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EPA - A model for the study of agreements: The Report that Europe refuses to recognize

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(translated by J. Berthelot from the original in French)

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25-08-2008 The only reports on EPAs that the European Commission wants are those which go in the direction of strengthening his claims on the welfare and many other benefits that will arise for developing countries. Witness, a study published in April by a European firm, and sponsored by the European Commission in conjunction with ECOWAS. Its findings being not satisfactory for the Commission, it refused to pay the consultants, and the study is stored in drawers.

The Commission of the European Union, having commissioned a study on the impact of the Economic Partnership Agreement (EPA) with the West African region (ECOWAS, the Economic Community of West African States), will absolutely not hear of the results thereof. At the point that the consultants, who were chosen in agreement with the Commission of ECOWAS, are still running after their money. Their misfortune? Having confirmed the thesis of those who have always said that the EPA is not good for the economies of developing countries. This document, which is the internal technical report, is not yet officially released, pending the agreement of all parties. Yet the consultants of the firm International Trade and Quantitative Analysis (ITAQA) indicate: "*The aim of our study was not to make a complete analysis of all possible scenarios in the context of negotiations between West Africa and the European Union, or to cover all aspects of the EPA. Our concern throughout this work was to use the best available information with the most proven scientific methods and best known for measuring the best potential impacts on the economies of the region. We wanted to essentially illustrate some of the possibilities offered by the modeling tool we developed*".

The rationale for this work? Mrs Véronique Robichaud and Hélène Maisonnave and MM. Bernard Decaluwe and David Laborde[1] show it: "*The signing and implementation of the partnership agreement will require in future years substantial effort on the part of both parties and we believe that making available an instrument to stakeholders enabling them to better assess the issues at stake and the possible consequences of their decisions, is a noble and necessary task*".

Loss of competitiveness

This language of precautions taken, the consultants make clearly understood that, on all economic aspects they had to go through, signing the EPA, with a more or less immediate or delayed liberalization, will only accentuate the dependence of countries of West Africa vis-à-vis the European economy. Worse, it requires a depreciation of the currency of the subregion's countries to make their economies competitive with Europe's offers. The study says: "*The EPA results in asymmetric reduction: the concessions of Europe will bring only minor additions to access its market, given the preferences already in place, while West Africa will very significantly reduce its tariffs. To avoid damaging their balance of current accounts, economies of West Africa will have to accept a real depreciation of their currencies in order*

1 Footnote of J. Berthelot: Véronique Robichaud and Bernard Decaluwe are from Laval University (Québec), Hélène Maisonnave from Le Havre University and David Lanborde from IFPRI: they are all renowned specialists of general equilibrium models applied to international trade.

to improve their price competitiveness and increase exports. Obviously, this increased competitiveness will lead to increased exports mainly to markets where their products are already well established and most requested (that is to say the most similar to existing products and where price effects have the largest impacts), here the other African markets". But the same competitiveness is not found in relation to the target market, which is that of Europe. Because, in reality, Europe has already largely opened its markets to the West African products. And the existing non-tariff barriers do not seem ready to disappear in the context of the ongoing negotiations on EPAs. It is more the opening of markets of Southern countries which is referred here than that of the North's great partner.

The study also demonstrated what everyone feared, that the removal of tariffs for many products will lead to a sharp increase in imports. A situation that induces the following analysis of the authors: "*The customs disarmament has a significant impact on import flows. Looking at the EPA scenario 1, which takes its toll in 2009, Burkina Faso's imports increase by almost 16% while Ghana and Mali follow with increases of around 9% (respectively 9.9% and 9.3%), followed by Guinea (8.2%), Nigeria (7.6%) and Senegal (6.7%). The least affected countries are Ivory Coast, Benin and Togo. The long term impact is extremely strong since the increase in imports relative to the baseline scenario is 50% for Burkina Faso (46.3%), 34% for Ghana and 23% for Mali. Therefore we observe that, in general, the introduction of the EPA increases the dependence of ECOWAS countries vis-à-vis the European Union*".

In the study, the EPA's scenarios are classified according to the liberalization period. For the authors, the EPA 2 is that of a delayed customs liberalization, "*with a grace period of 5 years, but followed by a much sharper fall in nominal rates of protection. The bulk of liberalization has been, in both scenarios, achieved over the first 18 years of its implementation, and, after 2026, there is no longer a notorious variation*". The EPA 1 is the one providing, of course, an immediate lifting of customs barriers. But the warning is clear: "*Our calculations show that it will be important, during the negotiations, to pay special attention not only to the scale of customs disarmament but also to the pace of its implementation. The increase too sudden of imports may indeed make more difficult the achievement of macroeconomic objectives and particularly of the equilibrium of the balance of payments*".

Regional disintegration

The implementation of the partnership agreement with Europe, the largest trading partner of West Africa, will break a budding regional integration dynamics, say the four authors of the ITAQA study. It is first, obviously, intra-regional trade that will be the most affected. The study is illustrated by the case of the most opened regional countries and shows that "*the signing of an EPA with the EU adversely affects regional partners of Côte d'Ivoire. Imports of Ivory Coast from Nigeria (-4%), Ghana (-2.63%) and Benin (-2.74%) are reduced substantially. This reduction in demand for regional imports is a reflection of trade diversion mechanisms for the benefit of the EU and regional partners to the detriment of Ivory Coast. At equal quality, the lower prices for European imports following tariff cuts pushes African importers to shy away from regional producers as they become less competitive than before tariff dismantling*". The situation is almost similar to another great country of the subregion: "*If Nigeria decided a customs disarmament vis-à-vis the EU, it would not help more its regional partners than Ivory Coast since, on the horizon of 2028, Nigeria's imports from Mali and Niger would be reduced by 8.7% and 5.7% respectively. The other countries also see that the Nigerian demand for their products will be reduced significantly*".

Losses of import duties

"*The implementation of the EPA 1 causes from 2009 substantial losses in tariff revenue for Mali (-15.1%), Burkina Faso and Senegal (-12%). The losses of Ivory Coast and Guinea are less important, but nevertheless substantial. It is Benin which displays the least severe losses because it is the best-protected country by the exclusion list selected in this exercise. We also note that from 2019 the customs tax losses increased sharply: nearly by 37% in Mali and Burkina Faso and by 28% in Senegal. The losses are around 20%, and exceed them slightly, for the other countries. In 2024, the countries most affected will have lost nearly 40% of their customs revenues*". We also know that to this argument the European Commission has often replied that it was not healthy for countries to expect that a significant portion of their revenue come from their customs, and has always advised countries, and even strongly, to broaden their tax base and diversify their sources of income. In addition, the Commission committed to take over a substantial part of the charges induced by the adjustment efforts that the countries will accomplish in the implementation of the fiscal measures of the EPA.

This was necessary in the sense that even what was often described as the benefits of the Agreement proves in the long run to be negative. ITAQA's experts react: "*Household consumption seem to benefit from the EPA, since the effects are generally positive at the beginning of the liberalization process: the decline in prices of consumer goods allows households to increase their volume of consumption. Subsequently the effects of the agreement on economic activity (GDP, public expenditure) occur and, in 2024, household consumption is negatively affected*".

The EPAs were presented by all their followers as a means to accelerate the economic emergence of the ACP States, since more than 40 years of unilateral preferences on the part of Europe have numbed and atrophied them economically. But ITAQUA assures: "*Our scenarios do not lead to an acceleration of growth when compared to the status quo constituted by the regime of Cotonou. Instead, real GDP is always below its baseline level for all years of the simulation*". To put it plainly, "*in general, it can be argued that the deterioration of the terms of trade due to trade diversion on the one hand and to the real depreciation of currencies needed to maintain external balance, bring about an actual impoverishment of the economies in the zone*".