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South Centre Cautions African Countries when Approaching Economic Partnership Agreements

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The way EPA has been conceived, based on the requirement for reciprocal market opening with the European Union (EU), is likely to bring more losses than gains for Africa. The gains are not much, as the Least Developed Countries (LDCs), which make up 34 out of 47 African countries negotiating the EPAs, can avail of the Everything But Arms (EBA) preferential scheme of the EU. And the value of the preferences African countries will reap from an EPA will essentially become nil in about 5 to 10 years. It is of vital importance for developing and the least developed countries, that the options for industrialisation for future generations are not foreclosed.

The Economic Partnership Agreement (EPA) negotiations, which African countries are negotiating with the European nations, are unlikely to bring Africa closer to their development objectives. The way EPA has been conceived, based on the requirement for reciprocal market opening with the European Union (EU), is likely to bring more losses than gains for Africa. It will make the path to development even more difficult and uphill than it already is.

Whilst the price to pay for African countries wanting to maintain preferential access into the EU is very high, the value of EU's preferences is going to diminish rapidly. The value of the preferences African countries will reap from an EPA will essentially become nil in about 5 to 10 years. This is because the EU is already negotiating Free Trade Agreements (FTAs) with Central America, Andean countries, ASEAN, India and others. Therefore, for preferences that will last 5 or at most 10 years, African countries are being asked to sign away their trade policy space.

In any case, the Least Developed Countries (LDCs), which make up 34 out of 47 African countries negotiating the EPAs, can avail of the Everything But Arms (EBA) preferential scheme of the EU. For non-LDCs, options more supportive of development should be fully explored, including the search for regional and other markets (rather than looking mainly to the EU for export markets), the Generalized System of Preferences *plus (GSP+),* as well as renegotiating Article 24 of the World Trade Organisation (WTO).

For countries that want to sign an EPA, we propose the use of development benchmarks pegged to their trade liberalisation schedules. This will ensure that only when countries attain a certain level of development will they have to undertake very far reaching reform of their trade regimes vis-à-vis a very strong economic partner, the EU.

Pegging development indicators to countries' liberalisation schedules

The liberalisation schedules we propose kicks in 10 years *after* the entry into force of an EPA. If at that time, countries have attained 20 percent the economic size (measured by per capita Gross National Income and per capita value of manufactured exports) of the EU, and if their exports show a certain level of diversification, they would eliminate tariffs on 20 percent of their tariff lines.

If after 15 years, the EPA has facilitated their development, and they attain 50 percent the economic size of the EU (in per capita terms), and also if the countries fulfill other criteria illustrating that their economies are diversified, and additionally they have a certain level of trade integration with other African countries, then the countries will eliminate tariffs on 50 percent of their tariff lines in trade with the EU.

After 20 years, if they have attained 70 percent the size of the EU, and fulfilled the diversification and regional integration criteria, they would eliminate tariffs on 70 percent of their tariff lines over 5 years.

No new issues

We propose that this conditioned liberalisation schedule be accompanied by a 'bare bones' goods-only EPA. Whilst the EU is pushing hard for countries to liberalise services, intellectual property, investment, competition, and government procurement, these issues are more suited when African economies have grown and can negotiate from a stronger position, rather than from weakness, as now. These issues are beyond the requirements of WTO compatibility for regional trade agreements (Article 24).

A 'goods-only' bare bones EPA

In addition to the benchmarking mentioned above, the 'bare bones' EPA should have the following elements:

Removal of the most favoured nation treatment (MFN) clause. This clause makes it mandatory that African countries offer to the EU what they offer to another major economy after the entry into force of the EPA. This works against regional integration and the promotion of south-south trade. It also goes beyond the requirements of the WTO's Article 24 on regional trade agreements and free trade agreement.

Removal of the standstill clause. All the interim EPA agreements have a standstill clause, disallowing new customs duties to be applied, or existing ones to be raised, even for sensitive products, after entry into force of the Agreement. This again goes beyond Article 24 and could prevent African countries from industrializing and increasing their domestic agricultural production.

Removal of the provision to freeze export taxes and duties. This clause is again beyond the scope of Article 24. The EU wants access to Africa's raw materials in order to maintain its competitiveness. Yet putting in place these export taxes and duties is important to encourage diversification and value addition for African economies. The WTO allows countries to impose these export taxes and duties.

Much better safeguards than those contained in the interim EPAs. The bilateral safeguard in the EPAs should:

- kick in automatically without having to go through a decision with the EU
- allow countries to raise their tariffs beyond the Uruguay Round bound rate, which is what the EU currently enjoys in the WTO's Special Safeguard Provision (the SSG – in Article 5 of the Agreement on Agriculture)
- allow for a safeguard in the context of a price decline, not only a volume surge (also the case in the WTO's SSG which the EU avails of, but which is not available to the majority of African countries)

Introduce a more 'proactive' infant industry clause. The current infant industry clause is 'reactive' - only limited to a safeguard when injury has happened or is threatening to take place. A more proactive

infant industry clause will allow a government or the sub-region to put in place additional duties on such goods imported into its area which compete with its own infant industries. An infant industry can be defined as an industry which has been established for not more than 15 years. This clause should not expire since countries will always have infant industries.

In conclusion, South Centre urges the greatest caution to African countries when approaching these negotiations. It is of vital importance for developing and the least developed countries, that the options for industrialisation for future generations are not foreclosed.

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The South Centre has grown out of the work and experience of the South Commission and from recognition of the need for enhanced South-South co-operation. It is therefore intended to meet the need for analysis of development problems and experience, as well as to provide intellectual and policy support required by developing countries for collective and individual action, particularly in the international arena.

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