

Overview of the SADC and ESA EPA and their Impact on Sub-Regional Livelihoods in Agriculture and Fisheries

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For the purposes of this SARPN conference I've been asked to look at a number of interlinked issues, namely the current draft ESA EPA agreement, the SA-EU TDCA (as a template for the SADC EPA), which was concluded in 1998 and fully implemented in 2004, and to assess their impact on sub-regional livelihoods in agriculture and fisheries. In addition, I've been asked to look at the poverty eradication implications of the two agreements.

Background Context

When examining the Economic Partnership Agreements (EPAs) and the effects they are likely to have on poverty eradication and development, it is important to also note the context within which they are being negotiated. Trade preferences are being eroded globally through various processes and the ACP is affected in three distinct ways: firstly, through multilateral processes, in other words through negotiations at the WTO and agreements reached there. All ACP countries are currently members of the WTO and are, therefore, legally bound to its agreements. Secondly, the ACP is affected by bilateral trade agreements, not only those negotiated between themselves and third parties, but significantly also by agreements the EU is currently negotiating outside the ACP group. Thirdly, the ACP will be affected by the EU's reform of its Common Agricultural Policy (CAP). CAP reform for the ACP group is double-edge sword, as some states did benefit extensively from some of its provisions, whereas others were adversely affected by domestic subsidies paid to EU farmers and the effects of these on market prices.

In effect, the EPAs are a contributing element to the three processes mentioned above. It is also worth remembering that during the time that the ACP benefited from trade preferences granted under the Lomé Conventions the ACP group as a whole only became poorer and Lomé should, therefore, be considered a failure as a development tool. When we are concerned about tariff liberalisation processes, it is also important to keep on asking who benefits from tariff protection. Clearly government revenue is affected and by implication the societies they govern, but tariffs generally protect large farmers that are well-equipped, strong players in the international arena. Subsistence farmers and small farmers exclusively producing for the local market are only affected by tariffs in a very limited way. In other words, agriculture – in its very broad definition – will be affected by the EPAs in very different ways. We have to be clear about which areas in we consider threatened by the EPAs and which of our

agricultural interest will actually benefit from liberalisation. Once this analysis has been done, the CSO community should think of innovative ways in which agriculture could benefit from an EPA agreement.

Several studies have been done on the impact of potential EPAs on the ACP states and they all vary in their outcomes. It is as yet unclear what the precise impact of the EPAs will be, as the details of the agreements are still outstanding. Although the ESA EPA group has a draft text, tariff schedules have yet to be decided on. And whereas the SADC EPA group has worked out their schedules, nothing has been agreed on internally either at this point. So, how can we determine whether the EPAs do indeed pose a threat to sub-regional livelihoods in agriculture and fisheries?

Let us examine the information that we do have at our disposal as a starting point:

The SA-EU TDCA

Studies on the impact of EPAs on the ACP abound, but they are all rooted in speculation, as the specifics of the agreements are still outstanding. We do, however, have the SA-EU TDCA as an example of a free trade agreement between a smaller economy and the EU. The TDCA was negotiated shortly after South Africa's transition to democracy and shortly after the EU had decided that South Africa could not become a full member of the ACP group given its economic strength. Due to South Africa's developmental nature, the TDCA is supposedly not only a free trade agreement, but has two additional components, one of development and another of co-operation. The agreement was only fully implemented in May 2004.

The basic provisions of the TDCA are:

- A tariff phase-down schedule for agricultural and industrial products. In terms of this agreed schedule, South Africa will eliminate tariffs on 86% of EU exports to South Africa, over a period of twelve years. The EU in return will eliminate tariffs on 95% of South African exports to the EU, over ten years.
- In terms of agriculture, South Africa will open 83% of its market to EU agricultural exports, but pointedly will only be given duty free access for 61% of its exports with another 13% enjoying preferential rates.

Unfortunately there is very little knowledge regarding the impact of the agreement on South Africa. Although the agreement was provisionally implemented in 2000 and fully implemented after ratification in 2004, the time period is perhaps still too short to get a clear picture. However, South African agricultural exports have increased in key sectors and for the TDCA review the industry has requested more access to the EU market. Very little has been said or asked for its protection from EU competition.

Under the TDCA the entire fisheries sector has been excluded given South Africa's substantial concerns that it will be unable to control and monitor foreign fishing vessels in its waters. The EU's demands in this sector are also offensive, which has seen South Africa refusing to sign away any fishing related concessions for the time-being.

Sadly, very little has been done regarding the TDCA's provisions for development and co-operation. The TDCA was hailed as a first of its kind by including these two components, but now the innovation on how to translate these opportunities into real benefits is lacking. And this is an important point the paper will return to later.

The TDCA and the SADC EPA

There is a general misconception that the TDCA is being used as a model for the SADC EPA. This is not the case and cannot be the case. The TDCA was negotiated specifically because South Africa was not going to be part of the ACP group and that the ACP group would qualify for different treatment. The Cotonou Agreement states that no ACP country should be worse off under an EPA than under its Lomé provisions. For SADC to move towards a TDCA would clearly be in violation of this provision.

However, the TDCA is playing an important role within the SADC EPA negotiations. According to the SADC Framework for Negotiations, as submitted to the EU in March of this year, the SADC states would like to resolve the BLNS market access within the TDCA review. There are very good reasons for this, as the BLNS all form part of the Southern African Customs Union (SACU) with South Africa and by the pure nature of a customs union these five states should grant the same market access to its partner countries. In fact, the TDCA is currently *de facto* being implemented by all the SACU states. The TDCA review is an opportunity to retrospectively address the concerns of the BLNS within the TDCA. If all of their market access concerns can be accommodated in this fashion, the remaining negotiations surrounding the SADC EPA will be greatly simplified. Mozambique, Angola and Tanzania are all LDC's and, therefore, do not have to reciprocate any tariff liberalisation. For markets access into Europe the SADC EPA group is aiming to achieve universal duty and quota free access, similar to the preferences granted under the Everything But Arms (EBA) initiative.

Having worked extensively with the BLNS on this approach I can share with you that if this approach succeeds most of the BLNS's agriculture interest will remain protected. In the few cases where this is not the case, the BLNS have already experienced European competition in the South African market since the implementation of the agreement. Despite the TDCA a number of interesting agricultural products have been growing from strength to strength and have even managed to increase their exports to the EU by tons. Yes, losing South African

market space to European products is a real concern to the BLNS, but this will be the case regardless of an EPA given that South Africa is committed to liberalisation and is currently involved with the BLNS states in a number of free trade agreement negotiations.

(However, the approach seems unlikely to be accepted by the European Commission, given that it now seems incompatible with WTO rules. If an FTA is negotiated between a group of countries that contains both developing and developed countries, GATT Article XXIV will strictly apply, which means the enabling clause cannot be used. It is important for the ACP to lobby within the WTO that changes to GATT Article XXIV allow for differential treatment for the EPAs.)

In terms of the fishing industry in the SADC EPA group – if the BLNS’s market access offer is based on the TDCA, they will clearly also not be opening up their fishing industries to the EU. Given that Swaziland and Lesotho are landlocked, only Namibia is currently affected and it is interesting to note that whereas 95% of Namibian fish products are exported, they hardly import any fishing related products. There seems to be no market for fish in Namibia. Mozambique, Tanzania and Angola are yet again in a different position given their LDC status. It is, however, important to note that the ACP countries in general need to be wary of EU interests in access to fishing waters. With little ability to patrol sea-waters, the risk of over-fishing in ACP waters is a real threat.

The SADC EPA and the SACU Revenue Pool

A real worry and threat to the BLNS states out of any EPA deal concluded is the shrinking of its fiscal income through the SACU revenue pool. The table below shows the dependence of the BLNS states on this income:

Table 1. Receipts from SACU revenue pool, 2006

	Excise	Devel'mt	Customs	Total	Total	Total	Total
	R million				% of GDP	% Gov Rev	per Capita
Botswana	586	483	4565	5634	9.0	20.1	3,692
Lesotho	85	560	2191	2836	28.2	53.0	1,398
Namibia	357	523	4584	5463	12.2	41.0	2,695
Swaziland	152	534	3023	3708	24.1	56.9	4,256
South Africa	13512	493	3620	17625	1.0	3.9	666

Source: The World Bank African Economic Indicators 2004 and budget documentation from the five member states.

*Source: Chris Stevens and Jane Kennan

Given the nature of the new revenue sharing formula, the BLNS states will be losing out far more than South Africa from any shrinkage in tariff collections. The table below shows how the BLNS will be affected by a R2 billion loss in tariff collections:

Table 2. Distribution of revenue losses from a R2 billion reduction in duty collections

	SACU revenues (R mn)		%	%
	Before reduction	After reduction	Change	Share of revenue loss

Botswana	4008	3423	-15%	29%
Lesotho	1984	1709	-14%	14%
Namibia	3228	2753	-15%	24%
Swaziland	2795	2371	-15%	21%
South Africa	13027	12787	-2%	12%
Total	25042	23042	-8%	100%
<i>Source: calculations by Matthew Stern.</i>				

*Source: Chris Stevens and Kane Kennan

Revenue losses will not only occur if an EPA is concluded. As explained above, tariff liberalisation is occurring through several processes that South Africa, in particular, is involved with. There are currently a number of studies being conducted on how to source alternative income streams for the governments of the BLNS.

The ESA-EPA draft

In contrast to the way in which the SADC EPA is being approached and negotiated, the ESA grouping has already proceeded towards producing a draft EPA agreement. It is a comprehensive document, which will form the basis for the actual negotiations with the European Union. The ESA group has opted for a 'text-based' negotiation as often used within the WTO, but perhaps less appropriate for the EPA negotiations, given that they can only negotiate backwards. In many ways, therefore, it is still a wish list of the ESA states.

On the positive side, whereas SADC is working on tariff liberalisation schedules, ESA started the process by looking at the development needs of its grouping. In my view this is a more sensible approach if you want to ensure that EPAs are indeed about development and not merely a free trade area, as in the case with the TDCA. IN their view negotiations should not be about the amounts of funding, but how the money will be spent – this is similar again to the Trade for Aid approach within the WTO.

In terms of agriculture the draft states clearly that the EPA should reinforce efforts towards attaining the United Nation's Millennium Development Goals (MDG) as well as the Nepad Comprehensive Africa Agricultural Development Programme (CAADP). It also identifies areas in which the EU is specifically requested to give additional funding. Both the MDG and the CAADP are very clear in its objectives to eradicate hunger in Sub-Saharan Africa and clearly agriculture development has an important part to play. In terms of the fishing industry, the ESA EPA draft has included the sector for negotiation. Again it is very clear on the development objectives that should be included in the agreement to ensure that the fishing industry can contribute to growth and food security for the ESA group.

In terms of its liberalisation schedule, the ESA group has proposed a phase down schedule, starting from current tariffs over a ten year period, whilst also excluding sensitive sectors. So, yet again, the most sensitive agricultural sectors

will be protected. A number of studies have been done about the revenue losses for the ESA group, but yet again they are speculative and the total adjustment cost is not known.

The Development Component of the EPAs

If we accept that the EPAs will eventually be signed and tariff liberalisation will be implemented in both agriculture and fisheries, how can we mitigate the negative impact of these – apart from continuously calling for the end of tariff liberalisation? As pointed out, under the TDCA development and co-operation was included, but has not really translated into any real benefits. How can we ensure that the situation will be different for the ESA and SADC groups?

Much has been said about the EPAs and their development component. As in other trade negotiations – like the TDCA and at the WTO – it is unclear what form that development component should take. Within the EPA context, the matter is further complicated by the fact that the Cotonou Agreement ‘already provides for measures to improve the poverty reducing impact of trade – to contribute to poverty reduction EPAs must result in things happening that would not otherwise occur.’¹ Some suggestions made by Anderson and Stevens from the ODI include: to link development assistance to liberalisation tranches, i.e. if the EU wants the ACP to liberalise the next set of products, it first has to deliver on assistance for those. In addition, it could bind the EU to make contributions to the fiscal revenue of countries if they have been unable to source alternative tax sources.

A final note on poverty eradication

Trade agreements are usually negotiated with the narrow objective of liberalising trade in the short term, which will hopefully result in increased trade volumes in the long term. Increased trade should have a positive impact on poverty eradication as more people will be pulled into production as well as consumers will have access to cheaper products, which should benefit the poor. In theory.

In reality, however, the trickle down process is much more obscure and not easily traceable as having positive poverty eradication impacts. This is the reason why the SADC and ESA EPAs will have to have very clear development objectives and implementation strategies in order to address the enormous problem of poverty in these two regions.

Given experiences with the implementation of the TDCA that has as yet not been translated into development and real economic cooperation, the CSOs will have a very important role to play after implementation to hold both their own governments and the EU to promises made within the agreements. It will take

¹ Andersons & Stevens. 2006. *The ‘Development Dimension: Matching Problems and Solutions’* ODI Briefing Paper Nr 6.

innovative thinking on how to translate a trade agreement into a poverty eradication tool. It is a huge challenge, but one that we should not shy away from.

Conclusion

At this point it is very difficult to pinpoint threats to the agriculture and fisheries sector, as the details of the EPAs in SADC and the ESA region are still too vague. However, we know that trade liberalisation carries adjustment costs and that the ACP governments will lose out on fiscal revenue. We need to accept that the EPAs will in all likelihood be concluded and therefore we need to think of innovative ways in which development can be included in a trade agreement. Finally, CSOs need to stay committed to the process after implementation to make sure that development does occur through the trade agreement.