Losses of tariff revenues linked to the West Africa's Economic Partnership Agreement

Jacques Berthelot (jacques.berthelot4@wanadoo.fr), September 7, 2014

The South Centre, an official body of developing countries for economic studies based in Geneva, assessed in May 2014 the annual loss of customs revenue expected from the implementation of the regional Economic Partnership Agreement (EPA) between the European Union (EU) and West Africa – comprising the 15 ECOWAS Member States and Mauritania –, distinguishing annual losses according to three liberalization periods for products: A for products liberalized five years after the start of the EPA implementation, B for products liberalized 15 years after the beginning of the implementation and C for products liberalized 20 years after the beginning of the implementation. Class D relates to sensitive products that would not be liberalized. All data and results, based on West African imports from the EU in 2012, are not available but the South Centre allows us to present the following. For a better understanding by both the EU and the countries of the CFA franc zone of West Africa, the South Centre data expressed in dollars are converted into euros, based on the exchange rate of 1.2848 dollars per euro in 2012.

Table 1 shows that the results are properly alarming, as annual losses of customs revenue would be €746.7 million for products liberalized after five years, to which €886.9 million would be added after 15 years and €238.8 million after 20 years, when the cumulative annual loss would be of €1.871 billion. Products not liberalized would keep tariffs of €950 million after 20 years, implying a total loss of two-thirds of potential customs revenues of €2.821 billion. These results were presented by the South Centre to the Chief negotiators of West Africa in May 2014, which did not prevent them to initial the regional EPA on June 30 in Ouagadougou, and then to be confirmed by the Heads of State on July 10 in Accra.

Table 1 – Losses of tariff revenues linked to the West Africa's EPA, in € million

Liberalized after	5 years	15 years	20 years	Total tariffs	Non-liberalized
	2020	2030	2035	losses	products
Category	A	B	C	A+B+C	D
West Africa	745,718	886,893	238,796	1871,406	949,861
Non LDCs	429,448	524,650	162,196	1116,296	494,295
" in % of total	57,6%	59,2%	67,9%	59,7%	52%
Nigeria	281,642	380,848	92,096	754,585	248,088
Ghana	91,288	93,934	34,408	219,630	130,539
Ivory Coast	48,138	38,957	28,193	115,289	82,891
Cape Verde	8,380	10,911	7,500	26,792	32,777
LDCs	316,269	362,243	76,599	755,111	455,566
" in % of total	42,4%	40,8%	32,1%	40,3%	48%
Senegal	89,619	107,305	18,409	215,333	81,392
Mali	15,306	8,295	5,975	29,577	37,435
Togo	79,275	141,866	8,982	230,122	53,462

Source: South Centre, May 2014

Yet they should have compared these €1.871 billion of losses to the €150 million of tariffs that the EU importers of the products exported in 2013 by the three non-LDCs (least developed countries) of ECOWAS – Ivory Coast, Ghana and Nigeria (Cape Verde is not an LDC but is exempt from customs duties under the GSP+ scheme) – would have to pay in the future if the regional EPA is not ratified given that these imports would then be taxed according to the EU GSP (Generalised System of Preferences) tariff regime, the LDCs being exempted to pay taxes according to the EU "Everything But Arms" decision of 2001. Yet ECOWAS' civil society has proposed that these €150 million should be reimbursed by all Western African countries to the exporters of the three non-LDCs in order to maintain their competitiveness in the EU market[1].

The €1.871 billion in customs revenue that would be lost annually from 2035 are higher by 43.9% than the €1.3 billion of total aid pledged by the EU under the EPA Development Programme (EPADP) of €6.5 billion over 5 years – which includes all the aid from the 11th European Development Fund plus other community resources (including loans from the European Investment Bank) – but those promises would not compensate the losses in customs revenues, as they would normally finance routine projects as funded by previous EDFs. And the €746 million of revenues lost already in 2020 would be equal to 57% of the annual EPADP promises.

But these EPADP promises engage only those who want to give credence to them as shown in another South Centre's report of September 2013 on the disappointment of the CARIFORUM countries that had signed their regional EPA in 2008: "*As a further drawback, CARIFORUM countries are not receiving the financial and technical support which was anticipated for implementation in 2008 when the agreement was signed. Financial aid received thus far is inadequate for the purpose of EPA implementation*"[2].

The second conclusion to draw from this South Centre's analysis is that, contrary to the European Commission allegations that it agreed to limit the opening of West African market to 75% of the EU exports instead of 80% – at the request of Denmark, France, Ireland, the Netherlands and the United Kingdom –, these 75% refer only to the number of tariff lines while the actual opening of West African market in terms of imports value from the EU would be 82%, with significant differences from one country to another, as shown in table 2, again on the basis of imports in 2012. A clear slap in the face of these five EU countries.

Table 2 – Rate of liberalization of West African market to the EU exports in the EPA, in exports value

Togo	Senegal	Nigeria	Average	LDCs	Ghana	Ivory Coast
91.8%	86.1%	85.9%	82%	80.7%	80.4%	75.3%

Source: South Centre, May 2014

A third conclusion from the analysis of the South Centre is that the loss of revenue related to customs duties on products imported from the EU would be accompanied by a loss of customs revenue on export taxes. Indeed article 13 of the EPA text (that of February 2014 because the one initialed in July is not yet available) provides: " *No new duty, export tax or charges with corresponding effect shall be introduced, nor shall those already in effect be increased as far as trade between the Parties is concerned, from the date of entry into force of this Agreement*". But most West Africa's States levy taxes on their most important exported commodities, of which oil, cocoa, cotton, cashew nuts (for which these taxes account for 40% of revenue tax of Guinea-Bissau), cattle, timber, precious metals... Prohibiting new export taxes and increases in the existing ones mean that West African States could not compensate the large loss of revenue in their import duties. This would condemn them to reduce their already low budgets on education, health, agriculture and infrastructure. This shows that the EPAs are not mere trade agreements but mixed agreements requiring ratification by the EU national parliaments.

[1] *GSP duties Ivory Coast, Ghana and Nigeria would have to pay on their exports to the EU if the regional EPA is not ratified*, Solidarité, 16 August 2014, http://www.solidarite.asso.fr/Papers-2014

[2] http://www.southcentre.int/wp-content/uploads/2013/09/AN_EPA32_CARIFORUM-Changes_EN.pdf