InBrief
No. 14A - November 2006

Overview of the regional EPA negotiations

Central 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/inbrief14a*

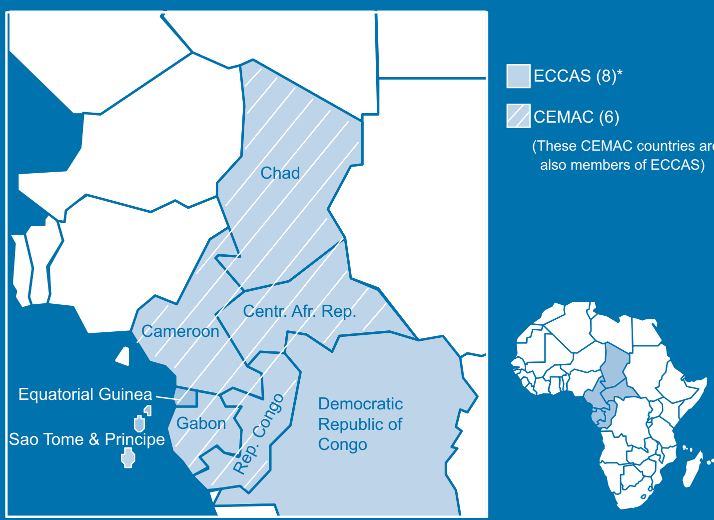
Introduction

Central Africa covers a vast geographical area with a population of roughly 32 million inhabitants. Despite diversity in size, population density and economic profile, the region's eight countries[1] share a number of distinctive features and challenges. A major common concern is the high poverty incidence, which has not declined over the past decades. All countries but Cameroon and Gabon are classified as least developed. Social and human development indicators also show very low levels, especially in the two landlocked countries (Chad and the Central African Republic), which the United Nations Development Program (UNDP) classifies as "low human development". In these two countries, all social indicators are below the sub-Saharan Africa average.

Despite a favourable natural resources endowment, economic growth in the region has been low and volatile, though slight improvements have been made since the devaluation of the *franc de la Communauté Financière Africaire* (FCFA) currency and related reforms initiated in 1994.[2] The political situation remains highly instable due to both internal conflicts in Chad, the Central African Republic and the Republic of Congo and the adverse effects of conflicts in neighbouring countries.

Central African economies are poorly diversified and highly dependent on natural resources (oil, forests) for their exports and economic growth. In Equatorial Guinea and the Republic of Congo, for instance, the oil sector accounts for more than half of gross domestic product (GDP). The tertiary sector (administration, commerce and transport services in particular) plays a central role across the whole of the region, while agriculture is significant in Cameroon, the Central African Republic and Chad. Economic

Central Africa-EU EPA regional configuration



* Other countries member of ECCAS but not part of the Central Africa-EU EPA are Angola, Burundi and Rwanda.

ECCAS= Economic Community of Central African States
CEMAC= Communauté Economique et Monétaire de l'Afrique Centrale/ Economic and Monetary Community of the Central African Countries

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CEMAC
(plus Sao Tome and Principe and the Democratic Republic of Congo) Trade in Goods with the European Union, 2005

Trade flows
- EU-bound exports: €5,393 million (growth 2004-2005:23.7%)
- Imports from the European Union: €3,421 million (growth 2004-2005: 9,8%)
- Trade balance: €-1,972 million

Share of agriculture in trade
- EU-bound exports: 10%
- Imports from the European Union: 15%

Participation in EU trade:
- EU-bound exports: 0.32%
- Imports from the European Union: 0.46%

Main trade partners (2003):
- Exports: United States (34%), European Union (33%), China (14%), other (19%)
- Imports: European Union (54%), United States (9%), other (32%)

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

disparities among the countries are significant: Cameroon and Gabon,[3] accounting respectively for around 50% and 25% of the region's total GDP, are relatively large economies, while Chad and the Central African Republic are among the poorest in the world, with per capita gross national incomes not exceeding US $300.

Despite regional integration initiatives, intra-regional trade flows are still limited.[4] As for external trade, Central African economies are very open to the international market. Though with market volatility over the years, total exports (in dollar terms) have risen by some 50% over the twenty-year period up to 2000, to reach almost €9.5 million in 2003. The European Union, especially France, is the region's major trading partner, although the United States also receives a significant share of its exports (see box). Central African exports are concentrated in just a few sectors. Oil is the main determinant of the region's trade performance, holding about a two-thirds share of total exports since 1990. This is followed by wood and some agricultural products (bananas, cocoa beans, cotton and coffee). Despite liberalisation efforts, Central Africa's participation in world trade remains insignificant. In 2004, it accounted for barely 0.28% of EU exports and 0.35% of EU imports.

The Central African regional integration process

In Central Africa, two main regional integration processes are under way. The first is the Economic and Monetary Community of the Central African Countries (CEMAC),[5] which was established in 1994[6] to give new impetus to economic integration in the region. Taking over from its predecessor, *the Union Douanière et Economique de l'Afrique Centrale* (UDEAC) founded in 1964, CEMAC has adopted an agenda including the convergence and monitoring of national macroeconomic policies; the creation of a single market based on the free movement of goods, services, capital and persons; and the coordination of sectoral policies. The Union has also defined an action programme covering a fifteen-year period (1999–2014) to reach these objectives. In terms of institutional setting, the CEMAC Regional Executive Secretariat is the main supranational body, in charge of legislative as well as management activities. Since 2002, CEMAC has been financed through an autonomous financing mechanism based on the collection of an integration communitarian tax.[7]

Looking specifically at trade and economic integration, the CEMAC zone is first of all a monetary union with a common monetary policy, managed by the *Banque des Etats d'Afrique Centrale* (BEAC), and a common currency, the FCFA, pegged to the euro. In December 2000, CEMAC also formally became a free-trade area (FTA), though many tariff and non-tariff barriers have remained. This, combined with serious physical constraints to transport and lack of economic complementarity, hampers the development of intra-regional trade. Finally, the CEMAC region is a formal customs union notified to the World Trade Organization (WTO), with WTO observatory status since 2000. Regional integration measures progressively adopted since 1994 include major tax and customs reforms; common rules on investment and competition; regionally harmonised value-added taxes; a common external tariff (CET) with four rates (5%, 10%, 20% and 30%); and a common regime of customs valuation and rules of origin. Some of these reforms are still in the process of implementation. However, progress is slow and their effective application remains largely incomplete.

Key priorities for CEMAC are the progressive elimination of the remaining internal trade barriers and the consolidation of the customs union, including a possible revision of the CET to bring it into line with the one adopted by the West African Economic and Monetary Union (UEMOA). In December 2004, CEMAC members signed a trade agreement with Sao Tome and Principe, and together they form the regional configuration currently negotiating an EPA with the European Union.

Central Africa's second main regional integration process is the Economic Community of Central African States (ECCAS).[8] ECCAS was created in 1983 with the ambitious mandate to foster political dialogue, sectoral cooperation and trade integration at the regional level. The organisation remained largely inactive during its first fifteen years, due to financial difficulties and institutional weaknesses as well as conflicts in the Great Lakes area. Its activities were re-launched at the Malabo Conference in 1999 with a specific focus on conflict prevention and peace consolidation, both essential prerequisites for the creation of a Central African common market.

International trade negotiations

In addition to their own regional economic integration process, Central African countries are involved in several external trade negotiations. All of the countries, except for Equatorial Guinea, are members of the WTO and therefore participate in the ongoing Doha Development Round. Moreover, these countries are signatories of the Cotonou Partnership Agreement, which requires an Economic Partnership Agreement (EPA) to be negotiated with the European Union by end 2007. The Democratic Republic of Congo (DRC), previously negotiating an EPA in the East and Southern Afirca-EU EPA configuration, joined the CEMAC configuration at the end of 2005. Furthermore, with two exceptions,[9] Central African countries benefit from preferential and non-reciprocal access to the US market for a significant share of their exports under the African Growth Opportunity Act (AGOA). These various liberalisation initiatives are meant to be convergent and complementary, contributing towards the integration of the Central Africa into the world economy.

EPA 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 Agreement, this will change after 2008, when reciprocal free trade arrangements negotiated between the European Union and the six ACP regions will replace the previous preferential trade regime. These new agreements are to be compatible with the rules of the WTO, development-oriented and build upon ACP regional integration initiatives. The new trade regime is also to incorporate and improve upon the Lomé/Cotonou instruments regarding access to the EU market for the ACP countries.

Central Africa-EU EPA Negotiation Principles

The Central Africa-EU EPA negotiations are guided by a number of principles, as detailed in a joint road map agreed in July 2004.

First, the negotiations foresee the creation of an FTA between the two regional blocks starting in January 2008, in order to fully comply with WTO requirements. Once the EPA negotiations are concluded, the principle of reciprocity will be progressively introduced over an indicative period of twelve years.

Another key negotiation principle is that the EPA should support and foster the regional integration process in Central Africa, based on the priorities defined by the region. These encompass, most notably, harmonisation and implementation of sound macroeconomic and sectoral policies as well as establishment of a monitoring system for the regional FTA. Specific attention is also to be given to the effective implementation of the CEMAC customs union (which remains problematic) as well as to the trade agreement between CEMAC and Sao Tome and Principe. The pace of bilateral trade liberalisation with the European Union is to be flexible and asymmetric, depending on the degree of regional integration achieved within Central Africa itself.

In line with the goals and principles stated in the Cotonou Agreement, the Central Africa-EU negotiations towards the EPA must, above all, accord priority to the promotion of sustainable development and poverty reduction in the region. This is to be ensured particularly through competitiveness-upgrading programmes, with specific focus on sectors most likely to be affected by the EPA and by regional integration processes. These capacity-building programmes, by improving the business environment and providing appropriate direct support to enterprises, should help Central Africa to maximise the potential benefits generated by the EPA and enable the region's countries to attune their economies to the liberalisation process. In terms of financial coverage, both parties agree that all of the instruments and procedures available in the Cotonou Agreement will be brought to bear, along with possible complementary resources obtained from co-financing provided by EU member states and other development partners.

Negotiating structure

Negotiation of the Central Africa-EU EPA is taking place at three levels: the political level *(Comité Ministériel Commercial conjoint),* the senior officials' level *(Comité des Négociateurs)* and the level of the technical experts *(groupes des experts)*.

The *Comité Ministériel Commercial* is composed of the trade ministers of the CEMAC countries and of Sao Tome and Principe. It supervises the negotiations. On behalf of the region, it monitors the functioning of the negotiating structure, approves the results of the negotiations and provides strategic direction. At the senior officials' level, the negotiations are led by the *Comité des Négociateurs,* chaired by the Executive Secretary of CEMAC and vice-chaired by the Assistant General Secretary of ECCAS. This Committee is in charge of conducting the EPA negotiations at the technical level, assisted by the *groupes des experts,* which are chaired by the directors in charge of trade of CEMAC and ECCAS. At their first joint negotiation meeting held in December 2004, senior officials from both sides agreed to establish four technical negotiating groups: (i) for the customs union and trade facilitation; (ii) for technical barriers to trade and sanitary and phytosanitary (SPS) measures; (iii) for other trade-related issues; and (iv) for services and investment.

Parallel to this formal negotiating structure, Central Africa and the European Commission (EC) have set up a joint contact group to provide secretarial and follow-up services and support to the negotiations. In addition, the joint Regional Preparatory Task Force (RPTF) was created to facilitate links and coherence between the trade negotiations and related financial assistance. In fact, the issue of development support to reinforce production capacity and competitiveness and provide compensation for fiscal losses remains highly contentious. Since the launching of the negotiations, Central Africa has asked for the inclusion of these matters in the formal EPA negotiation process. The European Union, however, maintains that the negotiations should focus on trade aspects only, and capacity-building support is best dealt with by the various Cotonou instruments in the context of the RPTF.

Significantly, the participatory approach agreed upon for the conduct of the negotiations provides a key role for the private sector and civil society. In principle, they are to be kept informed of the evolution of the negotiations and consulted to express their concerns and defend their interests.

Key issues and challenges

Regional integration process

Regional integration could be a driving force for enhanced growth and economic efficiency in Central Africa as well as an important factor for political stability and peace. Its completion, particularly the consolidation of the CEMAC customs union and its extension to Sao Tome and Principe, is therefore a central objective of the EPA negotiations. The process however is far from completion. There is a huge gap between the existing community legislation, which is quite comprehensive, and its effective application by the individual member states. Although the CEMAC zone has officially been an FTA since December 2000, intra-regional linkages remain limited and a wide range of political obstacles and administrative barriers still impede the free circulation of goods, services, capital and labour. Furthermore, many decisions related to the customs and tax regimes have not yet been entirely implemented, leading to problems of double taxation, exonerations and misclassification. Further, harmonised policies in trade-related areas such as competition, investment, intellectual property rights, technical barriers to trade and SPS measures are either nonexistent or not respected in practice. Also, a large variety of other obstacles and challenges, both internal and external, continue to hamper Central Africa's economic integration: political instability and inter-country rivalry; lack of human and financial resources; weak institutions and enforcement mechanisms; large economic disparities between landlocked and coastal countries; and serious infrastructural constraints.

Supply-side constraints

The main objective of the Central Africa-EU EPA negotiations is development and poverty reduction in the region. Clear evidence however shows that market access in itself does not automatically lead to economic diversification and growth. Given the scarcity of private investment and the serious supply-side constraints the region is facing, sound internal reforms and timely development support measures to improve the business climate and enhance the private sector' supply and export potential will be crucial for Central Africa's economies to concretely benefit from trade liberalisation and attract foreign investment. Here, priority areas for reform and support include institutional capacity building and good governance, macroeconomic stabilisation, public infrastructure (especially transport, energy and communication), regional integration, human resources development, and upgrading and enhancing the competitiveness of local enterprises.

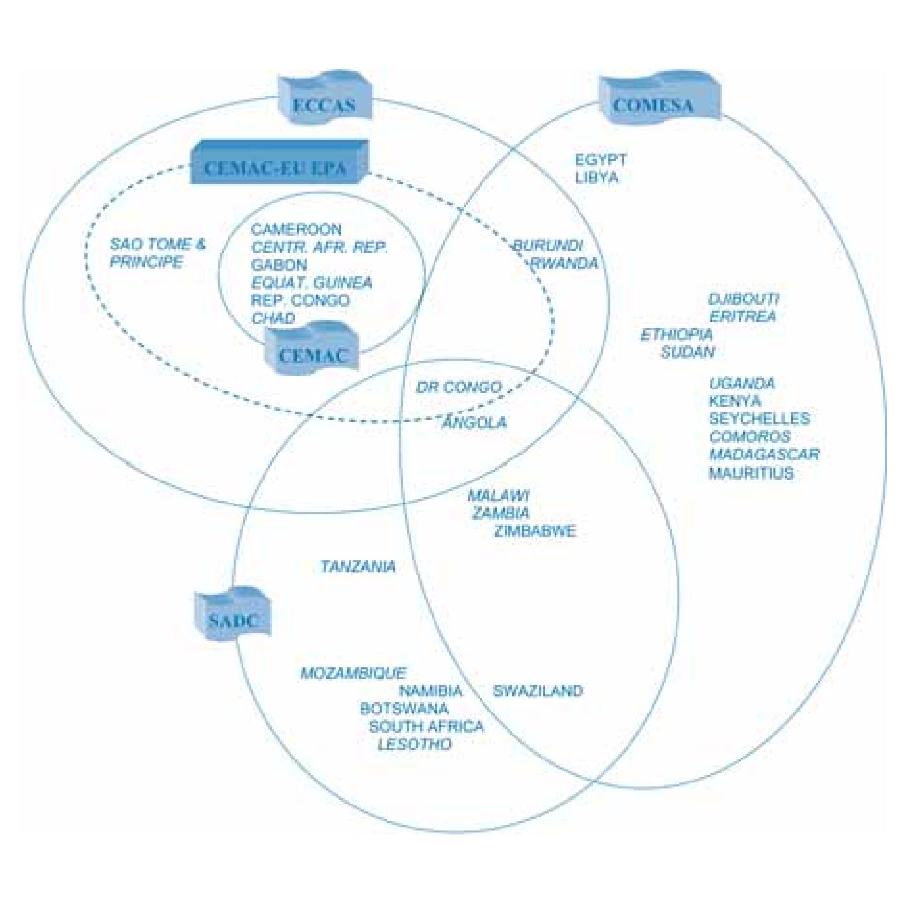
Reciprocity

The impact of offering EU imports and investors improved access to the Central African market is another key issue for the negotiations. Firstly, tariffs form an important source of revenue for the region's governments, making up from 28% to 65% of national budgets. Dismantling these tariffs is likely to lead to a significant drop in government resources, with severe consequences for public expenditures, to the possible detriment of social sectors such as health and education. To offset tax revenue losses in the short term compensation mechanisms, as well as effective application of adequate and stable fiscal reforms, might be needed. Moreover, liberalising trade with the European Union will have important consequences in terms of greater competition within Central Africa's domestic markets. While overall benefits are expected related to consumer welfare and market efficiency (e.g. decreased production costs and greater competitiveness), many local producers and firms might be unable to compete with EU products and be forced out of business, worsening employment and poverty conditions.

Access to the EU market

Except for Cameroon and Gabon, all Central African countries are in the least developed category. It is therefore reasonable to assume that the region will be granted an "Everything but Arms"-type duty and quota-free access to the EU market. Nonetheless, tariff preferences, already steadily eroded in the context of multilateral liberalisation,

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



Countries in italic are LDCs

* DRC has left the ESA -EU EPA configuration end of 2005.

cannot be expected to wholly address the trade needs of Central Africa's exporters. Due consideration must also be given to local entrepreneurs' capacity to comply with EU policies related to SPS, technical barriers to trade and rules of origin.

Key sectors: Natural resources, agriculture, fisheries and services

Central Africa is well endowed with and extremely dependent on natural resources. Firstly, it has vast reserves of petroleum, both off-shore (in Cameroon, Gabon, Congo and Equatorial Guinea) and inland (in Chad), as well as deposits of minerals and metals, including gold, tin, bauxite, uranium and iron ore. Oil in particular dominates the economic and trade performance of the region, accounting for close to 25% of CEMAC's total GDP and 70% of its exports. Another valuable natural resource is the dense forests the region shares with the Democratic Republic of the Congo, representing the second largest eco-forest zone in the world after the Amazon. Logging in this area constitutes a major source of fiscal revenue, export earnings and employment. The EPA process, most notably through regional integration, market liberalisation and improvement of the business climate, could further boost the development of these sectors while helping to mitigate potential negative social and environmental impacts of their exploitation (e.g. deforestation and loss of biodiversity). At the same time, the EPA could stimulate economic diversification by fostering foreign investment and competitiveness of industry in the region.

Two-thirds of Central Africa's population lives in rural areas. Therefore, agriculture (including agro-industry) continues to play a key economic and social role, particularly in

Cameroon, Chad and the Central African Republic. The sector, however, is mainly characterised by low-productivity subsistence activities and is vulnerable to negative effects of the EPA. For example, the agreement could open the door to cheap agricultural imports or stimulate further rural exodus. Due consideration is needed for the potential detrimental effects of trade liberalisation in this sector, taking into account the impact of the EU Common Agricultural Policy (CAP) as well as EU enlargement.

Fishing is a sector with significant potential in terms of trade and food security in the region, especially in the coastal countries. Its development could be boosted through the EPA process.

Finally, the services sector is central to most Central African economies, contributing more than 49% of GDP in Chad. Services, furthermore, show promise for the future although its expansion is currently hindered by weak institutions and lack of sound regulations as well as the inertia of other economic sectors. The EPA, by fostering regional integration and improving market access, could bolster the development of service sectors such as tourism (notably eco-tourism thanks to the rich fauna and flora of the Central African forest), telecommunications and finance.

List of acronyms

ACP	African, Caribbean and Pacific
AGOA	African Growth Opportunity Act
BEAC	Banque des Etats d'Afrique Centrale
CAP	Common Agricultural Policy
CEMAC	Communauté Economique et Monétaire d'Afrique Centrale
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
DDA	Doha Development Agenda
DRC	Democratic Republic of Congo
EAC	East African Community
EC	European Commission
ECCAS	Economic Community of Central African States
EPA	Economic Partnership Agreement
EU	European Union
FCFA	Franc de la Communauté Financière Africaine
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GNI	Gross National Income
IMF	International Monetary Fund
IPRs	Intellectual Property Rights
LDC	Least Developed Country
MU	Monetary Union
NTBs	Non-Trade Barriers
ROO	Rules of Origin
RPTF	Regional Preparatory Task Force
SACU	Southern African Customs Union
SADC	Southern African Development Community
SPS	Sanitary and Phytosanitary measures
STP	Sao Tome and Principe
TBT	Technical Barriers to Trade
TF	Trade Facilitation
TNG	Technical Negotiating Group
UDEAC	Union Douanière et Economique de l'Afrique Centrale
UNDP	United Nations Development Program
US	United States
WTO	World Trade Organization

Notes

[1] *Cameroon, the Central African Republic, Chad, Equatorial Guinea, Gabon, the Republic of Congo, Sao Tome and Principe, and the Democratic republic of Congo (DRC).*
[2] *The period 1994–2000 showed a GDP growth of 0.7% per year to reach a total of more than US $20 billion in 2004.*
[3] *Gabon is the only country in the region to be defined as a "middle-income economy".*
[4] *Trade flows among Central African countries are still less than 5% of total trade in the region. These figures, however, do not take into account informal trade, for which no data are available.*
[5] *CEMAC includes six countries: Cameroon, the Central African Republic, Chad, Equatorial Guinea, Gabon and the Republic of Congo.*
[6] *The treaty instituting CEMAC was signed in 1994 but formally ratified only in 1999 in Malabo, Equatorial Guinea.*
[7] *This tax consists of a percentage fee on the c.i.f value of imports from outside the CEMAC region.*
[8] *ECCAS is made up of the following countries: Angola, Burundi, Cameroon, the Central African Republic, Chad, the Democratic Republic of the Congo, Equatorial Guinea, Gabon, the Republic of Congo, Rwanda and Sao Tome and Principe.*
[9] *Central African Republic and Equatorial Guinea.*

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Additional Sources

- CEMAC www.cemac.cf
- Portal on ACP-EU trade matters www.acp-eu-trade.org
- 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

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).

The ECDPM acknowledges the generous support of the Swiss Agency for Development Cooperation, the Ministry of Foreign Affairs in Sweden and the Netherlands for the production of this series.

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

This *Overview of Regional EPA Negotiations InBrief series* is an initiative by the European Centre for Development Policy Management with contributions of Sanoussi Bilal, Camille Donnat, Nicolas Gerard, Francesco Rampa and Kathleen Van Hove (ECDPM) under the editorial supervision of Sanoussi Bilal (sb@ecdpm.org) and Kathleen Van Hove (kvh@ecdpm.org).

'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.

The ECDPM acknowledges the support it receives for the InBrief from the Ministries of Foreign Affairs in Finland, Luxemburg, the Netherlands and Sweden, the Directorate-General for Development Cooperation in Belgium, Irish Aid, the Swiss Agency for Development and Cooperation, the Instituto Português de Apoio ao Desenvolvimento in Portugal, and the Department for International Development in the United Kingdom.

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ISSN 1571-7542