

Economic Partnership Agreements

Questions and Answers

Why do Africa, Caribbean and Pacific countries need an Economic Partnership Agreement with the European Union?

Put simply, after more than thirty years of bilateral trade with Europe, the ACP still exports just a few basic commodities, most of which fetch lower prices than they did twenty years ago. The EU's Economic Partnership Agreements are the agreements that the EU is negotiating with the six African Caribbean and Pacific regions that will replace the trade chapters of the Cotonou Agreement when the WTO waiver that covers to preferential aspects of this agreement expires in 2008. The EPAs are intended to be broad agreements, helping build regional markets and diversify economies in the ACP regions and ultimately opening trade between the EU and these markets in a way that reflects regional sensitivities while integrating ACP economies into the global economy in a sustainable way.

If this is about enhanced EU – ACP bilateral relations, why is the EU insisting on regional integration in ACP regions?

The ACP economies are too small to go it alone and most trade more with Europe than they do with their neighbours. This means that regional integration has potential – joining forces and stepping up economic links. Most ACP countries currently depend on their exports to the EU. Take the case of Ghana: 49% of their exports go to the EU, exports to its neighbour Benin only accounts for 2.6%. In Cameroon, 61% of exports go to the EU, and 55% of imports come from the EU. Eliminating barriers between neighbouring countries and creating real integration would favour trade exchanges and boost economic growth. It would also create bigger markets more attractive to investors and would facilitate trade with landlocked countries.

However, the European Union does not push for customs union where an ACP region has not already proposed or accepted such an undertaking. Where this is the case, as it is in the West and Central Africa regions, regional integration is an important step to ensure a proper functioning of the EPA.

Is the EU forcing ACP countries to lower or eliminate their tariff duties?

There will be tariff reductions but this is a joint decision not an EU imposition. ACP countries and the EU agreed to revamp their trade relations and progressively remove barriers to trade between them. They want to stop ACP marginalisation and contribute to ACP growth and poverty eradication. This will also mean that their trade relations will respect the rules of the World Trade Organisation.

The backdrop of this is that most of ACP exports to the EU enter into Europe at zero tariff duty under a preferential treatment. EU products exported into the ACP, on the other hand, do not benefit from the same treatment, nor is the EU requesting this. The experience seen in emerging economies in Asia shows that a

progressive and targeted reduction of customs tariffs benefits consumers and companies (that need cheaper machinery, raw materials and parts for assembly) and local products become more competitive when exposed to foreign competition.

This is why the European Union encourages tariff cuts through the EPAs, but has never proposed either a total elimination, or symmetry with current ACP preferential treatment. It has also never proposed that the lowest applied rates by any ACP state become the basis for regional liberalisation, or for a single external tariff.

If tariffs are reduced, how to replace the revenues collected through custom duties?

This question is not as acute as some would have it and answers are available. Some studies have overestimated the impact of tariff reduction on fiscal revenues, without considering other aspects. The assumption of rapid or complete liberalisation on the ACP side is clearly mistaken. Current high tariffs encourage smuggling and corruption, and around half of theoretical revenues are lost through derogations and irregularities. Lower tariffs would discourage these practices. Customs revenues would also increase by an increase in trade and these benefits would largely compensate the initial losses.

A much better long term solution is to shift dependence from tariff revenues to the fiscal revenues (through modern VAT and taxes on revenues) collected by boosting trade and economic growth. The EU is ready to assist with fiscal reform associated with revenue losses and has the means to do so. The European Union is not pushing a cold 'liberalisation' agenda.

Is the EU pushing liberalisation at any price?

The EPAs aim at enhanced trade between the EU and the ACP regions only after transition periods of up to a decade or more and will maintain exceptions that reflect particular needs – exceptions that Peter Mandelson has said he will defend in the WTO if necessary. European Commission studies and analysis show clear economic evidence that regional integration and trade liberalisation between the ACP countries themselves brings clear economic benefits