



## Economic Partnership Agreements (EPAs)

*September 2018*

The Economic Partnership Agreements between the EU and African, Caribbean and Pacific (ACP) countries aim at fostering the smooth and gradual integration of the ACP partners into the world economy – and ultimately **contribute, through trade and investment, to sustainable development and poverty reduction.**

EPAs are trade agreements respecting the rules of the World Trade Organisation, but they go beyond conventional free-trade agreements by focusing on ACP development, taking account of their socio-economic circumstances and including cooperation and assistance to help ACP countries implement the agreements. To respond to ACP concerns, EPAs foresee very specific asymmetries in their favour, such as the exclusion of sensitive products from liberalisation, long liberalisation periods, flexible rules of origin, and special safeguards and measures for agriculture, food security and infant industry protection. EPAs are also designed to be **drivers of change** that will kick-start reform and strengthen good economic governance, which will help our partner countries attract investment and boost economic growth.

In Africa, EPAs are also building blocks towards the African Continental Free Trade Area (AfCFTA) under construction. The European Commission's Communication on a new Africa – Europe Alliance for Sustainable Investment and Jobs<sup>1</sup> emphasises that EPAs should be used to the greatest possible extent, to further increase African exports and to attract investment, and to encourage the creation of regional value chains.

### **State of play and prospects**

The **majority of ACP countries are** either implementing an EPA or have concluded EPA negotiations with the EU:

- EPAs are implemented in several ACP regions: an EPA in the Caribbean; an EPA with Fiji and Papua New Guinea in the Pacific; an EPA with Madagascar, Mauritius, Seychelles and Zimbabwe in Eastern and Southern Africa (ESA); an EPA with Cameroon in Central Africa; an EPA with the SADC EPA group; and in West Africa an EPA with Côte d'Ivoire and one with Ghana. Overall, 29 ACP countries are already implementing an EPA.

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<sup>1</sup> COM (2018) 643 final of 12 September 2018

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- In two regions, EPA negotiations have been concluded and the adoption process is ongoing: the West Africa region covering 16 countries; and the East African Community (EAC) covering 5 countries.

Once an agreement is signed, ratified and applied, the focus of the process moves to its **implementation** so as to allow the private sector and consumers alike to reap the benefits of these Agreements. Widening and deepening of the partnerships may also happen in the future.

### **EPAs and sustainable development**

EPAs have sustainable development as a key objective. In that regard, an explicit reference is made in EPAs to the commitments set out in **the Cotonou Agreement**, especially the general commitment to economic development and reducing poverty in a way that is consistent with the objectives of sustainable development. EPAs are explicitly based on the "essential and fundamental" elements set out in the Cotonou Agreement, i.e. **human rights, democratic principles, the rule of law, and good governance**. EPAs thus contain some of the strongest language on rights and sustainable development available in EU agreements.

By way of an article commonly called the "**non-execution clause**", EPAs confirm that "appropriate measures" (as set out under the Cotonou Agreement) can be taken if any party fails to fulfil its obligations in respect of the essential elements. Suspension of trade benefits remains one such measure even if this is considered an action of last resort.

To complement the sustainable development instrument already embedded in the ACP-EU relationship through the Cotonou Agreement, a sustainable development chapter is either already present in EPAs or reserved for future negotiation under the "rendez-vous clause" for those regions which were not yet ready to negotiate it. In all EPAs, the **joint EPA institutions** are tasked with the function of monitoring and assessing the impact of the implementation of EPAs on the sustainable development of the Parties. In keeping with the Cotonou Agreement, there is a clear role for civil society and members of parliament.

### **EPAs and regional integration**

EPAs aim at contributing to regional economic integration by joining up smaller markets in larger EPA regions that were established by the ACP countries themselves. Regional preference clauses in EPAs set out that countries in the same region provide at least the same advantages to each other as they do to the EU. EPAs are therefore as much about **trade between the countries in an EPA** as they are about trade with the EU. There are still many barriers to trade between ACP countries and dismantling them will have a strong positive impact in terms of economic growth and development. EPAs, coupled with the EU's overall strategy to support regional integration, will help in particular African regions come to grips with technical and policy aspects of economic integration, including at continental level. Economic integration is a choice of the ACP countries: the EPAs and accompanying development assistance can help.

### EPAs and agriculture

Under EPAs, partner countries have been able to **protect sensitive agricultural products**, either by excluding them from liberalisation or by imposing safeguard and food-security measures where necessary. In addition, the EU has in the 2014 agreements committed to stop export subsidies on all products exported to the EPA destinations.

Today no export subsidies to EPA countries remain as export refunds ceased to exist on 1 January 2014. The EU was also a driving force behind the World Trade Organisation's decision in December 2015 to scrap trade-distorting export subsidies.

Through its successive reforms, the EU's Common Agricultural Policy (CAP) has increased its market orientation by minimising measures with production and trade-distorting effects.

EPAs also involve enhanced policy cooperation and dialogue on agriculture and food security, with commitment to transparency on domestic support for the farming sector. Moreover, EU development assistance with trade capacity-building measures **supports ACP farming** and rural employment, and the farmers' capacity to comply with sanitary and phytosanitary and other agricultural standards.

### EPAs and industrial development

EPAs are meant to help ACP countries produce value-added goods and develop their industrial capacities. EPAs will **lower the cost of imported inputs and intermediates**, thus lowering production costs. This increases the competitiveness of the local economy to produce for local, regional and international markets and to connect to global value chains. If local industry is threatened because of import surges from Europe, EPAs allow measures to be triggered to protect industrial sectors and infant industry. Sensitive products can also be entirely excluded from liberalisation within the limits of multilateral rules. EPAs also offer **flexible rules of origin** under which firms can more easily source inputs from elsewhere without losing their free access to the EU.

Furthermore, **long-term free access into the EU** increases incentives to invest in developing ACP competitiveness and in building capacity to meet EU standards. Legal certainty, stability and predictability are indeed among the main concerns potential investors are likely to consider when making location and sourcing decisions. EPAs can thus help **attract both domestic and foreign investment** to manufacturing sectors and help break the dependence on commodities and low value-added craft industries. EU Aid for Trade, private-sector development and investment support (eg under the External Investment Plan) are connected to market-related drivers including the opportunities offered by the EPAs.

### EPAs and policy space of ACP partners

EPAs take account of the ACP countries' ambition to promote their industrial development and protect their food security, natural resources and infant industries. The EU is not asking to eliminate existing **export duties** (EPAs are "grandfathering")

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existing export duties) and, in the West African EPA for instance, agrees that new duties can be imposed for specific development-related reasons.

EPAs are fully compatible with a deepening of South-South trade relations, such as existing or **future trade agreements between ACP countries** or with other developing countries that are not major trading partners, and with the future African continental free trade area. The "**Most favoured nation clause**" simply means that the EU - which gives full free access to all products from EPA partners in exchange for more limited access for its products - expects to be treated equally with other major economies if ACP partners open up their markets to them. The clause does not apply to agreements with other ACP or African countries.

### Fiscal revenues

Any trade liberalisation means that, assuming trade flows remained unchanged, less customs duties are available as part of government revenues. However, a decrease in tariffs also means **lower prices for companies and consumers**. A reduction in customs duties is not a loss for the country, but it is a transfer from the government to consumers and businesses. It is therefore for the governments to assess the extent to which, through **fiscal reforms**, all or part of the foregone duties should come back to the public budget.

In most cases tariff revenue losses resulting from EPAs will not be significant, as the long **transition periods** allow sufficient time for fiscal reform. More importantly, governments have excluded some products that are sensitive for revenue purposes. Policy coherence for development requires that, should serious difficulties arise, the EU stand ready to help where partners undertake appropriate fiscal reforms.

### Further chapters

EPAs usually contain "**rendez-vous clauses**" which foresee further talks on trade in services and trade-related rules addressing for instance trade and sustainable development, competition policy, investment and intellectual property rights, where such issues have not yet been included in the EPA.

Comprehensive EPAs covering all areas from services to intellectual property would further encourage investment and growth through a **conducive business environment**. This would take account of the ongoing diversification of ACP economies towards **services** such as construction, renewable energy, telecommunications, transport and financial services, in a context of a growing middle class and swift urbanisation.

### EPAs and the African Continental Free Trade Area (AfCFTA)

**EPAs** are part of a coherent drive towards enhanced economic integration of EPA countries, regionally and multilaterally. In Africa, trade integration increasingly has a continental dimension as African Union (AU) Members work to put in place an African Continental Free Trade Area (**AfCFTA**). The AfCFTA is an important framework agreement guiding ongoing AU negotiations on goods and services liberalisation,

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rules of origin, trade defence and dispute settlement, with further trade-related issues following in a second phase. The EU is supporting this process politically, technically and financially. Most AU Members have experience negotiating the above issues under EPAs and FTAs with the EU, and a significant number are already implementing these agreements. There are indeed important synergies between EU trade policy and African Union policies, including AfCFTA. Building on the AfCFTA, once implemented, the long-term perspective is even to create a comprehensive continent-to-continent free trade agreement between the EU and Africa.

### ACP-EU trade

Trade with ACP countries has increased by 52% in the last ten years and represents 1.5% of EU exports and 1.4% of EU imports. The EU, in turn, is the main trade partner of ACP countries both for imports (27.9% of their imports) and for exports (20.3% of their exports). The EU is the main destination for agricultural and transformed goods from ACP countries – but commodities still represent a large share of ACP-EU trade. The EPAs intend to support trade diversification and manufacturing activity in ACP countries to create much needed jobs.

