the EPAs must be WTO-compatible)[12] and second for their impact on global markets. WTO-triggered reforms are in fact already affecting ESA countries. Examples are the European Union´s phasing out of sugar quotas, the phasing out of textile quotas under the WTO agreement on textile and clothing, and the erosion of most-favoured-nation preferential tariffs and quotas to the EU and US markets as mandated by multilateral liberalisation.

Economic Partnership Agreement Negotiations

In previous ACP-EU cooperation agreements, all ACP countries enjoyed non-reciprocal tariff preferences for their exports to the EU market. Under the Cotonou Partnership Agreement, this will change in 2008. The preferential trade regime will be replaced by the reciprocal free trade arrangements which are being negotiated at the regional level between the European Commission (EC) and the ESA group. The new agreements are to be compatible with WTO rules, development-oriented and build upon ACP regional integration initiatives. The new trade regime should further incorporate and improve upon the Lomé/Cotonou instruments regarding access to the EU market for ACP exports.

ESA-EU EPA Negotiation Principles

As detailed in a joint road map agreed at the official launching of the EPA negotiations on 7 February 2004, the ESA-EU EPA is to be based on several principles, in line with the overall objectives of the Cotonou Partnership Agreement.

Above all, the EPA must be an instrument for sustainable development, with the development dimension reflected in all areas of negotiations. The EPA is to promote the development objectives of the concerned countries and include provisions for efficient and sustainable utilisation of natural resources to enhance the production, supply and trading capacity of the ESA economies and foster their structural transformation and diversification.

A second negotiation principle is that the EPA should take into account the different needs and levels of development of individual ESA countries. Special and differential treatment should be provided to all ESA states, which differ widely in size, development, income levels, resource base and expected adjustment costs. The agreement should particularly take into account the serious constraints of the landlocked and island states. In terms of market access, the joint road map explicitly refers to the preservation of the Cotonou trade acquis and their improvement, with particular regard for the special needs of the least developed countries and preservation of the benefits of the Everything-But-Arms initiative and other existing preferential arrangements.

Thirdly, the EPA is to build upon existing ESA regional integration processes, so as to complement and support integration, harmonisation of regional trade-related rules and consolidation of regional markets. Consequently, the pace of trade liberalisation between the region and the European Union will be a function of the degree of economic integration achieved within the region. Moreover, the EPA is to be coherent and consistent with the New Partnership for Africa's Development (NEPAD) coordinated by the African Union.

ESA Negotiating Structure

The negotiations between the ESA region and the EC are being conducted at two levels: the ministerial level and the ambassadorial/senior official level. The ESA states have designated six Brussels-based ambassadors and ministers to lead the discussions in six different areas of negotiation: development issues, market access, agriculture, fisheries, trade in services and other trade-related issues. Every six months, on a rotational basis, the ministerial lead spokespersons and ambassadorial lead spokespersons each select a chairperson from their ranks to be the overall spokesperson for the region when a joint negotiating session with the EC takes place at the two respective levels.

Each ESA state has established a National Development and Trade Policy Forum (NDTPF) comprising representatives of the public and private sectors and other non-state actors (NSAs). The forum is tasked to determine national positions for each area of negotiation. These positions can then be drawn upon by the country representatives in the Regional Negotiating Forum (RNF), which prepares the overall ESA negotiating position. Alongside the national delegates from the sixteen countries, other RNF members are the ambassadorial lead spokespersons and representatives from regional non-governmental organisations involved in trade and development. The secretariats of the regional economic communities involved in the ESA-EU EPA negotiations (COMESA, EAC, IOC and IGAD) act as secretariat for the RNF, with COMESA playing the lead and coordinating role.

The ESA regional negotiation mechanism is now well established through the RNF and the meetings of ambassadors and EC officials. However, at the national level, capacities to effectively feed into the RNF remain extremely weak in most cases, due to lack of both guidance and human and financial resources.

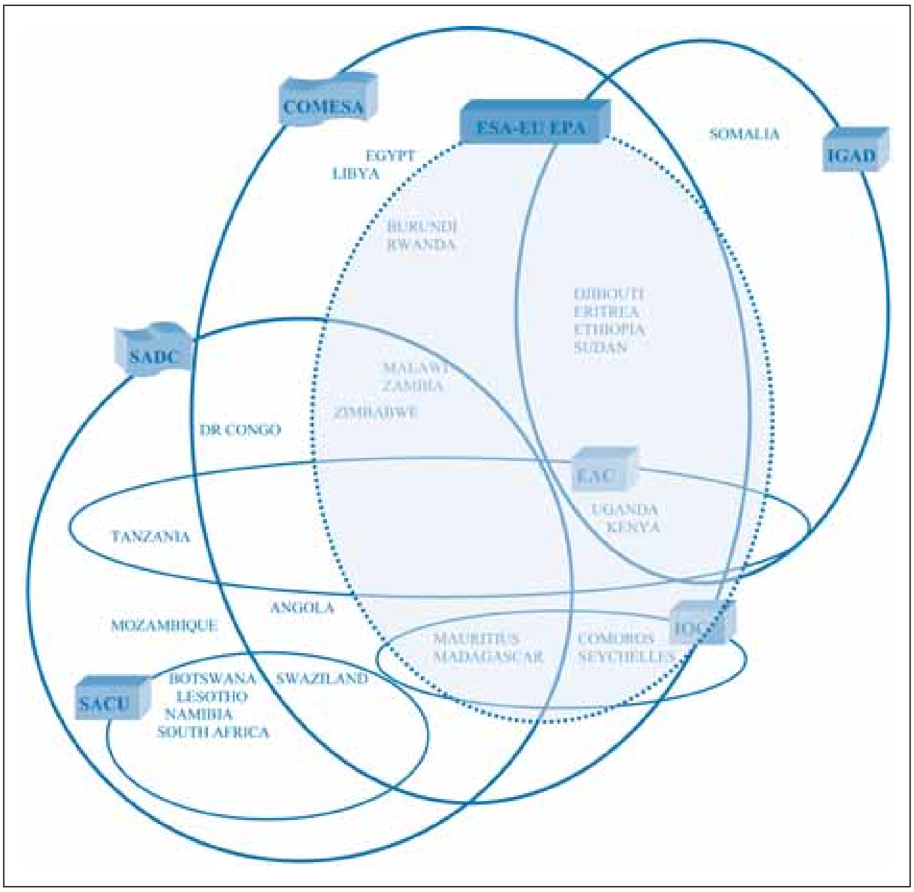
Key issues and challenges

Several issues and challenges arise from EPA negotiations.

Geographical and institutional configuration

Multiple overlapping memberships of regional integration organisations and lack of coherence between the ESA and SADC configurations present a first significant challenge for the EPA process. The EPAs negotiated by the ESA and SADC countries must respect existing regional integration processes (while encouraging harmonisation among multiple memberships) as well as socioeconomic and political choices and development priorities of the member states within each bloc. If the ESA and SADC regions were to arrive at very different negotiation outcomes, some countries may be tempted to sign the agreement they perceive as more favourable to their individual situation, to the detriment of diplomatic and political relations. A solution could be to ensure that the ESA and SADC EPAs are developed and implemented consistent with one another, with a view to the merging of COMESA and SADC as part of the African Union's planned rationalisation of regional economic communities. This would allow for the gradual removal of discrepancies between the different preferential trade agreements and even a rationalisation of the operations of the respective institutions, enabling countries in eastern and southern Africa to concentrate on building internal markets and solving the economic weaknesses of the region. The fact that the ESA configuration has an opt-in provision for any COMESA or SADC member state which may want to join could help in this direction.

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



Development issues

Regarding the substance of the EPA negotiations, the key priority for the ESA countries is the development component. Effective measures to enhance production and trading capacity, to diversify exports and to develop human resources will be necessary if the ESA economies are to concretely benefit from improved market access conditions in Europe. Therefore, the EPA needs to be accompanied by measures to remove supply-side constraints, like unreliable public utilities, poor public infrastructure, weak institutional policy frameworks and low labour productivity. Such measures might also include a framework investment agreement that seeks to attract more investors to the region. ESA members have also proposed to build into the EPA framework mechanisms to offset the negative effects of tariff reductions on government revenues[13] and to bolster the competitiveness of domestic industries. Besides supply-side constraints and adjustment costs, the development component of the EPA could cover the ability of ESA countries to comply with non-tariff barriers in EU markets, such as technical, quality and food safety requirements. For example, it might provide for assistance in establishment of competent national and regional authorities.

Key sectors: Agriculture, fisheries, services

The European Union is by far the ESA region's most significant trading partner, in both directions of trade. In terms of market access for goods, a key economic sector for ESA is agriculture, which may require adequate provisions on special and differential treatment for ESA members, addressing issues of EU domestic support and export subsidies under the CAP, erosion of tariff and quota preferences and less restrictive rules of origin. For several countries, the inland and ocean fishing industries are important sources of food and income. EPA trade provisions on fisheries should thus promote both export growth and food security. Finally, the services sector is increasingly important to ESA members. In the smaller states that lack significant manufacturing and agricultural sectors, services such as tourism, telecommunications, transport and financial services, constitute a large part of the economy. The EPA would therefore do well to emphasise ESA members' access to the EU market in service sectors and modes of export supply of interest to the ESA states (mainly tourism-related services and Mode 4 on the Movement of Natural Persons). Commitments by the ESA states should come in sectors where liberalisation would enhance efficiency and competitiveness.

Notes

1 *The ESA configuration consists of Burundi, Comoros Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe. End of 2005, the Democratic Republic of Congo (DRC) decided to suspend its membership in the ESA EPA configuration and change to the Central African EPA configuration.*

2 *Burundi, Comoros, Djibouti, Ethiopia, Eritrea, Malawi, Madagascar, Rwanda, Sudan, Uganda and Zambia.*

3 *Data in this section are from World Bank Development Indicators 2003, The Economic Report on Africa 2005, Progress and Prospects of achieving the MDGs in Africa 2005 (UN Economic Commission for Africa) and 2003 COMEXT data (IMF).*

4 *In ESA countries, from 1999 to 2004 annual growth of GDP fluctuates between an average of 1.0% and 2.8%, and agriculture still accounted for about 30% of GDP.*

5 *For example, Zambia and Zimbabwe in 2000 generated 57.5%, 47.1% and 15.9% of their total export earnings, respectively, from diamonds, copper and tobacco.*

6 *Some ESA countries are francophone while others are English-speaking; some are land-locked and others small islands states. Size and population are also extremely heterogeneous, ranging from more than 50 million people in Ethiopia to less than 100,000 in Seychelles.*

7 *DRC withdrew end of 2005.*

8 *The COMESA Treaty requires that member states establish a customs union over a transitional period of ten years from the entry into force of the Treaty. The Customs Union is expected to be launched in 2008.*

9 *See also ECDPM Regional EPA InBrief on SADC.*

10 *Currently Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Uganda, Djibouti, Eritrea, Rwanda, Seychelles and Zambia qualify for exception from export duties and quotas for some 8,000 types of products to the US market. Given the positive impact this has had on both export growth and attraction of foreign direct investment, the remaining ESA members may consider lobbying the US for inclusion in the AGOA list of beneficiaries.*

11 *Eritrea, Comoros and Seychelles are not WTO members.*

12 *Given the EU's developed country status, WTO compatibility means that any new agreement between ESA states and the EU must comply with the provisions of Article XXIV of the General Agreement on Tariffs and Trade (GATT), dealing with FTAs, or any modi?cation of that article that might be agreed upon as part of the Doha Round, preferably prior to the conclusion of EPAs.*

13 *In the ESA region, around 50% of trade taxes come from EU imports. This represents 10%-15% of total government revenues, meaning that for some countries 5%-7% of total revenue could be lost in moving to an free trade agreement with the European Union.*

List of acronyms

ACP	African, Caribbean and Pacific
CAP	Common Agricultural Policy
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
EAC	East African Community
EC	European Commission
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FTA	Free Trade Agreement
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
IGAD	Inter-Governmental Authority on Development
IOC	Indian Ocean Commission
IMF	International Monetary Fund
NDTPF	National Development and Trade Policy Forum
NEPAD	New Economic Partnership for Africa's Development
NSA	Non-State Actor
RNF	Regional Negotiating Forum
RPTF	Regional Preparatory Task Force
SACU	Southern African Customs Union
SADC	Southern African Development Community
SPS	Sanitary and Phytosanitary measures
UNDP	United Nations Development Program
US	United States
WTO	World Trade Organization

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- East African Community www.eac.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
- Indian Ocean Commission www.coi-info.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-techincal 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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