Fact sheet on the interim Economic Partnership Agreements*

AN OVERVIEW OF THE INTERIM AGREEMENTS

1. Why interim agreements?

The EU and African Caribbean and Pacific (ACP) countries agreed to negotiate EPAs because the system of trade preferences that was in place before EPAs, the "Cotonou" trade regime, was failing to help ACP economies diversify and develop their trade. In fact their share of EU and world trade was shrinking. In addition, the Cotonou trade regime did not comply with EU and ACP commitments at the WTO that trade agreements must not discriminate between groups of countries unless they fully open trade between the countries concerned. Under the "Cotonou" trade regime the EU granted better trade preferences to the ACP than to similar developing countries but without any corresponding ACP opening.

The EU and ACP therefore sought a special waiver from WTO rules with other WTO members in 2001 to allow EPA negotiations to continue until the 31st of December 2007 when the Cotonou trade regime would legally expire. The EPAs were intended not only to be compatible with WTO rules but to promote development by covering issues like services, investment and standards and to increase cooperation on trade issues.

However, it was clear by late 2007 that EPA negotiations in Africa and the Pacific would not conclude in time. Faced with the legal expiry of the Cotonou trade regime and WTO waiver that covered it, the EU and ACP therefore decided to conclude “interim agreements” that complied with WTO rules covering trade in goods. This would secure ACP access to EU markets and allow wider EPA negotiations to continue without legal challenge from other WTO members. All the inbuilt flexibility of WTO rules was used in these agreements to allow the ACP to exclude products sensitive to EU imports from tariff reductions and to spread liberalisation of EU imports over long transition periods.

Due to the tight deadline, several interim agreements were initialled with individual countries rather than full ACP regions. However, the aim remains to conclude regional EPAs.

The interim agreements also act as a step towards the regional integration and larger regional markets foreseen under EPAs. They align the market access regime for non-least developed countries (who still paid some agricultural duties under the Cotonou Agreement) with the duty-free quota-free access already available to all Least Developed Countries (LDCs) in the same region under the "Everything But Arms" initiative since 2000.

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* *This fact sheet describes the content of the interim Economic Partnership Agreements. Its does not in any way replace or interpret the provisions of these agreements.*

2. Current situation

To date, interim agreements have been concluded with:

- Central Africa: A regional agreement with Cameroon (other countries in the region finally opted not to join the agreement)
- Southern Africa (SADC region): A regional agreement with Botswana, Lesotho, Swaziland, Mozambique and Namibia
- West Africa: Individual agreements with Ivory Coast and Ghana
- East Africa: A regional agreement with the East African Community (Kenya, Uganda, Tanzania, Rwanda and Burundi)
- Eastern and Southern Africa (ESA region): A regional agreement with Comoros, Madagascar, Mauritius, Seychelles, Zambia, Zimbabwe (but with individual market access schedules)
- The Pacific: A regional agreement with Papua New Guinea and Fiji (but with individual market access schedules).

Each interim agreement is described in more detail in a separate fact sheet. All have a similar structure but there are differences because each region has a specific mix of LDCs and non-LDCs, particular interests and integration plans. Some regions like SADC felt ready for a more comprehensive agreement while, in West Africa, Ghana and Côte d'Ivoire preferred more limited agreements so as not to challenge the wider regional integration process and risk prejudicing future EPA negotiations.

The extent of regional coverage also varies. Some LDCs like Mozambique chose to join an agreement while others, like Malawi, did not. In the Pacific, seven non-LDCs did not seek an agreement because of their limited goods trade with the EU, while in West Africa Côte d'Ivoire, also a non-LDC, actively sought an agreement to avoid trade disruption.

All the agreements are interim EPAs although the exact name chosen by negotiators vary and the names "interim agreement" and "framework" or "stepping stone" EPA are also used depending on the region concerned.

3. Trade in goods arrangements in interim agreements

Duty free export of ACP goods to the EU[1]

Since 1st January 2008 all goods originating from an ACP country or region that negotiated an interim EPA have duty free access to EU markets, except for rice and sugar where access to EU markets will be duty free from 2010 and 2015 respectively.

Gradual and controlled elimination of ACP duties on EU goods

The opening up of trade in goods by ACP countries reflects the shared view that the development objectives can best be achieved if trade opening is gradual, asymmetrical and controlled, with enough flexibility to protect sensitive sectors (especially agriculture) and safeguard mechanisms to cope with any unforeseen problems.

[1] Note: Any ACP Least Developed Country (LDC) which did not negotiate an interim agreement also has duty free access to EU markets under the EU's "Everything But Arms" initiative

- **ACP tariffs on products considered sensitive to EU imports are not being reduced** as the ACP were able to make made extensive use of the scope in WTO rules for excluding such products. Typical exclusions cover agricultural products considered key to food security and the income of rural communities, products from industries considered vulnerable and, in some cases, products where import duties provide essential state revenues. Côte d'Ivoire, Ghana, Comoros, Madagascar, Zambia, Zimbabwe and the East African Community countries (Kenya, Tanzania, Uganda, Rwanda, Burundi) all used this flexibility to exclude almost 20% of their EU imports from liberalisation.

- **Tariffs are reduced over long transition periods**. The ACP also made use of the flexibility offered to spread liberalisation over periods up to 25 years to allow their economies to build up competitiveness over the medium and long term. That said, the speed of liberalisation varies. For example Mauritius chose to open up its market to the EU almost completely (95.6%) by 2022 under their own open trade policy although, even then, liberalisation is still gradual with only 53.7% of EU imports liberalised by 2017.

- **There are variable transition periods for tariff reduction by ACP countries or regions according to the sensitivity of the products concerned.** Variations can also result from non-EPA liberalisation commitments made under existing and planned regional markets, free trade areas and customs unions.

- **Safeguard clauses** provide an additional safety net. They allow ACP countries to take measures to protect **infant industries**, **food security** and rural development or any other production sector in the event of (threats of) market disturbance by imports.

Managing the effect of trade opening

The flexible arrangements for market opening to EU imports allow ACP partners to absorb more easily the effects of trade opening. When assessing the impact of this trade opening, it should be borne in mind that there is often limited competition between EU and ACP economies. Other emerging economies in Asia and Latin America are often the ACP's main competitors. The vast majority of EU exports consist of goods ACP countries do not produce but need either for direct consumption or as inputs for domestic industry.

Under such circumstances import duties tend to discourage economic activity and development by increasing the cost of goods that are not locally produced. Many of these goods are essential for development, whether it be for productive investment (machinery, IT equipment, vehicles), as production inputs (intermediate goods, fertilisers, chemicals) or (medicines, water-treatment systems). Tariffs on agricultural inputs, for instance, are four times higher in Africa than in South-East Asia, raising prices for both farmers and consumers.

Variations between regions

Some ACP countries open up their markets more than others. This is a matter of choice. However, to be WTO-compatible, trade agreements have to be essentially "reciprocal", i.e. both trading partners should liberalise a certain minimum amount of trade between themselves.

The EU believes the benchmark for WTO compatibility in this case should be immediate 100% liberalisation of EU trade and at least 80% liberalisation of ACP trade over 15 years. This represents the most generous interpretation of WTO rules ever applied – a normal starting point would be 90% or more of trade in 10 years with no differences in the scope of liberalisation between the partners. Nevertheless, the EU believes that EPAs meet WTO rules.

ACP countries are obviously free to choose to liberalise further or quicker than this –some countries are liberalizing more than 95% of their imports from the EU and one country liberalises more than 82% upon the entry into force of the agreement. They are doing this as a result of their own policy decision to move to a more open economy or because of existing liberalisation commitments in other (non-EPA) agreements – such as the East African Community common external tariff.

Differences also exist where ACP regions, like the East African Community, chose up-front liberalisation of tariff lines that have limited trade or represent much needed imports such as industrial machinery or intermediate goods for local producers.

4. Rules of Origin

Improvements in Rules of Origin is one of the most important aspects of the EU's EPA market access offer, particularly for LDCs that already have full duty free access under the WTO-compatible Everything But Arms (EBA) scheme. These improvements focus on agriculture, textiles and fisheries because this is where researchers, producers and the ACP identified potential gains. They apply to all interim agreements.

Some interim agreements have specific Rules of Origin attached while others will apply the generic EPA market access Rules of Origin while regional negotiations on the full EPA Rules of Origin continue. Some ACP regions favoured retaining the existing Cotonou system so, although broadly similar, the interim agreement's Rules of Origin are not all identical. Any issues of cumulation between ACP regions this raises will be addressed under full EPAs.

Countries like Tanzania and Lesotho are already praising Rules of Origin for opening new markets in value added production. Carefully targeted changes go a long way and we now provide Rules of Origin at least as generous as those of any other developed country. There are major improvements in fisheries for the Pacific region and Eastern Africa. New allowances have also been made for global sourcing in the textiles and clothing sector.

5. Development cooperation

All full regional EPAs will include development cooperation provisions tailored to the needs of the region. Combined with the trade rules of the agreement that have been designed to promote development and regional integration, these provisions form the "development dimension" of the agreements. The coverage of the development cooperation provisions in the interim EPAs varies depending on whether they are single country or regional agreements, how advanced negotiations on these issues were at the time the interim agreement was concluded and the roadmaps to complete the full EPA negotiations.

The development cooperation provisions are part of the EPAs in recognition of the fact that changes to the trade regime will entail certain costs for the ACP in the short to medium term. Costs can be linked to institutional implementation of the new rules as well as to the adjustment of economic operators to the new regulatory framework. The development cooperation provisions are also there to ensure that resources are made available to assist ACP countries in taking advantage of opportunities stemming from implementation of the agreements – access to new markets in particular.

The EU will assist ACP countries in the implementation of the EPAs and in the adjustment process - both through the 10th European Development Fund and Member States' contributions.

The programming of the 10th European Development Fund (EDF) is coming to an end. The Commission and the ACP have agreed 5 out of the 6 regional strategies and indicative programmes as well as most national ones. Both the National and Regional Indicative Programmes have been drafted so as to provide cover for action at both national and regional levels in the areas that will be negatively affected and / or will need support during EPA implementation. Some of the areas that have been identified are:

- The net impact of tariff liberalisation on government revenue, in the context of tax reforms.
- The transition to a rules based trading system (i.e. assistance to building institutions and establishing legal frameworks).
- Upgrading productive capacity and economic infrastructure.

The EU (i.e. both the European Commission and the EU Member States) has committed itself to enhance its overall Aid for Trade contribution worldwide. This is both in the area of Trade Related Assistance, which is closely related to the negotiation and implementation of trade rules and in wider Aid for Trade in areas, which supports productive sectors and infrastructure development. Regarding the first area, an increase to € 2 billion a year is targeted by 2010 (€ 1 billion each from the Commission and the Member States). The second area, wider Aid for Trade, will increase in proportion to overall increases in ODA. It can be noted that for the European Commission alone, total Aid for Trade to the ACP in 2007 was € 2.12 billion. Of this, €412 million was Trade Related Assistance.

The EU's joint Aid for Trade Strategy of 2007 contains a special section on the ACP needs in the regional integration and EPA context and provides details of EU ambitions in this respect. In particular, the European Commission and the Member States undertake to make an amount in the range of 50 % of the increase in Trade Related Assistance available for needs expressed by the ACP as well as to support other areas of specific relevance to ACP regional integration ambitions.

In order to effectively deliver on these commitments and ensure coherence between aid and trade efforts, the Commission is working with the ACP partners and EU Member States on the preparation of what it has called "Regional Aid for Trade Packages". The role of these packages is to support ACP's regional integration efforts, including EPA implementation. The packages will provide a concrete EU financial response to needs and priorities expressed by the ACP countries and regions, including in national and regional development plans. Region by region, their preparation involves mapping and matching key areas of support for regional integration with ongoing and needed responses by various actors: ACP, European Commission, EU Member States and other donors. This work is primarily carried out at regional level, with the regional integration organisations in the lead as coordinators of the process. The regional strategies and indicative programmes of the 10th EDF are an important basis for that work, but the packages should allow channelling of resources from EU Member States to support ACP regional integration.

For further information see:
http://ec.europa.eu/trade/issues/bilateral/regions/acp/index_en.htm