Will agricultural producers be able to increase their exports to Europe?

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GIVEN their heavy dependence on exports, African, Caribbean and Pacific (ACP) countries hope that the EPAs will help them to maintain, or even improve, their access to the European market for all goods, and for agricultural commodities in particular. But there is a wide gap between theory and practice.

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EUROPE HAS MADE AN OFFER of duty-free and quota-free (DFQF) market access to all ACP regions in their separate EPA negotiations. The offer covers most agricultural products except bananas, rice and sugar for which special regimes will apply for a transitional period[1].

Can market access be converted to market presence? Yet, the question remains: will ACP agricultural producers be able to increase their exports to Europe upon completion of their EPAs? The answer to this question is that it depends on a number of factors including: domestic support, and other norms, standards and knowledge of the European market that are not covered in the negotiations. Let us briefly discuss some of these.

Domestic support. Domestic support – the ability of a country to provide subsidies to its own producers – has become the preferred route of the EU for increasing competitiveness of its agricultural sector. This has been the central pillar in the reform of the EU's common agricultural policy (CAP) with a shift away from price stability. It does not significantly impact EU producers as they are paid a subsidy and hence a fixed income for their produce which is independent of market price fluctuations. However, the potential problem for ACP countries is that the price of commodities can fall significantly to levels that are simply not remunerative for trade, hence driving the less efficient countries out of the market.

Given the very nature of subsidies it is not possible for the EU to adopt disciplines in relation to the ACP while not applying those disciplines to the rest of the world. Hence disciplines for subsidies are being negotiated multilaterally. Whether or not the levels of EU subsidies will significantly reduce depends on the progress that is made in the Doha Round of negotiations. As of this writing it remains unclear whether these negotiations will conclude by the end of 2007.

Supply-side capacity constraints. Another challenge to converting market access secured in EPAs to market presence is addressing supply-side capacity constraints of the ACP countries. Many of the ACP countries are small either in physical size or domestic markets measured by effective demand. Hence, there is a need for special considerations for ACP countries that take into account the difficulties these countries face in realizing economies of scale, as their cost structures are inherently higher than others. These should include provision of technical and financial resources for investment in the specific commodities and sectors where ACP countries already have, or hope to develop, comparative advantage.

> « THE CHALLENGE: CONVERT MARKET ACCESS INTO AN ENHANCED MARKET PRESENCE IN EUROPE »

Non-tariff measures (NTM). Non-tariff measures constitute the next set of potential obstacles to enhanced market presence in the EU for ACP countries after completion of EPAs. Such NTM can include standards in packaging and presentation of goods and special information about markets not readily available to ACP exporters. Therefore, ACP farmers can encounter difficulties in establishing market presence in the EU due to a lack of local knowledge and continuous imperfect knowledge of local norms in member states. Securing enhanced market presence would require technical and financial assistance for ACP exporters in getting to know EU residents; understanding local norms and customs in member states; and technical assistance in building business relationships including establishment of local presence.

ACP agricultural producers may be able to increase their exports to Europe upon completion of the EPA. However, this cannot be guaranteed by the generous EU market access offer of DFQF alone. Ultimately, whether or not ACP countries enjoy enhanced market presence in the EU depends upon several factors including: the extent of EU domestic support to its own producers; addressing supply-side capacity constraints and disciplines for non-tariff measures, among others. ▪

1. Although not originally included in the EU market access offer, the EU has since signaled that bananas will be subjected to special trading arrangements over a transition period. Rice will be subjected to a tariff quota for a brief transitional period during which the quota will expand and the in-quota tariff will be zero. Sugar will be subjected to the most lengthy and comprehensive treatment spanning the period 2008 to 2015. The final regime which will be DFQF will continue to be subjected to a special safeguard (cf. p23).

Will the agrifood chain be able to face the European competition?

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Trade of the majority of goods *is going to be liberalised. Local production sectors will face stiff competition on their domestic market, unless sensitive agricultural products are exempt from trade liberalisation, unless they improve their competitiveness and unless the EU withdraws subsidies that affect product prices.*

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In November 2006, FARM co-organised a symposium on: *"Which framework should be put in place for agricultural policies, in the future, in Europe and in developing countries?"* and published a summary report on *"How can the ACP countries take advantage of the EPAs?"*. www.fondation-farm.org

Article XXIV of GATT, which regulates the regional free-trade agreements, stipulates that the two parties must liberalise *"substantially all [their] trade"* within a *"reasonable timeframe"* (see box p.20). In this light, the EU and the ACP countries will define what is called an "asymmetrical" free-trade agreement. The EU will liberalise nearly all its imports originating from the ACP group of countries while the ACP regions may maintain some customs tariffs on certain products imported from the EU[1]. In this way, they will still comply with the "special and differential treatment" designed for developing countries and provided for by the WTO. Products exempt from trade liberalisation will be qualified as "sensitive products". Production sectors that are particularly affected by European competition will also be able to be exempted from liberalisation.

However, agricultural inputs and equipment may be liberalised. If retailers reflect the reduction of import duties on prices, this could contribute to reducing the costs of production and improve the farmers' competitiveness.

Local agricultural production sectors can be protected. This asymmetry constitutes the principal means for the ACP group of countries to protect their agricultural production from lower-priced goods imported from the EU. Importing cheap products, especially if it involves large quantities, would push down prices on the local market thus affecting producer's revenues. In some vulnerable production sectors, the survival of family farms and producers and by extension the survival of the agricultural sub-sectors is at stake, and 63% of the active population in ACP countries are farmers[2]. There are various ways to restrict agricultural imports from Europe. The most common are customs barriers in the form of taxes or quotas and import calendars (see box p.23). Taxes increase the price of imported goods on the local market, while quotas restrict the quantity imported. The two can be combined. Import calendars are applied to certain periods of the year based on the local supply of products. For example, from 1992 to 1998 potatoes could not be imported into Guinea when locally-produced potatoes were on the market, from February to June[3]. This meant that the Guinean market had a year-round supply of potatoes while still giving preference to local production.

The WTO has stipulated that the tariffs set by ACP countries under the

1. Currently, the average agricultural protections of the ACP regions range between 17% (SADC) and 36% (West Africa) of the value of imported goods. Source: CEPII, 2006.
2. Source: FAO, 2005.

Other free-trade experiences, the example of NAFTA: a mixed performance of the Mexican economy

The North-American free-trade agreement (NAFTA) that came into effect in 1994 is one of the first agreements of such magnitude involving two industrialised countries (Canada and the United States of America) and an emerging nation (Mexico)*. Presented as a driving force for economic growth and development, this agreement promised significant advantages to Mexico, which was supposed to reach the living standards of its partners. Almost 15 years after its implementation, the result is far from being satisfactory.

The signing of NAFTA was followed by a significant intensification of intra-regional trade. This nonetheless resulted in a serious trade deficit and increased dependence of Mexico on its major trade partner. Agricultural imports from the United States have considerably increased since 1994. The volumes of maize imported increased from 208 tons in 1993 to 2,700 tons in 1994, reaching 7,500 tons today. The competition of imports puts great pressure on the prices of local maize, which heavily impacted producers' revenues. This fall did not benefit the consumers either. On the contrary, due to the demand for bio-fuels, the price of maize rose on world markets. These increases (maize rose 40% in three months early in 2005) significantly affected Mexican consumers who depend on imported maize which, as the main ingredient of "tortillas" represents part of their staple diet. Most investments in the agricultural sector were used to finance relatively capital-intensive farms and failed to create many jobs. During the first ten years of NAFTA, Mexico lost 1.3 million jobs in the agricultural sector. According to a study conducted by the Carnegie Foundation, the employment created in exporting factories hardly compensated for the jobs lost in the agricultural sector due to the increase in imports.

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* Besides trade liberalisation, this agreement includes some provisions relating to services, investments, public contracts and intellectual property.

EPAs, may not be raised thereafter, hence the importance of the Common External Tariff (CET) in the different ACP regions. In the ECOWAS zone, current tariffs do not exceed 20%, however if the CET is not changed before the effective date of the EPAs, then it will no longer be possible to raise the customs barriers that protect sensitive products. On the other hand, safeguard mechanisms can be set up in order to respond to sudden changes in the market (see article on p. 24) such as a significant increase of volumes of a given product or a reduction in the world's prices.

Cereals, meat and milk products are the most sensitive products[4]. According to EPA impact studies, the most sensitive products are cereals, milk and meat, including poultry. Wheat imports can partially replace local cereals like millet, sorghum, rice and maize, as well as plantains, roots and tubers. This risk of substitution is controversial but it concerns the vast majority of rural families in the ACP countries. The liberalisation of flour imports would have serious implications on the local flour-mills.

The significant reduction in subsidies the EU pays on its exports restricts the competitiveness of beef exports as regards ACP beef production. But the direct aid given by the European Commission (to producers of meat, cereals, protein-oil crops) enable producers to export their products at very low prices. The risk of "one-off disposal" of surplus products is also evident. Finally, the liberalisation of poultry meat imports from the EU would give European products a 20 to 30% advantage, thereby resulting in stiff competition with local poultry sectors. But today Brazil is becoming the main supplier of poultry meat to West and Central African coastal countries. It is therefore appropriate to envisage the protection of sensitive sectors within the general protection policy framework, through the Common External Tariff and safeguard mechanisms.

More than half of African imports of milk products are from the EU. They are mainly composed of powdered milk, which is locally reconstituted. For many years, these imports have been in stiff competition with local milk. The opening of ACP countries' markets would only aggravate this situation. The current explosion in world prices is a good illustration of the need to regulate trade and tailor it to current economic conditions.

Finally, European exports of fruit and vegetables to ACP countries are low (0.7% of EU exports, i.e. approximately 50 million Euros[5]) but their competition with local products can destabilise the production systems. This is the case of onions and potatoes. Canned and concentrated tomatoes that are subsidised by the EU threaten local processing industries and by extension tomato producers. Trade liberalisation will strengthen this phenomenon.

Protecting is not enough to ensure development. What is important is to strike a balance between an adequate protection of the production chains (in order to encourage local production) and prices that are acceptable to consumers. Protection must be flexible in order to avoid price explosions whenever domestic production is faced with serious challenges. Protection is just that, it can protect production from complete collapse but it is not enough to ensure its development. Agricultural policies are necessary. This is the challenge for the upgrading programs and supportive measures. Improving market infrastructures and operation, putting in place contractual arrangements between producers and those intervening downstream from the value chains and providing an enabling institutional environment (credit, insurance, research, advisory support, etc.) require a long period of transition.

Regional integration, promoted within the framework of the EPAs, can stimulate the local agricultural value chains by expanding the markets to the benefit of the production sectors. This competition among agricultural production sectors from different countries should improve productivity and competitiveness. Therefore, it could be envisaged in the long term, that certain customs barriers would be removed when local production is able to compete favourably with imported goods.

Sensitive products are one of the key subjects under negotiation. It is generally considered that agricultural products are included in this category. But other sectors like the newly established industries also need to be protected. In addition, some products bring in considerable customs earnings necessary for the State budget: vehicles, cigarettes, capital goods, etc. It will undoubtedly be necessary to arbitrate between all these priorities and there is no guarantee that agricultural producers' interests will be favourably considered. ■

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3. *"La protection des marchés, un instrument de développement"* (in French only), Coordination Sud, December 2006.
4. The information provided in this paragraph was taken from the contribution of Benoît Faivre-Dupaigre, Bénédicte Hermelin and Vincent Ribier to the symposium organised by FARM, Notre Europe and Pluriagri, in November 2006, in Paris on the topic *"What framework should be put in place for agricultural policies in the future, in Europe and in developing countries?"*.
5. Source: European Commission, 2005.

Will the regions emerge from the EPA negotiations stronger or weaker?

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After a year of negotiation, the ACP and EU countries agreed, in October 2003, to proceed with the negotiation work between the European Commission and each of the six regions chosen for the conclusion of an EPA. Road maps towards accelerated regional integration were drawn up during this phase.

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It is obvious that the definition of the regions that were to negotiate with the European Union was governed by political considerations rather than by the economic rationale put forward by the Cotonou Agreement. The latter states that *"Economic and trade cooperation is based on regional integration initiatives of the ACP Group of States, considering the fact that regional integration is a key instrument of their integration into the world economy".* In West Africa, although WAEMU had, right from the signing of the Cotonou Agreement, been mandated to lead negotiations on the EPAs, the ECOWAS heads of state and government decided to negotiate with the EU. The conflict in Côte d'Ivoire strengthened the ECOWAS political action and the opportunity seized by the Anglophone countries (Ghana and Nigeria) to take over the regional leadership led to this state of affairs being accepted. This was an opportunity for the European Commission to integrate these giants into a regional economic zone based on recognised regulations, prefigured by the eight countries of the Franc zone. But the decision to sign EPAs with the regions was also, for the EU, a way to facilitate negotiation with more homogeneous groups and comply with the WTO, which allows a certain flexibility with regard to regional free trade agreements.

An original political weakness. This was when difficulties arose. In Africa alone, 15 interlinked sub-regional organisations are listed, whereas the EPAs take only 5 groups into consideration: the ACP countries of ECOWAS (West Africa), COMESA (Eastern and Southern Africa), CEMAC (Central Africa) and SADC (Southern Africa), and implicitly the non-ACP countries. Each country must therefore clarify its regional membership. For example, the Democratic Republic of Congo (DRC) is, in theory, a member of COMESA and SADC, but decided to join CEMAC for the negotiation of the Agreement. "Orphan" countries must turn to organisations of which they are not members (Sao Tome and Principe towards CEMAC and Mauritania towards ECOWAS). Some non-ACP countries (Libya, Egypt) are members of regional unions that are negotiating an EPA. This poses a practical problem for the harmonisation of trade regulations within these future economic organisations, which aim to create customs unions. How can a single trade system be achieved without creating distortions between countries that do not share the same trade regulations with third countries because of their membership of various regional organisations? This shows the fragile policy basis of regional integration. The ACP regional groupings are devoid of the original political cement that has constituted the backbone of lasting supranational unions, like the Franco-German reconciliation and the reconstruction of Europe, to cite just two European examples.

Contradictions related to the content of the agreement. Monetary and fiscal policies, which are essential aspects of international competitiveness, are

1. The Caribbean; Pacific; West Africa (*Economic Community of West African States [ECOWAS] + Mauritania*); Central Africa (*Economic Community of Central African States [CEMAC] + Sao Tomé + DRC*); Eastern and Southern Africa Common Market (COMESA); Southern African Development Community (SADC).

The common external tariffs (CET) subjected to the test of the EPAs

The overall intent of the EPAs, is that all countries within a given regional group should have equal access to markets and would thus be able to specialise in sectors where they had a comparative advantage without suffering the damaging effects of competition linked to differing import tariffs. Regional organisations must therefore work towards setting-up of customs unions. Where sub-groupings are already united around a common external tariff, it is then difficult to integrate new countries and ensure that they adhere to existing rules. In the case of ECOWAS, the CET extension involves the "heavy weights", who will inevitably want to change the rules. It then becomes necessary to reconcile positions which are at times completely divergent: for example, in the case of rice, the CET is set at 10% but the Gambia is proposing to bring it down to 0%, Ghana to raise it to 20%, Sierra Leone to 15%, and Nigeria to 50%.

But while the EPA tends to engender the setting-up of a CET, at the same time it creates the conditions for calling trade liberalisation into question. In fact, countries take advantage of this opportunity to include safeguard clauses and at times more stringent importation conditions. This led to the emergence within ECOWAS, at the instigation of Nigeria, of the idea of a 5th tariff band at 50% and of a "countervailing duty". This is an original provision meant to counter the effects on world prices of domestic protections and export subsidies of other WTO member nations. Therefore, the EPAs impact in terms of complete dismantling of tariff restrictions is not certain.

set aside by the EPAs, which focus on issues related to market access. This may likely weaken some countries and businessmen with regard to some major problems, such as the impact of the exchange rate on regional trade (for example the Nigerian Naira against the FCFA of the countries of the Franc zone). The liberalisation of trade with the EU, with the possibility of obtaining a duty-free access for some imported products may likely increase tension between extravert (especially coastal countries) and landlocked countries that depend on the regional market to sell their products: European cereals and meats as opposed to local cereals and Sahelian livestock.

Tempting opportunities. Some countries could claim favours in return for their intra-regional solidarity. The least developed countries (LDCs) do not have any individual interest in signing the EPAs. They can continue to benefit, in total conformity with WTO rules, from the "Everything But Arms" initiative and hence from free access to the EU market. LDCs could even claim compensation if developing countries are offered the same benefits as them, under the provision for "benefit differential" reduction. Some countries could also be tempted to act individually in order to claim specific interests (Cape Verde, South Africa and even Côte d'Ivoire), and it is possible that the regional organisation to which they belong would then take more care to take their concerns into account, if only to accept their list of sensitive products.

The weakening of the consensus reached. The trade liberalisation principle that characterised the creation of WAEMU's Common External Tariff (CET) had the advantage of simplifying the rules by its "standardising" nature. With the negotiation on the degree of market-opening, the definition of sensitive products and with the extension of CET to include the other ECOWAS countries, there is a risk that the internal compromise reached within WAEMU could fizzle out. When it comes to granting concessions, we must recognise the fact that the power relationship between countries will influence the defence or protection of one product over another. Therefore, concessions may well constitute a wedge in the crack that is already about to open between the countries. There is a risk that countries may apply some specific measures alongside the provisions stipulated in the ECOWAS Common External Tariff, in the same way as the WAEMU countries did following the introduction of the CET in their zone.

The paradox of an awakening regional consciousness. The negotiation has laid emphasis on trade, thereby pushing social considerations into the background. By focusing discussion on trade liberalisation, the debate about the market's inability to meet development challenges is being avoided. It is much easier to reach an agreement at the top level, between governments, than to resolve the problems posed by the market actors' interplay on its operation. The EPA is seeking maximum economic effectiveness but is ignoring redistribution issues and the iniquities it could generate. By addressing regional integration at the level of trade negotiations, a major risk is being taken as both the EPAs and the EU initiatives could be rejected by the citizens. Paradoxically enough, the negotiation process is strengthening regional feelings, by focussing people's dissatisfactions. Indeed, the EPAs do have the merit of having revitalised social processes and re-launched the debate and actions for the promotion of regional integration. ▪

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The different levels of Economic integration in the Cariforum Region

The Cariforum is an incomplete free-trade agreement between the Caricom* and the Dominican Republic. This free-trade agreement only covers commodity trade for the moment, although further negotiations are planned (in particular to include services, intellectual property and investment).

Caricom, however, is a wholly integrated customs union and the WTO has declared it compliant with GATT Article XXIV. It has a Common External Tariff (CET), with exceptions for a limited number of tariff lines for certain members. Caricom is moving towards a higher level of integration termed "Caricom Single Market and Economy" or CSME, which will include not only free movement of goods but also of services, labour, capital and the right of establishment. Two sub-groups co-exist within Caricom, the more developed countries and the less developed countries. Six of the latter form an economic union, the Organisation of Eastern Caribbean States.

Therefore, the fact that an EPA is being negotiated between the EU and Cariforum is more complicated than it seems because the latter is not yet fully integrated. Certain areas of negotiation and policies that the EU wishes to integrate into the EPA are not yet harmonized within the Cariforum.

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* The Caribbean Community (Caricom) came into being in 1973, initially encompassing four countries: Barbados, Guyana, Jamaica and Trinidad and Tobago. It currently has 15 member countries.

What will be the EPAs impact on public budgets and tax systems?

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In preparation for EPA implementation, several impact studies were conducted and these show a heavy loss in tax revenues for the ACP countries. Reforms must be made with a view to convert customs duties into an internal taxation. The European Union is ready to support this transition.

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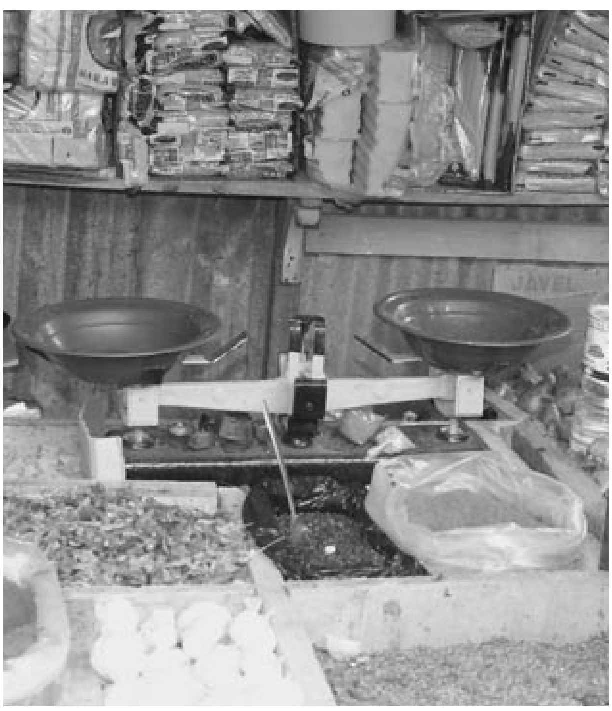
According to the impact studies, the total tax revenues of WAEMU countries represented, for example, 17.4% of GDP in 1997 and 16.2% in 2003. By reconciling the costs of projects related to the implementation of the World Bank reform programmes with those expected from the EPA reform programmes, the economist Christ Milner (2007) estimated that the ACP countries will incur costs of approximately 9 billion Euros in implementing the EPAs. The estimates show that the biggest losers are countries of the Economic Community of West African States (2,789 million). The UN Economic Commission for Africa arrives at similar conclusions in its studies. These studies have some limitations: data availability and quality, lack of a single common methodology and the failure to consider key variables such as exchange-rate fluctuations. But the fall in total customs earnings caused by the EPAs deserves scrutiny. Indeed, customs earnings constitute a substantial share of the resources (already low for a majority) of these countries, and are already declining (dropping, for example, from an average of 35.1% of total tax revenues in 1980-82 to 21.14% in 2000-02 for the Franc zone countries). Unless they reduce their public expenditures (which would endanger public sector social programmes), the ACP countries will have to undertake fundamental tax reform in order to compensate for the losses in customs earnings: this involves putting in place transitional tax arrangements.



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How will the States compensate for the loss in customs earnings? The tax transition concerns direct and, in particular, indirect taxation (VAT accounts for 30% of world public revenues) and the modernisation of customs and tax departments. The reform of indirect taxation relates essentially to value-added tax (VAT) and "excise duties"[1]. Direct taxation reform deals basically with income taxes and business profit taxes.

Direct taxes have been decreasing in most of the countries of the Franc zone (from 19% of total tax revenues in 1980-82 to 18.5% in 2000-02) and indirect taxes increasing (from 22.8% in 1980-82 to 32.8% in 2000-02). However, in light of the above-mentioned drastic drop in customs earnings, VAT earnings and excise duties need to be more actively mobilised in the context of fiscal transition. In a number of African countries VAT is not particularly effective, due to self-consumption, difficulties in taxing the informal sector (unregistered activities), the restricted definition of the VAT base, excessive tax exemptions and deficiencies in VAT application.

A number of measures could be taken to ensure economic equity and neutrality of VAT without affecting the poverty reduction objective, such as putting an end to tax exemption; application of a simple VAT system coupled with a moderate rate and a broad base; refunding VAT credits and; subjecting foodstuff to VAT (after assessing the impact of such a measure, and making some adjustments in VAT directives in the case of a regional integration zone). In the same way, excise duties, income taxes, rural property taxes, petroleum taxes, just to mention a few, must be harmonised both at the national level and on a regional scale.

The modernisation of tax authorities will have to take into account the specific and rational delimitation of powers of the various public financial services involved in tax collection. Improvement of management efficiency, promotion of ethics and strengthening cooperation among authorities are some of the priority actions to undertake.

With regard to the customs authorities, the adjustment could involve an anti-corruption campaign and promotion of ethics; modernisation of control mechanisms of taxpayers; acceleration of customs procedures; limitation of formalities and costs; transparency of rules, etc.

These, far from being exhaustive, must be implemented while taking into consideration the existence of pressure groups and other stakeholders who are directly or indirectly involved in these reforms and who could veto their implementation because of the possible losses they may incur. These reforms will also have to be gradual and supported by a public awareness and information campaign. ▪

1. Specific taxes levied on petroleum and other products (alcohol, tobacco) that have adverse health effects.