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Negotiating an EU–Central Africa EPA: A Brief Overview

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Introduction

Central Africa covers a vast geographical area with a population of roughly 95 million inhabitants. Despite their diversity in size, population density and economic profile, the eight Central African countries (Cameroon, Central African Republic, Chad, Democratic Republic of Congo (DRC), Guinea, Gabon, Republic of Congo, and Sao Tome and Principe) share a number of distinctive features and challenges. A major common concern is the high poverty incidence across the region, which has not declined over the last decades. All countries but Cameroon, Gabon and the Republic of Congo are classified as least-developed countries (LDCs). Social and human development indicators show very low levels, especially in the two landlocked countries (Chad and Central African Republic), which are classified by the United Nations Development Programme (UNDP) as having Low Human Development and where all social indicators are below the Sub-Saharan Africa average. Despite a favourable natural resources endowment, economic growth in the region is low and volatile. Slight improvements have occurred since the devaluation of the 'Franc de la Communauté Financière Africaine' (FCFA) and related accompanying reforms initiated in 1994.[1] The political situation in the region is highly unstable due to both internal conflicts (Chad, Central African Republic, the Republic of Congo) and the adverse effects of conflicts in neighbouring countries.

Central African economies are poorly diversified and highly dependent on natural resources (oil, forests) for their exports and economic growth. In Equatorial Guinea and Republic of Congo for instance, the oil sector accounts for more than 50% of GDP. The tertiary sector (administration, commerce and transport services in particular) is a central economic sector across the whole region, while agriculture plays a significant role in Cameroon, Central African Republic and Chad. Economic disparities among countries are significant: Cameroon and Gabon,[2] accounting respectively for around 36% and 17% of total GDP of the region, are relatively large economies while Chad and Central African Republic figure among the poorest economies in the world, with a GNI per capita which does not exceed US$300.

In spite of regional integration initiatives, intra-regional trade flows remain very limited.[3] As for external trade, Central African economies are very open on the international market. With significant volatility over the years, total exports (in dollar terms) have risen globally by some 50% over the 20-year period to 2000, to reach almost €9.5 million in 2003. The EU, and especially France, is still the major trading partner of the region, although the US also account for a significant part of its exports (see Box 1 for data). Central African exports are concentrated in a few sectors. Oil is the main determinant of the trade performance of the region, with a share of about two-thirds of total exports since 1990, followed by wood and some agricultural products (bananas, cocoa beans, cotton, coffee). Despite liberalisation efforts, Central Africa's participation in world trade remains insignificant. In 2005, its share in EU trade amounted to barely 0.32% of EU exports and 0.46% of EU imports.

Central African regional integration process

The Communauté Economique et Monétaire d'Afrique Centrale (CEMAC)[4] was established in 1994[5] in order to give new impetus to the economic

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Box 1. CEMAC (plus Sao Tome & Principe and the Democratic Republic of Congo)
Trade in goods with the EU (2005)

Exports to the EU: €3,421 million
(growth 2004–2005: 9.8%)
Imports from the EU: €5,393 million
(growth 2004–2005: 23.7%)
Trade balance: €–1,972 million

Share of agriculture in trade:
Exports to the EU: 15%
Imports from the EU: 10%

Participation in EU trade:
Exports to the EU: 0.32%
Imports from the EU: 0.46%

Main trade partners (2003):
Exports: US (34%), EU (33%), China (14%), other (19%)
Imports: EU (54%), US (9%), other (32%)

Source: Comext 2004 EU declarations and IMF 2003 data in Comext

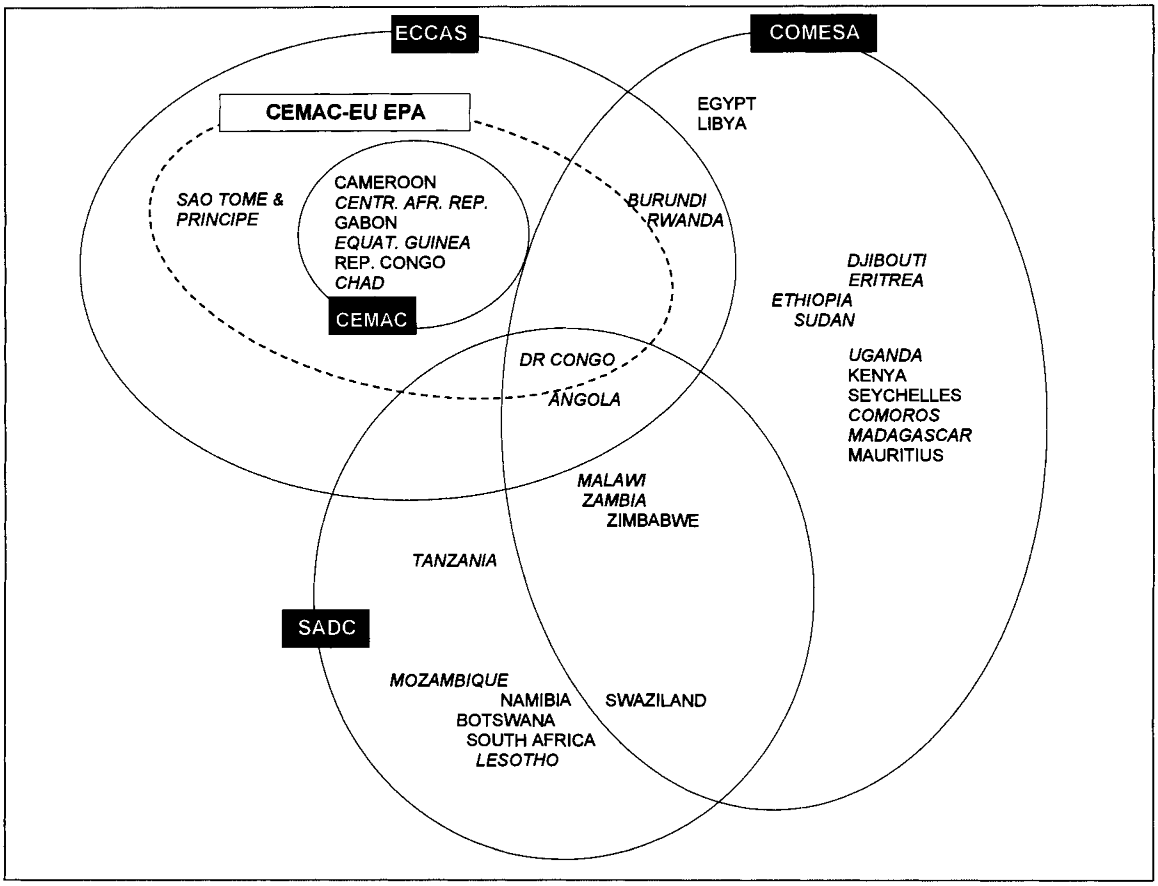
integration process in the region. Taking over from the previous *Union Douanière et Economique de l'Afrique Centrale* (UDEAC) founded in 1964, the CEMAC agenda consists of: the convergence and monitoring of national macro-economic policies; the creation of a single market based on the free movement of goods, services, capital and persons; and the co-ordination of sectoral policies. An action programme covering a period of 15 years (1999–2014) has been defined to reach these objectives. In terms of institutional setting, the CEMAC Regional Executive Secretariat is the main supranational body, in charge of legislative as well as management activities. CEMAC is financed since 2002 through an autonomous financing mechanism based on the collection of an Integration Communitarian Tax.[6]

Looking specifically at trade and economic integration, the CEMAC zone is first of all a Monetary Union (MU) with a common monetary policy, managed by the *Banque des Etats d'Afrique Centrale* (BEAC), and a common currency, the FCFA, pegged to the Euro. Since December 2000, CEMAC is also formally a Free Trade Area (FTA) although many tariff and non-tariff barriers still remain in place. This, combined with serious physical constraints to transport and lack of economic complementarity, hamper the development of intra-regional trade. Finally, the CEMAC region is formally a Customs Union (CU) notified to the World Trade Organization (WTO) and with WTO observatory status since 2000. The regional integration initiatives progressively adopted since 1994 include: major tax and customs reforms; common rules on investment and competition; harmonised VAT system; a Common External Tariff (CET) of four rates (5, 10, 20 and 30%); a common regime of customs valuation and a system of Rules of Origin (ROO). Though some of these reforms are in the process of being implemented progress is slow and their effective application remains largely incomplete.

The key priorities for CEMAC are the progressive elimination of remaining internal trade barriers and the consolidation of the CU, including a possible revision of the CET to align it to the one adopted by UEMOA (Union Economique et Monétaire Ouest Africaine) countries. In December 2004 CEMAC members signed a trade agreement with Sao Tome and Principe (STP), and together they form the regional configuration currently negotiating an EPA with the EU.

The Economic Community of Central African States (ECCAS)[7] was created in 1983 with the ambitious mandate to foster political dialogue, sectoral cooperation and trade integration at the regional level. However, ECCAS has been mainly inactive during its first 15 years of existence due to financial difficulties and institutional weaknesses as well as conflicts in the Great Lakes Area. ECCAS' activities were relaunched at the Malabo Conference in 1999 with a specific focus on conflict prevention and peace consolidation, which are essential prerequisites towards the creation of a Central African Common Market. See Figure 1 for an illustration of how countries memberships in ECCAS and CEMAC overlap.

Figure 1. Central Africa–EU EPA: regional membership



International trade negotiations

In addition to their own regional economic integration process, Central African countries are involved in several external trade negotiations. With the exception of Equatorial Guinea, they are all members of the WTO and therefore participate in the ongoing Doha Development Round (DDR). Moreover, these countries are signatories of the Cotonou Partnership Agreement and thus are currently negotiating an Economic Partnership Agreement (EPA) with the EU, to be concluded by the end of 2007. The Democratic Republic of Congo, previously negotiating an EPA in the East and Southern Africa–EU EPA configuration, joined the CEMAC configuration at the end of 2005. Finally, Central African countries, with few exceptions,[8] benefit from preferential and non-reciprocal access to the US market for a significant part of their exports under the African Growth Opportunity Act (AGOA). These various liberalisation initiatives are meant to be convergent and complementary towards the integration of the Central African region into the world economy.

EPA negotiations

In previous ACP–EU co-operation agreements, all ACP countries enjoyed non-reciprocal tariff preferences for their exports to the EU market. Under the Cotonou Agreement, this will change after 2008 when reciprocal free trade arrangements negotiated between the EU and the six ACP regions will replace the previous preferential trade regime. These new agreements shall be compatible with the rules of the WTO, development-oriented and build upon ACP regional integration initiatives. The new regime shall also incorporate and improve the Lomé/Cotonou *acquis* regarding access to the EU market for the ACP countries.

The Central Africa – EU EPA Negotiations Principles

The Central Africa–EU EPA negotiations shall be guided by a number of principles, as detailed in a 'Joint Road Map' agreed in July 2004. First of all, these trade negotiations foresee the creation of an FTA between the two regional blocks starting in January 2008, in order to fully comply with WTO requirements. If indeed the negotiations are concluded, the principle of reciprocity will be progressively introduced over an indicative period of 12 years.

Another crucial objective of the EPA negotiations is to support and foster the regional integration process in Central Africa, on the basis of the priorities defined by the region. This encompasses notably the harmonisation and implementation of sound macro-economic and sectoral policies as well as the establishment of a monitoring system for the regional FTA. Specific attention shall also be paid to the implementation of the CEMAC CU (which remains problematic) as well as the trade agreement between CEMAC and STP. The pace of bilateral trade liberalisation with the EU shall be flexible and asymmetric, depending on the degree of regional integration achieved within the Central African region.

In line with the goals and principles stated in the Cotonou Agreement, Central African–EU negotiations for an EPA shall above all accord priority to the promotion of sustainable development and poverty reduction in the region. This shall be ensured through the implementation of competitiveness upgrading programmes, with specific focus on those sectors that are more likely to be affected by the EPA or regional integration processes. These capacity-building programmes, by improving the business environment and providing appropriate direct support to enterprises, should help Central African countries to maximise the potential benefits generated by the EPA and adjust their economies to the liberalisation process. In terms of financial coverage, both parties agreed that all the instruments and procedures available in the Cotonou Agreement shall be considered, along with possible complementary resources obtained from co-financing by EU states and other development partners.

Phasing and state of play of the negotiations

After the first phase of negotiations at the 'all ACP' level (which started in September 2002), Central Africa was the first ACP region to launch officially EPA negotiations at regional level with the EU in October 2003. For various political, capacity and substantive reasons, it took however almost a year for both parties to agree on a road map to structure the negotiations. Among the major sticking points figured the question of financial support to address supply-side constraints in the region. The Joint Road Map, very similar to the one agreed between the EU and the West African region, was finally signed in Brussels in July 2004, fixing the main objectives and principles of the negotiations as well as key areas for regional integration and capacity building programmes. It also defines the structure of the negotiations and an indicative calendar, divided into three phases.

Phase I (from September 2004 to July 2005) was dedicated to the identification of key regional economic integration priorities (on the basis of the CEMAC regional integration agenda) and the establishment of an EPA reference framework in these areas. The formulation and implementation of upgrading and competitiveness enhancement programmes also started with Phase I and is meant to continue during the whole negotiating process and beyond. Phase II (from September 2005 to July 2006) involved the definition of the overall EPA architecture as well as a first draft agreement on trade-related issues, agriculture, development issues and fisheries. Negotiations on bilateral trade liberalisation for goods and services will take place during Phase III (from September 2006 to December 2007), leading to the conclusion of the EPA.

The first meeting of the Central Africa–EU Joint Senior Negotiators Committee was held in Brussels in December 2004 to discuss the state of play and constraints in terms of regional integration and to agree on the creation of technical working groups as well as on an indicative calendar and action plan for 2005. Since then, several joint meetings have taken place at technical level, with a focus on Customs Procedures, Trade Facilitation (TF) and Border Protection as well as Technical

Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) measures. The next Central Africa–EU EPA meeting at Ministerial level is scheduled for October 2005.

Negotiating structure

The negotiations of the Central African–EU EPA take place at three levels: the 'Comité Ministériel Commercial conjoint', the 'Comité des Négociateurs' and the 'Groupes des Experts'.

The Central African 'Comité Ministériel Commercial' is composed of the trade ministers of the CEMAC countries and STP and it supervises the negotiations at political level. On behalf of the Central African region, the Committee monitors the functioning of the negotiating structure, approves the results of the negotiations and provides strategic orientations. At senior officials' level, the negotiations are lead by the 'Comité des Négociateurs', chaired by the executive secretary of CEMAC, and vice-chaired by the assistant general secretary of the ECCAS. This committee is in charge of conducting the EPA negotiations at technical level and is assisted by the 'Groupes des Experts', chaired by the directors in charge of trade of the CEMAC–ECCAS. At their first joint negotiation meeting held in December 2004, senior officials from both parties agreed to establish four Technical Negotiating Groups (TNG): CU and TF; TBT and SPS measures; Trade-related issues; and Services and investment.

In parallel to this formal negotiating structure, Central Africa and the European Commission (EC) have set up a joint Contact Group in order to provide secretarial and follow-up services regarding the negotiations and related support. Besides, a joint Regional Preparatory Task Force (RPTF) was created to facilitate the links and coherence between the trade negotiations and related financial assistance. The issue of development support for production capacity reinforcement, competitiveness and compensation for fiscal losses remains, nevertheless, a highly contentious one. Since the launching of the negotiations, Central Africa is asking for the inclusion of these issues into the formal EPA negotiations process. The EU, on the contrary, still maintains that the negotiations should focus on trade aspects only and that capacity-building support is best dealt with by the various Cotonou instruments in the context of the RPTF.

Significantly, the participatory approach agreed upon for the conduct of the negotiations provides for a key role for the private sector and civil-society stakeholders. In principle, they shall be kept informed of the evolution of the negotiations and consulted to express their concerns and defend their interests.

Key issues and challenges

Regional integration process: Regional integration among Central African countries can be a key driving tool for enhanced growth and economic efficiency as well as an important factor of political stability and peace within the region. Its completion, and particularly the consolidation of the CEMAC CU and its extension to STP, is a central objective of the EPA negotiations. The process is, however, far from being completed and there is a huge gap between the existing community legislation, quite comprehensive, and its effective application by the individual member states. Although the CEMAC zone is officially an FTA since December 2000, intra-regional linkages remain very limited and a wide range of political obstacles and administrative barriers still impede the free circulation of goods, services, capital and labour within the region. Besides, many decisions related to the customs and tax regimes are not yet properly implemented, leading to double taxation, exonerations and misclassification problems. Finally, harmonised policies on trade-related areas such as competition, investment, intellectual property rights (IPRs) or TBT/SPS measures are either nonexistent or not respected in practice. A large variety of obstacles and challenges, both internal and external, hamper the regional economic integration process in Central Africa: political instability and inter-country rivalry; lack of human and financial resources; weak institutions and enforcement mechanisms; large economic disparities between landlocked and coastal countries; and serious infrastructural constraints.

Supply-side constraints: The main objective of the Central Africa–EU EPA negotiations is development and poverty reduction in the region. Clear evidence, however, shows that market access in itself does not automatically lead to economic diversification and growth. Given the scarcity of private investment and the serious supply-side constraints the region is facing, sound internal reforms and timely development support measures to improve the business climate and enhance the private sector's supply and export potential will be crucial for Central African economies to benefit concretely from trade liberalisation and attract foreign investments. Priority areas for reform and support include institutional capacity building and good governance, macroeconomic stabilisation, public infrastructures (especially transport, energy and communication), regional integration, human resources development and enterprises upgrading and competitiveness enhancement.

Reciprocity: The impact of offering EU imports and investors improved access to the Central African market is another essential issue for the negotiations. First, the dismantling of tariffs, an important source of revenue for the governments in the region (from 28% to 65% of national budgets), is likely to lead to a significant drop in government resources, with severe consequences on public expenditure and possible detriment to social sectors such as health or education. This challenge may lead to the need for compensation mechanisms to offset tax revenue losses in the short term as well as adequate and stable fiscal reforms to be effectively applied. Secondly, liberalising trade with the EU will have important impact in terms of greater competition on the Central African domestic markets. While overall benefits in terms of consumer welfare and market efficiency (decrease of production costs, greater competitiveness) are expected, many local producers and firms might be unable to compete with EU products and be forced out of business, worsening employment and poverty conditions.

Access to the EU market: All Central African countries but Cameroon, Gabon and the Republic of Congo are LDCs and it can be reasonably assumed that the region will be granted an 'Everything But Arms' (EBA) type of duty and quota-free access to the EU market. However, tariff preferences, steadily eroded in the context of multilateral liberalisation, will not on their own address the trade needs of the Central African exporters and due consideration shall also be given to their capacity to comply with the EU's SPS, TBT and RoO policies.

Key sectors: Central Africa is well endowed with and extremely dependent on natural resources. First, it has vast reserves of petroleum, both offshore (Cameroon, Gabon, Congo, Equatorial Guinea) and inland (Chad), as well as deposits of minerals and metals, including gold, tin, bauxite, uranium and iron ore. **Oil** in particular dominates the economic and trade performances of the region, accounting for close to 25% of CEMAC's total GDP and 70% of CEMAC's exports. Moreover, the **dense forests** the region shares with the DRC represent the second-largest eco-forest zone in the world after the Amazon and logging activities constitute a major source of fiscal revenues, export earnings and employment. The EPA process, notably through regional integration, market liberalisation, and the improvement of the business climate, could further boost the development of these sectors while taking into account potential social and environmental negative impacts (deforestation, preservation of biodiversity). It could at the same time stimulate economic diversification by fostering local industry competitiveness and foreign investments in the region.

Two-thirds of the Central African population lives in rural areas and **agriculture** (including agro-industry) plays a significant economic and social role in the region, particularly in Cameroon, Chad and Central African Republic. The sector is however mainly characterised by subsistence activities with low productivity and could be negatively affected by the EPA through increased cheap agricultural imports and further rural exodus. Due consideration shall therefore be given to the potential effects of trade liberalisation in that sector, taking into account the impact of the EU Common Agricultural Policy (CAP) as well as the EU enlargement process.

The **fishing sector** has some significant potential in terms of trade and food security, especially in coastal countries, and could be developed on a sustainable basis through the EPA process.

Finally, **services** constitute a central element for most economies in Central Africa (up to more than 49% of total GDP in Chad). This sector shows promising results for the future although its expansion is hindered by weak institutions and lack of sound regulations as well as the inertia of other economic sectors. The EPA, by fostering regional integration and improving market access, could have a positive impact on the development of certain service sectors such as tourism (notably eco-tourism thanks to the rich fauna and flora of the Central African forest), telecommunications and financial services.

Endnotes

1. The period 1994–2000 showed a GDP growth of 0.7% per year to reach a total of more than $20 billion in 2004.
2. Gabon is the only country in the region to be defined as a 'middle-income economy'.
3. Trade flows among Central African countries are still below 5% of total trade in the region. These figures do not, however, take into account informal trade for which no data are available.
4. CEMAC includes six countries: Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon and Republic of Congo.
5. The Treaty instituting CEMAC was signed in 1994 but was formally ratified only in 1999 in Malabo (Equatorial Guinea).
6. This tax consists of a percent fee on the c.i.f value of imports from outside CEMAC.
7. The ECCAS includes the following countries: Angola, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Equatorial Guinea, Gabon, Republic of Congo, Rwanda and Sao Tome and Principe.
8. Central African Republic and Equatorial Guinea.

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