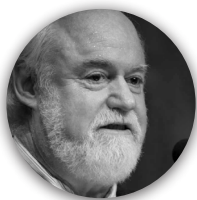


WHY ECONOMIC PARTNERSHIP AGREEMENTS UNDERMINE AFRICA'S REGIONAL INTEGRATION

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a **Wilson Center** & **Manchester Trade** collaboration



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With a 50-year career in trade policy at State Department, at the USTR and in the private sector, **Stephen** was pivotal to adding bilateral and plurilateral elements to U.S. trade policy that had almost exclusively been multilateral and based on the GATT.¹ He was key to initiatives such as AGOA, CBI² and GSP³ as well as various US FTAs.⁴ He is President of Manchester Trade and also an adjunct professor at the *Paul H. Nitze School of Advanced International Studies*, Johns Hopkins University.

1. General Agreement on Tariffs and Trade 2. Caribbean Basin Initiative
3. Generalized System of Preferences 4. Israel, Mexico and Canada, in Central America and with the Dominican Republic



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Abbreviations

AGOA - Africa Growth Opportunities Act

AU - African Union

COMESA - Common Market for Eastern and Southern Africa

CCA - Corporate Council on Africa

EAC - East African Community

ECOWAS - Economic Community of West African States

EPA - Economic Partnership Agreement

EU - European Union

FDI - Foreign Direct Investment

FTA - Free Trade Area | Free Trade Agreement

ICT - Information Communication Technology

MNC - Multinational Corporation

NGO - Non Governmental Organization

OPIC - Overseas Private Investment Corporation

RECs - Regional Economic Communities

SADC - Southern Africa Development Community

SMEs - Small Medium Enterprises

SSA - Sub - Saharan Africa

USAID - United States Agency for International Development

USTDA - United States Trade and Development Agency

USTR - United States Trade Representative

WTO - World Trade Organization



Preamble

This paper is specifically about providing suggestions for positions the AU can take vis-a-vis the European Union's Economic Partnership Agreements (EPAs).

Central is an urgent call for member states to give the AU latitude to ensure that the conclusion of EPAs with the EU is postponed until, at least, the next decade.

Simply: If the EU successfully foists EPAs on a critical number of member states through unilateral threats to prematurely withdraw or limit preferential treatment, the negative consequences will be devastating not only to Africa but to many trading partners.

An Introduction

Economic Partnership Agreements (EPAs) are legally binding bilateral contracts between the European Union and individual African countries. Once signed, EPAs warrant that within a decade, about 80% of that country's market should open to European goods and services.

To their credit and through commendable negotiation dexterity, negotiators from various African countries have managed to exclude a number of subsidized agricultural products and sensitive industries from the negative elements of EPA stipulated market liberalization.

But this is as much a pyrrhic victory as any, since prematurely opening markets translates into African agricultural and non-agricultural production finding it very difficult to compete with the most likely cheaper, perhaps

better quality and even larger supply of goods and services from European countries.

For the past few months, the EU has pressed African Union Member States to end EPA negotiations or face the withdrawal of LOME type preferences they currently benefit from.

And on April 16, 2013, the European Parliament reversed an earlier decision to wait until the beginning of 2016; the deadline has now been brought forward to October 1, 2014.

Thus, since the current EU approach, ostensibly, doesn't fully consider how EPAs impact issues of global importance such as Africa's regional integration, these negotiations can be deemed fatally flawed. The arbitrary deadlines set are, first off, much too premature; and especially expose individual sub Saharan African countries much too susceptible to demands from third countries like those in Asia and the Americas for the kind of reciprocity afforded European suppliers.

Therefore, if Africa is going to ameliorate the negative impact of EPAs, the AU must respectfully insist that deadlines, such as the October 1, 2014 one, be postponed, allowing for various prerequisites that will enable an equitable negotiated conclusion since the region will be a collective like the EU.

This ample time and leeway should also allow AU Members to develop consensus between themselves and all major trading partners on how best to integrate Africa into global supply chains and distribution networks.



Micro Issues in EPA Negotiations

Without apparent concern for the consequences, the EU is keen to conclude *fair and balanced* EPAs between the parties. However, the issues central to the current round neither address how EPAs will affect intra Africa trade specifically nor global trade in general.

Instead, they are insular and micro; seeming to only have direct relevance to the trade and investment regimes of the African countries engaged in negotiation. They focus on market liberalization levels that don't threaten existing activity or the development of new pursuits and have, to a certain extent, been surprisingly successful in protecting local farmers from imports under preferential rates of subsidized agricultural produce.

However, in this instance, African countries must be lauded for efficacy at defending their own interests in the absence of a countervailing force to resist European blandishments.

Contextually, many African countries may believe that they have no choice but to sign EPAs or lose preferential access to the EU market. Using this as an ace, the EU progressively tightens the screws; threatening to not only remove special LDC preferences available under EU-ACP programs, but also withholding GSP benefits from more advanced African economies.

Under the circumstances, those countries still holding out for more mutually beneficial agreements deserve special recognition. Invariably, what both Africa and her trading partners might consider with some saliency

are the so-called most favored nation (MFN) obligations, which force EPA signatories to bestow on the EU any concession negotiated with Africa's other major partners.

Basically, African countries will not be able to negotiate agreements with other major trading partners unless they provide concessions not included in the EPAs. Yet EPA benefits do not provide the requisite structural safeguard measures necessary to protect sub Saharan Africa economies from the negative consequences of trade concessions.

Fatal Flaw of the EPAs

Irrespective of their current individual national security or economic conditions, AU Member States must not proceed with EPA negotiations in *ad hoc* fashion.

As it stands today, individual countries and groups enter into agreements with the EU with little or coordination with the rest of the membership. Relatively, this leaves countless issues and contradictions between African countries. For instance, the reciprocity demanded in EPAs defies the non-reciprocal LDC provisions in the WTO.

Seminally, the different rules applied within each EPA as well as to the EU trade regimes governing non-signatories (EBAs, GSP+, regular GSP and GSP graduation) create insurmountable obstacles to achieving integration - an already arduous task being undertaken by RECs such as the Tripartite group of which COMESA, alongside the EAC and SADC are integral partners.



Then, there's the aforementioned collateral impact on third countries wishing similar access to African market as provided to the EU under the EPAs.

To date, on top of an apparent lack of collective discourse between AU member states, no consensus seems to have emerged on how to deal with the Europeans and Africa's other major trading partners - some increasingly more important than others - like those in Asia and in the Americas.

Of major concern is how to move forward with the EU and not leave the region vulnerable to similar pressure from these very third countries who would not deem it in their national interest to *allow* their exporters to be at a competitive disadvantage *vis-a-vis* the EU.

The first EPA 'casualty' could, in effect, be the effort to renew and enhance the Africa Growth Opportunities Act (AGOA), a US program due to expire in 2015. Two recent seminal documents (one by the *Corporate Council on Africa* and another by the collaboration between the *Wilson Center & Manchester Trade*) call upon the U.S. government to proactively work on preventing EPAs from discriminating against U.S. exports or undermining regional integration.

The Way Forward

With support from select regional economic communities (RECs) and Member States, the African Union should take the lead in efforts to ensure that the EU reconsiders arbitrary

deadlines. More than anything else, these EU/EPA deadlines do not take into account the requirements for genuine negotiation nor progress being made in the region towards creating the requisite environment for mutually beneficial outcomes.

Negotiating deadlines must be set in tandem with African integration goals - meaning that they are delayed until the next decade - allowing ample time for Africa to conclude a Continental Free Trade Area (CFTA) and the African Customs Union as it was foreseen in the Abuja Treaty.

The AU could enlist the support of those third countries with political, security, and/or economic interests in not allowing EPAs to undermine regional integration and whose exporters will be hurt by preferential access provided to EU products.

Penultimately, slowing or preventing the negative effects of EPAs may come down to a groundswell of support for an anti EPA coalition both within and outside the EU - a coalition that must be led by the Africans. Africa should, effectively, protect its own destiny with the support of like-minded third countries and with co-opting support in WTO contracting parties.

Besides, developed and more advanced developing countries benefit from economic groupings not encumbered by customs formalities as their multinational corporations (MNCs) can optimally operate world-class supply chains and distribution networks.



There are also a number of European interests that prioritize economically strong southern neighbors both as stable trading partners and as a bulwark against terrorism. In their calculation, withdrawing duty-free access from failed EPA negotiation deadlines will sting European investors with outlays in Africa.

Hence, in line with building an anti-EPA coalition, an effective multimedia public relations campaign should be mounted in Europe, highlighting the impact of the EPAs, the continued EU pressure on African countries, and the EU's current 'no-win' approach in negotiating with African countries.

The key message ought to be that if Africa were to accede to EPAs in their current state, not only would regional integration be threatened; there are serious consequences for the continued stability of the region and the economic growth of Africa's many small, landlocked and unintentionally insular nations.

The campaign should also highlight that the withdrawal of preferences would undermine African economic stability and harm European investors, producers and consumers. And the AU must lead efforts to gain approval among its trading partners to ensure that its Member States are treated like a cohesive unit when it comes to trade preferences.

In this period, the AGOA waiver can be extended, LDC preferential programs can be streamlined or the AU proposal for a Common and Enhanced Trade Preference System for Least Developed Countries (LDCs)

and Low Income Countries (LICs) can be approved. Each of these paths can lead AU Member States on a much more solid path to regional integration without the negative consequences of premature EPAs.

Ultimately, EPAs are fatally flawed because they use a *divide and conquer* tactic with African countries. Even though EPA negotiators have done an excellent job of using a 20% exception to ameliorate the negative impacts on current African producers, much harm will, nonetheless, come to new African products, as these are not protected by the current regime of negotiations.

With this premise, 80% of Africa's products will be affected - untenable for Africa's future. Additionally, duty-free treatment of European imports, send exactly the wrong price signal as to which origin sells competitive goods. In the meantime, the Europeans dangle immediate benefits to a country that is, probably, in need. Despondent, the country, shortsightedly, signs the EPA, allowing Europe to achieve its single-minded objective of leaving a weaker, more disadvantaged and more exploited continent in its wake.

Something of this sort started at a Berlin Conference in the 19th Century. But today, Brussels must not set Africa back in time.

SM . SL . DM
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