

## Preliminary thoughts after the signing of the West Africa EPA

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The unfortunate signature of the regional EPA by the Heads of State and Government of West Africa (WA) in Accra on July 10 calls for some preliminary thoughts before in-depth reviews that will be made later.

A first consideration is the risk that the signing of the WA EPA will be a decisive signal to accelerate the signing of the five other regional EPAs (the Caribbean EPA has already been signed in October 2008 and approved by the European Parliament in March 2009, but not yet ratified, including by the Caribbean States).

Indeed, Table 1 shows that the share of imports of all goods from the EU in 2013 was significantly higher in WA (42.9% of which 42.3% for ECOWAS) than in the 6 other regional EPAs: 25.1% on average, ranging from 11.9% in the Caribbean to 28.1% in the CEMAC (Central Africa). This implies that customs duties losses will be significantly higher in WA. Therefore policymakers of other regional EPAs could be induced to think that, since the WA EPA was signed despite much greater customs revenues losses, they should not fear to sign!

Table 1 – Total and agricultural imports of regional EPAs from all countries and the EU in 2013

|  | All EPAs | Pacific | Caribbean | SADC   | COMESA | CEMAC | EAC   | ECOWAS | West Africa |
|--|----------|---------|-----------|--------|--------|-------|-------|--------|-------------|
| Total imports from all countries of each EPA region in 2013 in \$ million                              |          |         |           |        |        |       |       |        |             |
| Total  | 447794   | 10760   | 47492     | 178749 | 52440  | 32882 | 37409 | 85615  | 88062       |
| % by EPA   | 100%     | 2,4%    | 10,6%     | 39,9%  | 11,7%  | 7,3%  | 8,4%  | 19,1%  | 19,7%       |
| Total imports from the EU of each EPA region in 2013 in € million                                      |          |         |           |        |        |       |       |        |             |
| Imp. totales   | 82649    | 1034    | 42410     | 33297  | 5138   | 6951  | 3519  | 27238* | 28469*      |
| Imp. agricoles   | 9432     | 19      | 602       | 2785   | 588    | 1268  | 262   | 3705   | 3908        |
| Importations totales et agricoles venant de l'UE en 2013 en millions de dollars (1 euro=1,3281 dollar) |          |         |           |        |        |       |       |        |             |
| Imp. totales   | 112422   | 1373    | 5632      | 44222  | 6824   | 9232  | 4673  | 36175* | 37810*      |
| Imp. agricoles   | 12526    | 25      | 799       | 3699   | 781    | 1683  | 348   | 4921   | 5190        |
| Pourcentage des importations totales venant de l'UE28 en 2013  |          |         |           |        |        |       |       |        |             |
|  | 25,1%    | 12,8%   | 11,9%     | 24,7%  | 13%    | 28,1% | 12,5% | 42,3%  | 42,9%       |

Source: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx> et Eurostat; \* as Eurostat's data on Togo are clearly overestimated by about €2 billion we have reduced by as much (Eurostat is investigating the issue).

David Laborde estimated in 2009 – hence before the adoption in 2013 of the 5<sup>th</sup> band of products taxed at 35% in the ECOWAS common external tariff (CET) and for an opening of the WA market to 80% of imports from the EU instead of the 75% eventually agreed –, that *"Overall, customs revenues are expected to decrease up to 30 % for ECOWAS and between 20% and 40% for different countries, representing 10% of total "indirect tax revenues"*<sup>1</sup>.

In fact, the development indicators of the World Bank for Africa indicate that the simple average of the percentages of import duties in budget revenues was of 25% in 2011 for 9 ECOWAS countries for which data are available (they lack for Côte d'Ivoire, Nigeria, Gambia, Guinea, Guinea Bissau and Mauritania)<sup>2</sup>.

David Laborde stressed also that *"the replacement of imports from third countries (eg the United States) subject to duty by the untaxed multilateral European products will induce additional tariff revenue losses"*.

<sup>1</sup> <http://www.ictsd.org/bridges-news/eclairage-sur-les-n%C3%A9gociations/news/limpact-fiscal-de-l-ape-en-afrique-de-louest>

<sup>2</sup> <http://data.worldbank.org/data-catalog/africa-development-indicators>

Another ICTSD study adds: "*It is important to understand that, indirectly, the elimination of tariffs will not only result in lower customs revenue as such, but also in a reduction in the basis of calculation of other ad valorem taxes levied on imported goods, including VAT, which are generally levied on the value of imported goods after application of customs duties*"<sup>3</sup>. The same study notes that "*many Tanzanians are concerned about the potentially negative effects that trade liberalization may have on the economy and the tax base as a whole. They fear that increased competition with suppliers of the EU will result in the collapse of some national industries, including some companies paying a lot of taxes, leading to decreased levels of collected income tax and tax on individuals, because of the decline in the employment rate*".

Furthermore, according to the Washington Trade daily of 3 June 2014, "*During the African trade ministers meeting in Addis Ababa last month, a Washington-based trade official suggested there will be two new criteria for the renewal of the AGOA program*<sup>4</sup> – quickly adopting the recently negotiated WTO Trade Facilitation Agreement and providing US companies with the same terms negotiated with the European Union under its new economic partnership agreements, an African trade official told WTD yesterday", namely to suppress also its tariffs on 75% of imports from the U.S.

While WA imports from the U.S. were very much lower than those from the EU in 2013, they are not negligible: €7.450 billion, of which €7.269 billion for ECOWAS<sup>5</sup>, i.e. 20% of imports from the EU.

But it is likely that if the U.S. succeeds in removing ECOWAS' tariffs on 75% of its exports to WA, it will set a precedent that all other exporting countries will claim for themselves.

The representative of the World Bank to the EU had already declared on October 5, 2005, during a hearing by the Development Committee of the European Parliament on the impact of EPAs on development: "*MFN tariffs in ACP countries need to be lower, otherwise there will be trade diversion putting EU exporters in a monopolistic position; MFN tariffs should gradually be reduced to 10%; government revenue losses of 10% to 20% are to be expected; measures are needed like the introduction or improvement of VAT or excise; or a uniform tariff of e.g. 5%*"<sup>6</sup>.

Let us add that she also stated: "*We must develop a package of measures to help, otherwise the EPA would be compromised*". But we have shown<sup>7</sup> that the EU promise to devote €6.5 billion to the PAPED (funding Programme for the WA EPA) will not add one euro to the existing programmes of the 11th EDF (European Development Fund, funded by the EU Member States), allocated to the "Regional Indicative Programme" and to the "National Indicative Programmes" for a total of about €5.6 billion, complemented with the recycling of other already programmed Community funds. But the austerity policies in force in the EU, particularly in France, are also affecting the level of the official development assistance (ODA), even if some Northern EU countries have increased their level in 2013.

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<sup>3</sup> <http://www.ictsd.org/bridges-news/eclairage-sur-les-n%C3%A9gociations/news/sattaquer-aux-d%C3%A9fis-budg%C3%A9naires-pos%C3%A9s-par-les-ape>

<sup>4</sup> The African Growth and Opportunity Act is a preferential trade agreement facilitating exports of SubSaharan Africa's countries to the U.S. since 2000.

<sup>5</sup> [http://pubapps2.usitc.gov/africa/trade\\_balance.jsp](http://pubapps2.usitc.gov/africa/trade_balance.jsp)

<sup>6</sup> <http://agritrade.cta.int/fr/content/view/full/2036>

<sup>7</sup> *Why ECOWAS should not sign the EPA*, Solidarité, 12 juillet 2014, <http://www.solidarite.asso.fr/Papers-2014>

A good reason to increase national and regional budgetary resources, in a context where only 6 member States of ECOWAS (Burkina Faso, Ghana, Guinea, Mali, Niger, Senegal) have complied in 2011 with the commitment of the African Union's Heads of State made in Maputo in 2003 to devote at least 10% of national budgets to agriculture<sup>8</sup>. Besides we should strongly relativize this result because, on the one hand, a large proportion of these so-called national budgets is actually funded by foreign aid and, on the other hand, it did not prevent the food deficit of 5 of these WA LDCs to increase by 16.6% per year on average from 2003 to 2011 though Ghana saw its deficit fall by 12% per year, although without exports of coffee and cocoa, Ghana itself has seen its annual food deficit to increase by 16.7%. This is because, far from the other Maputo objective of a 6% increase in per annum food production, the actual increase was of only 0.7% for these five ECOWAS LDCs, much lower than the annual rate of their population increase.

Table 2 shows the share of imports from the U.S. for the 7 regional EPAs. We note that, apart from the Caribbean States (CARIFORUM) which are much more dependent on imports from the U.S. than from the EU for obvious geopolitical reasons, WA is still the most dependent on imports from the U.S. A good reason to increase national and regional budgetary resources, in a context where only 6 Member States

Table 2 – Total imports of regional EPA regions, of which from the EU and U.S., in 2013

| € million   | All EPAs | Pacific | Caribbean | SADC   | COMESA | CEMAC | EAC   | ECOWAS | West Africa |
|---|----------|---------|-----------|--------|--------|-------|-------|--------|-------------|
| Total   | 337169   | 8102    | 35759     | 134590 | 39485  | 24759 | 28167 | 64464  | 66307       |
| From EU28   | 82649    | 1034    | 42410     | 33297  | 5138   | 6951  | 3519  | 27238  | 28469       |
| From U.S.   | 30342    | 331     | 13292     | 6557   | 975    | 1341  | 872   | 7269   | 7450        |
| Share of total imports of each regional EPA coming from the EU28 and U.S. |          |         |           |        |        |       |       |        |             |
| EU share  | 25,1%    | 12,8%   | 11,9%     | 24,7%  | 13%    | 28,1% | 12,5% | 42,3%  | 42,9%       |
| U.S. share  | 9%       | 4,1%    | 37,2%     | 4,9%   | 2,5%   | 5,4%  | 3,1%  | 11,3%  | 11,2%       |
| EU+U.S. share   | 34,1%    | 16,9%   | 49,1%     | 29,6%  | 15,5%  | 23,5% | 15,6% | 53,6%  | 54,1%       |

Source: Eurostat; [http://dataweb.usitc.gov/scripts/cy\\_m3\\_run.asp](http://dataweb.usitc.gov/scripts/cy_m3_run.asp)

It goes without saying that if WA were to remove its tariffs on 75% of all imports, its budget revenues would collapse.

Table 3 shows the value and share of LDCs in the total and agricultural imports of the 7 regional EPAs from the UE28 in 2013. Again the weight of WA EPA is higher than the average of other regional EPAs for total imports (37.1% against 31.2%) and agricultural (44.3% against 37.3%), although this weight is higher in the Caribbean, COMESA, EAC and CEMAC. These are good reasons for these Regional Economic Communities (RECs) to refuse to sign the EPAs since LDCs are not required to remove their tariffs on EU exports.

Table 3 – Value and share of LDCs in total and agricultural imports of regional EPAs from the EU in 2013

| € 1,000  | All EPAs | Pacific | Caribbean | SADC    | COMESA  | CEMAC   | EAC     | ECOWAS  | West Africa |
|--|----------|---------|-----------|---------|---------|---------|---------|---------|-------------|
| Value of LDCs in total and agricultural imports of regional EPAs from the EU in 2013 |          |         |           |         |         |         |         |         |             |
| All products   | 25766176 | 121621  | 167366    | 3775383 | 3775383 | 3700057 | 1669368 | 9326044 | 10556998    |
| Agricultural products  | 3520716  | 3005    | 39458     | 445364  | 445364  | 722831  | 133176  | 1528598 | 1731518     |
| Share of LDCs in total and agricultural imports of regional EPAs from the EU in 2013 |          |         |           |         |         |         |         |         |             |
| All products   | 31,2%    | 11,8%   | 39,5%     | 11,3%   | 73,5%   | 53,2%   | 47,4%   | 34,2%   | 37,1%       |
| Agricultural products  | 37,3%    | 15,8%   | 65,5%     | 16%     | 75,7%   | 57%     | 50,8%   | 41,3%   | 44,3%       |

<sup>8</sup> J. Berthelot, *Les engagements de Maputo et les défis auxquels la CEDEAO est confrontée à moyen et long terme*, ROPPA, Monrovia, 11-14 septembre 2013, [http://www.solidarite.asso.fr/Articles-de-2013?debut\\_documents\\_joints=10#pagination\\_documents\\_joints](http://www.solidarite.asso.fr/Articles-de-2013?debut_documents_joints=10#pagination_documents_joints)