

# **Economic Partnership Agreements and EU agricultural trade**

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*Regional Trade Agreements (RTAs): New developments and expectations*

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## EPAs – what sort of EU RTAs?

- Evolutionary development from long-standing preferences (Lomé, Cotonou)
- Partners are some of the poorest and least developed countries in the world
- EU has sought ‘new generation’ deep and comprehensive free trade agreements
- Nonetheless, agreements intended to have a development dimension
  - Strengthened regulatory regimes, strengthened regional integration among ACP countries, development finance

# Origin of EPAs

- Trade preferences under Lomé/Cotonou
  - Limited preferences on CAP products
  - Importance of the commodity protocols (sugar, bananas, beef)
- EU Commission Green Paper 1996 – failure of traditional preferences
- The Cotonou Agreement 2000 commitment to launch negotiations to conclude WTO-compatible free trade agreements
- The WTO dimension
  - Special preferences for ACP countries alone deemed discriminatory
  - Two waivers at Doha 2001
  - EU position – only alternative was GSP/GSP+
  - ACP position – seek further waiver
- **Regional** trade agreements
  - Negotiations began Sept 2002, to be completed Dec 2007
  - Six regions as negotiating partners
  - EBA and non-EBA countries
  - Uncertainty over WTO requirements under Art. XXIV for RTAs

# What EPAs mean in tariff terms (with reference to food)

- Granted immediate duty-free and quota-free access to the EU market for ALL products (transition periods for sugar and rice)
  - Additional tariff preferences confined to CAP products
  - Beneficiaries are the non-LDC ACP countries as ACP LDCs have EBA preferences anyway
  - However, improved rules of origin (tuna, fish crews, clothing, some processed foods) can benefit all ACP exporters
  - Ending of the commodity protocols
- Gradual opening of ACP food markets to EU imports

# EPA controversies

- EU
  - Implications of improved market access for agricultural market balances
- ACP countries
  - Balance of trade diversion vs trade creation costs
  - Fiscal burden
  - Unhappy about having to negotiate on non-tariff issues
  - General fears over loss of policy autonomy
- Extensive empirical literature on EPAs addresses these questions using both PE and CGE models  
ECDPM website [www.acp-eu-trade.org/epa](http://www.acp-eu-trade.org/epa)

# Status of the negotiations

- Negotiations were extremely contentious
- 77 ACP states (South Africa, Somalia and East Timor not negotiating)
- Rush to complete 'interim' agreements before Dec 2007
- As of June 2011
  - Only one full EPA signed (CARIFORUM 2008)
  - Only 36 ACP countries have signed some sort of agreement
  - Only 10 ACP countries have signed interim (plus 15 Caribbean with full EPA)
  - Remaining 41 countries – 31 are LDCs which export under EBA and remaining 10 non-LDCs export under GSP
- Negotiations towards finalising EPAs are proceeding very slowly, if not actually stalled

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# Limited importance of EU agri-food exports to ACP countries

Year	Exports to World	Exports to EU-27	Share of exports to EU-27	Share in total exports to the EU	Extra EU-27 imports	Share in EU-27 imports
	\$bn	\$bn	%	%	\$bn	%
1996/97	18.4	10.2	55.4	27.3	66.8	15.2
2001/02	17.2	8.5	49.4	19.8	56.6	15.0
2006/07	27.5	12.7	46.2	15.7	97.0	13.1
Year	Imports from World	Imports from EU-27	Share of imports from EU-27	Share in total imports from the EU	Extra EU-27 Exports	Share in EU-27 exports
1996/97	12.8	4.1	32.0	11.4	59.3	6.9
2001/02	15.1	4.5	29.8	11.7	55.1	8.1
2006/07	30.5	8.0	26.2	10.0	96.3	8.4

# Agri-food trade by EPA regions with the EU-27 (average 2006-2007)

Region	Exports (\$/bn)			Share in total exports to the EU	Imports (\$/bn)			Share in total imports from the EU
	To World	To EU-27	EU-27 share		From World	From EU-27	EU-27 share	
<b>Total ACP</b>	27.52	12.74	46.2%	15.7%	30.55	8.04	26.2%	10.0%
<b>Cariforum</b>	2.83	1.03	36.3%	18.0%	4.89	0.71	14.6%	11.6%
<b>Central Africa</b>	1.03	0.71	68.6%	9.0%	1.91	0.89	46.6%	16.5%
<b>West Africa</b>	7.93	4.05	51.1%	17.2%	10.43	3.56	34.1%	13.7%
<b>SADC</b>	6.35	2.86	45.1%	8.2%	6.41	1.79	27.9%	6.0%
<b>ESA</b>	4.66	1.91	41.0%	37.0%	3.93	0.79	20.2%	9.9%
<b>EAC</b>	3.74	1.71	45.8%	69.7%	2.24	0.28	12.3%	7.1%
<b>Pacific</b>	0.98	0.47	47.6%	36.2%	0.74	0.02	3.1%	2.9%

Source: BACI

# Value of the EU market access offer

- Only relevant to non-EBA countries (but ROO?)
- Methodology similar to Stevens et al (2008) for African countries
  - First, actual exports in the year 2007 from the African non-LDCs to the EU are evaluated to identify products currently exported under a non-zero duty scheme which would benefit from EPAs
  - Second, agri-food exports from African non-LDCs to other high-income markets are examined to identify products they currently export but which are not exported to the EU
- In practice, the offer boils down to sugar and bananas (with additional limited effects for rice and beef exports)
- ACP exporters face high marginal tariffs on additional exports of these commodities, though existing exports enter duty-free under commodity protocol TRQs (see next slide)

## Total EU agri-food imports from African country groups by tariff regime, 2007

Country Group	Total	MFN zero	MFN non zero	Pref zero	Pref non zero	Unknown
	(€m)	%	%	%	%	%
<b>LDC</b>	2,594	40.1	1.0	52.9	0.2	5.9
<b>Non-LDC</b>	5,521	41.4	1.7	48.9	2.4	5.7

Source: Matthews and Wustmann calculations based on EUROSTAT, 2011.

## EU tariffs on African agri-food imports under different preferential trade arrangements, 2007

Region and trade regime	Average MFN tariff (weighted of traded tariff lines)	Average tariff applied (weighted)	Preferential margin (weighted)
	%	%	%
<b>African non-LDCs (Cotonou)</b>	23.1	15.6	7.5
<b>African LDCs (EBA)</b>	8.0	3.1	4.9

Source: WTO, 2009

# The sugar protocol

- Article 36.4 of the Cotonou Agreement reaffirmed the importance of the commodity protocols, but also provided that the parties agreed to review them ‘in the context of the new trading arrangements, in particular as regards their compatibility with World Trade Organization (WTO) rules, with a view to safeguarding the benefits derived therefrom, bearing in mind the special legal status of the Sugar Protocol’.
- Benefits included purchase of 1.3mt white sugar eq from specific ACP states plus India at guaranteed price linked to EU intervention price, plus access to additional 220,000t Complementary Sugar
- In September 2007 the EU announced that it was invoking its right under the Cotonou Agreement to denounce the SP with effect from 1 October 2009.

# EU-27 sugar imports, 2000-2009

Origin	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>ACP</b>	1,540	1,609	1,604	1,459	1,607	1,575	1,538	1,529	1,691	1,622
<b>non-LDC – Africa</b>	646	834	812	676	806	807	707	597	661	660
<b>non-LDC – other</b>	828	712	649	608	639	578	634	653	676	656
<b>LDC – Africa</b>	66	63	143	174	162	190	198	279	354	307
<b>LDC – other</b>	0	0	0	0	0	0	0	0	0	0
<b>Non-ACP LDC</b>	0	0	0	9	19	9	0	13	23	23
<b>Non-ACP Other</b>	815	875	879	846	1,061	954	1,056	934	1,028	870
<b>Total</b>	2,355	2,484	2,483	2,314	2,687	2,539	2,595	2,475	2,741	2,516

Source: Eurostat, imports under HS 170111

# The future for sugar exports

– some evidence of significant supply response.....

- Transition period to 2015 governed by ‘dual safeguard’
  - The first safeguard threshold limits exports from non-LDC ACP countries to specific quantities rising to 1.6 million tonnes in the years 2011-2015.
  - The second threshold limits total exports from all ACP countries to 3.5 million tonnes.
  - After 2015 there is full liberalisation subject only to a special safeguard.
- Most recent Commission forecast (Nov 2010) projects imports from all ACP/LDCs of 1.826 million tonnes in 2009/10 and 2.531 million tonnes in 2010/2011.

## ...but dampened by offsetting factors

- CAP reform of sugar regime 2006 lowered intervention price (offset by EU package of adjustment assistance)
- Denunciation of Sugar Protocol from 2009 means loss of Protocol rents (transition period to 2012)
- Further sugar reform expected 2015
- Trade liberalisation effects of Doha ??? and other RTAs
- High world sugar prices since 2009 have reduced importance of EU market guarantees (temporarily?)
- Overall impact is likely to be an increase in the volume of ACP sugar exports to the EU, particularly from low-cost suppliers but if price received is lower this will limit the benefit of this increase in revenue terms

# The banana protocol

- Banana Protocol introduced in Lomé IV in 1990 in view of impending change in EU banana regime in 1992
- Following introduction of EU single market in bananas in 1992, trade regime consisted of
  - Tariff-free quota for traditional ACP banana exports
  - Tariff quota at low tariff for MFN (Latin American) bananas
  - Prohibitive out-of-quota tariffs
- Trade regime successfully challenged in WTO (Banana III) in 1997
- EU received two waivers at Doha in 2001. Banana waiver required introduction of tariff-only regime in 2006
- EU proposed MFN rates (with continued tariff-free quota for ACP countries) repeatedly and successfully challenged at WTO
- December 2009 Geneva Agreement on Trade in Bananas finally agreed acceptable MFN tariff
- Preferential access for ACP exporters only guaranteed under EPAs

## EU banana imports, 2000-2009, '000 tonnes

Origin	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>EU-27</b>	440	465	454	447	460	387	391	399	423	424
<b>ACP</b>	773	750	741	805	785	765	891	845	921	961
<b>non-LDC - Africa</b>	424	456	457	511	474	441	495	445	543	516
<b>non-LDC - other</b>	349	293	283	294	311	323	395	398	377	444
<b>LDC - Africa</b>	0.266	0.293	0.394	0.217	0.261	0.790	1.183	1.738	1.702	1.706
<b>LDC - other</b>	0	0	0	0	0	0	0	0	0	0
<b>Non-ACP LDC</b>	0	0	0	0	0	0	0	0	0	0
<b>MFN</b>	3,225	3,130	3,206	3,323	3,285	3,220	3,559	3,917	4,038	3,633
<b>Total</b>	4,438	4,345	4,400	4,574	4,530	4,372	4,842	5,161	5,382	5,017

Source: Eurostat, imports under HS 080300; FAOSTAT for EU production

# Future of ACP banana exports

- Simulations in Anania (2010)
  - benefits of EPA access for ACP countries will be significant (at the expense of Latin American exporters)
  - Geneva agreement would lead an erosion of ACP preferential margins of such an order of magnitude as to cancel out most of the benefits from EPA access.
- Outlook for increased ACP banana exports will depend on whether they can reduce their costs sufficiently to remain competitive with Latin American exporters facing lower tariffs over time.
- The EU has provided an aid package to assist ACP producers to improve their productivity in order to meet the challenge of greater competition from low-cost Latin American suppliers.

# Food security implications of EPAs

- Food security is an important issue for ACP countries.
- How would cheaper imports impact on food security?
- Effects need to be evaluated in the light of the phased reduction in tariffs on EU imports and exclusion of up to 20% of import value from reduction commitments
  - No sector can be entirely excluded from liberalisation (WTO)
  - Proportion of agricultural products on exclusion lists is around one third (10% in Zimbabwe, up to 66% in other ESA countries, Bilal and Stevens, 2009)
- Issues include:
  - The impact of tariff liberalisation
  - The effect of EPA disciplines on policy autonomy (tariff standstill, disciplines on other border measures, safeguard measures, MFN clause)

# Impact of tariff liberalisation

- Tariff reductions take place from applied tariffs (or, at least, MFN tariffs in customs unions)
- Consider 15 staple products drawn from potential list of WTO Special Products, and their treatment in 15 countries
- 132 (out of 225, or 59%) excluded from liberalisation
- Tariffs go to zero for 36% within 5 years, for 15% within 6-10 years, for 47% within 11-15 years and for 2% after 15 years – thus evidence of backloading
- Where tariffs scheduled to go to zero, initial tariff rate is relatively low (wheat, milk powder in Cote d'Ivoire by 2011, initial tariff 5%).
- Domestic market price impact of lower tariffs will depend on whether EU imports are the marginal price makers – rarely are they the major source of imports
- Final tariff schedules may differ!

# Disciplines on policy autonomy

- Standstill provision – no new tariffs can be introduced, or existing tariffs increased, on EU imports following entry into force of EPA
  - Relevant only to products excluded from liberalisation, and inconsistent treatment in different agreements
- Prohibition of quantitative restrictions
  - Some countries still make use of import controls
  - Also includes export restrictions, where EPAs often go beyond WTO exceptions
  - And prohibit export taxes (with various exceptions in individual agreements)
- Flexibility in the use of bilateral safeguards
- Limited restrictions (CARIFORUM) on use by EU of export subsidies

# Uganda case study

- Objective was to assess the impact on poverty in Uganda of the tariff provisions of its EPA
- Method was a single country CGE model linked to a microsimulation household model
- Main Ugandan characteristics driving the results
  - Landlocked country with high transport costs
  - Import tariffs contribute 31% government revenue
  - High share of subsistence production/consumption (50% of household income for poorest six deciles) with another 20% private transfers
  - EU imports account for 19% of total imports, trade-weighted import tariff is just 5.5%
  - Resource reallocation effects driven by exchange rate depreciation and expansion of the coffee sector
- Main conclusions
  - Poverty effects on balance negative but very small in context of 25 year adjustment period
  - Tax measure used to make up for lost tariff revenue is decisive in determining poverty effects

# EPAs –a balance sheet

- Negotiations have lost momentum and future is uncertain
- What will happen to Regulation 1528/2007 providing DFQF access for EPA signatories if agreements not signed?
- Future success means focusing on a narrower agenda (trade and development, leaving aside services and other trade-related issues) as agreed for ECOWAS in June 2009)
- Remaining contentious issues
  - Inclusion of a most-favoured-nation clause
  - Prohibition of export taxes
  - Standstill clause, agricultural safeguards
- Future treatment of South Africa in the SADC EPA

## EPAs – some final thoughts

- Implications for the EU of faltering EPAs
- Implications for African regionalism of the EPA process
- The (unaccountable?) power of NGOs in influencing the terms of the debate
- For ACPs, agricultural development is less about market access and more about committing to investment, proper incentives and institutional reforms