

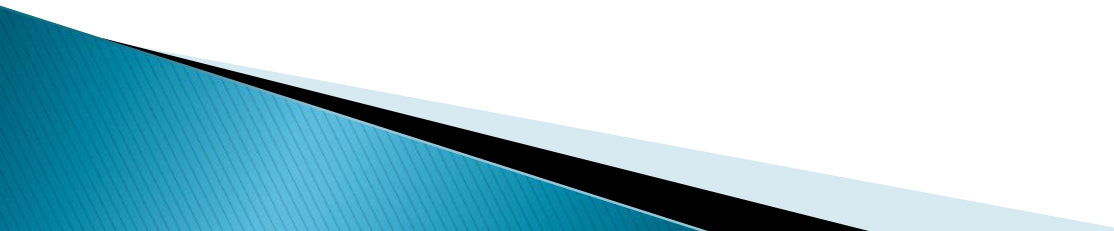
Ghana Under the Interim EPA – Research of ActionAid Ghana

Analysis of Socio-economic Development and Policy Options under the Interim EPA Regime with the European Union

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26.09.2013

Outline of Presentation

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1. Objective of the study
 2. Methodology
 3. Presentation on key findings
 4. Recommendations
 5. Questions
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Objectives

- ▶ Conduct a comparative analysis of the policy frameworks of the socio-economic status of the agriculture sector and the economy in general with and without IEPA within policy formulation and targeting for the development of smallholder agriculture, smallholder farmers, poverty reduction and food security.

Objectives contd.

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- Propose policy alternatives /options for socio-economic development for Ghana in relation to smallholder agriculture, food security, domestic and regional trade for a sustainable development of the agriculture sector and rural livelihoods; with some focus on poultry, maize, rice and tomato subsectors.

Objectives contd.

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- ▶ Propose innovative mechanisms that will broaden the taxation base within the smallholder agriculture subsector whilst structuring employment within the subsector for improved government policy formulation, programming and resource allocation.

Objectives contd

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- ▶ Develop a policy brief that will provide a summary of the past and present policies that hamper local production and trade and aggravate poverty within the smallholder agriculture subsector and within the milieu of IEPA.

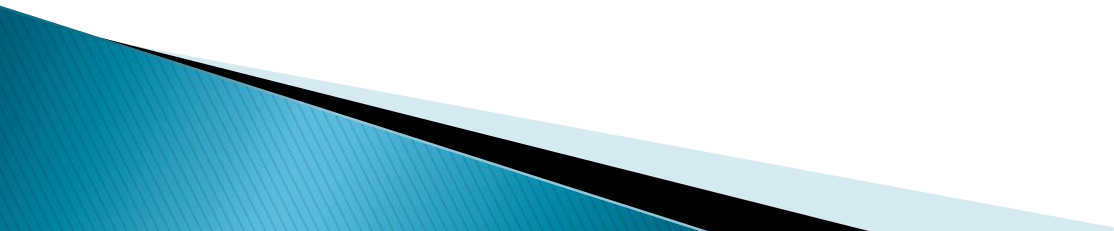
Methodology

- Desk study of various research papers and databases focusing on the subject
- Research materials used include: Government of Ghana Trade and Agricultural Policies; Industrial Policy and Social Protection Policy; annual budget statements and economic policies, International Trade data on Ghana from the United Nations Conference on Trade and Development (UNCTAD) Handbook of statistics and European Commission's trade database

Methodology

- ▶ Policy audit to establish the pattern of Ghana policies and whether or not the focus of these policies have changed or constrained in the light of the (I) EPA.
- ▶ Regression analyses to extrapolate the likely pattern of government revenue from import trade with the EU from 2013–2030 using historical data.

Presentation of Findings



What is the EPA?

- ▶ EPAs are a type of 'preferential trade' agreement in which both sides agree to reduce the taxes (tariffs) on goods coming in (i.e. import duties) and going out (i.e. export taxes) of their countries.
- ▶ Sought to replace the trade chapters of the Cotonou Agreement which granted non-reciprocal (free) access to the EU market until 2008

What is the EPA

- ▶ Only four (4) out of the 47 eligible African countries have ratified an interim EPA.
- ▶ In West Africa Ghana and La Cote d'Ivoire remain the only countries from the ECOWAS to have initialled the interim EPA as of 2012. However, Cote d'Ivoire has gone ahead to sign while Ghana is yet to sign the agreement

What is the EPA contd

- ▶ Ghana is yet to fully commit to the EPA.
- ▶ There is therefore the opportunity to thoroughly consider the implications of signing a full EPA on the socio-economic development of Ghana.

Why did Ghana initiate the EPA

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- ▶ The fear of losing EU market access for selected commodities.
- ▶ Lack of options as many of most important export sectors are dependent on the EU market.
- ▶ A threat by the European Commission (EC) to raise taxes on Ghana exports to Europe if the December 2007 deadline was not met.

Why EPA– The EU Perspective

- ▶ System of trade preferences which the European Commission had adopted in relation to ACP countries under the Lome and Cotonou regime was ineffective in combating poverty and underdevelopment and therefore needed revision.
- ▶ Trade preferences offered no incentive for better governance. Besides, while it discriminated against non-ACP developing countries, it contributed to entrenched marginalisation and vulnerability of ACP countries in international trade.

Why EPA– EU perspective

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- ▶ The EPA was necessary to put trade relations with ACP countries in sync with WTO rules.

What is contained in Ghana IEPA ? **act:onaid**

Liberalisation schedules/ market access offer–

- All imports from Ghana have entered the EU duty and quota free, with the exception of rice and sugar which had a transitional period of 2010 and 2015 respectively.
- In return, Ghana agreed to liberalize 80% of its imports from the EU, representing 81% of tariff lines over 15 years – January 2008 to 2022.

Export Taxes

- ▶ Ghana and the EU cannot increase duties/tariffs of items excluded from liberalization without prior consultation.
- ▶ Temporary introduction/ increase in export taxes are allowed in cases of infant industry/ environmental protection or to maintain currency value stability but only with prior consultation with EU

Excluded Items

- ▶ The IEPA excluded some 1,038 items from liberalization, 32.5 percent of which are agricultural products already covered by WTO rules.
- ▶ About 85 percent of the excluded items are in the highest tariff band of 20%, while 10% are within the 10% tariff band

Standstill Provision

- ▶ No new tariffs can be introduced and once eliminated; tariffs may not be re-imposed or increased.
- ▶ This goes contrary to WTO provisions where applied tariff rates are often much lower than ceiling (i.e. the rate at which they are bound).

Most Favoured Nation (MFN) Clause **act:onaid**

- ▶ Requires parties to the IEPA to extend to each other improvements in treatments should one conclude a free trade agreement with any other developed country grouping besides the EU.

Rules of origin clause

- ▶ Goods from Ghana can only be defined as Ghanaian produce if the inputs for such goods originate from a IEPA signatory.
- ▶ In the West–African sub region, inputs from only Ivory Coast are currently qualified.
- ▶ Products made out of inputs from other West African countries like Togo or Nigeria cannot access the EU market as goods originating from Ghana.

Timeframe for reform

- ▶ Ghana required to gradually liberalize products in tranches beginning from January 1, 2013.
- ▶ About 995 tariff items constituting 22.6 percent of the listed items should be liberalized by January 1, 2013.
- ▶ Liberalize 44.1% of imports from the EU between January 2015 and 2017.
- ▶ Liberalize all of highest tariff items (20%) in 2021 and 2022.
- ▶ Two-thirds (66.7 %) of Ghana's imports will be duty free within eight years to 2016.

Implication / effect of IEPA

SMALLHOLDER AGRICULTURE

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- ▶ Government policies on smallholder agriculture development, nurturing of local industries and employment promotion, poverty reduction and food security remains unchanged during the period before and under the IEPA.

Smallholder agriculture

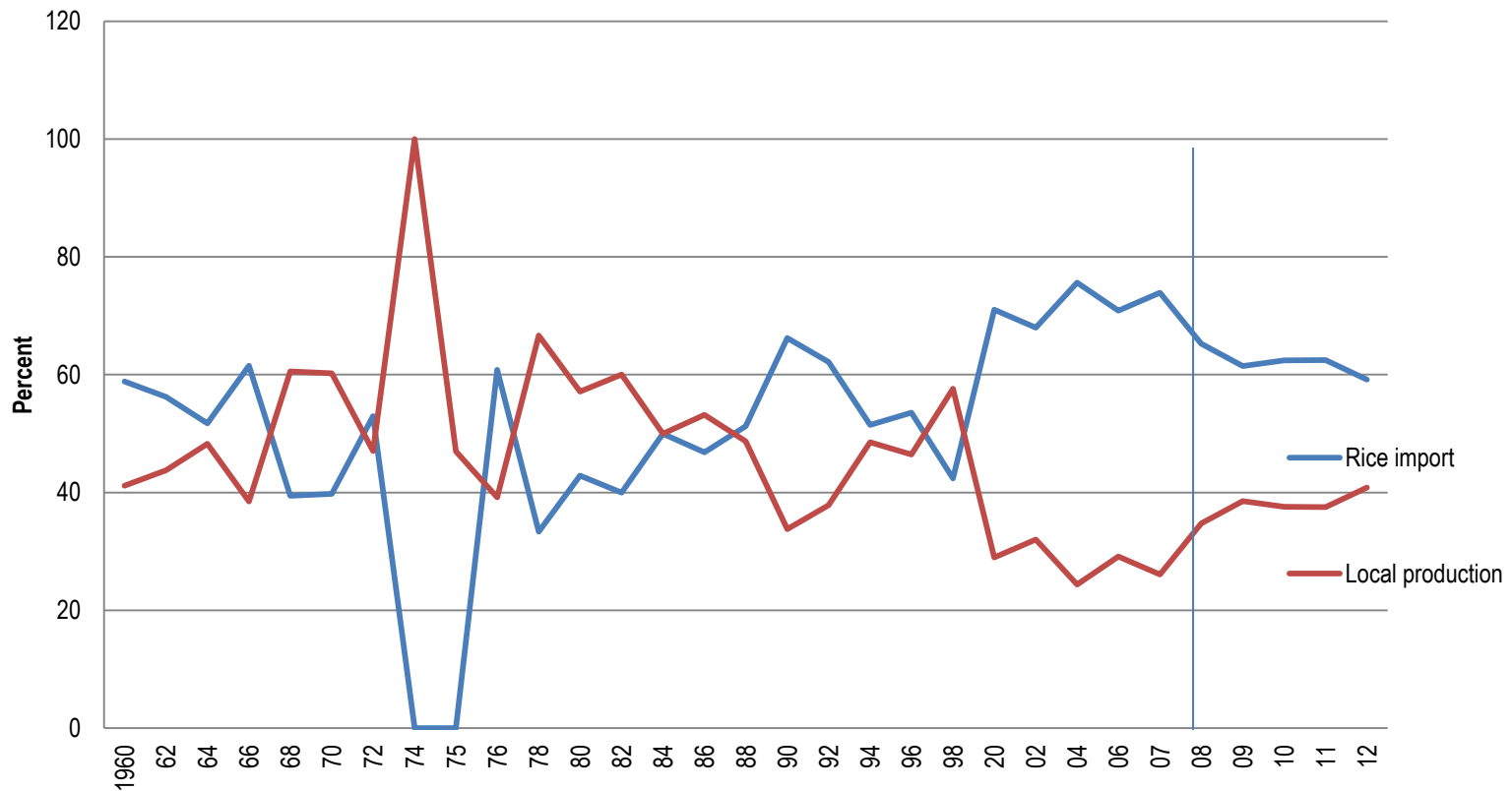
- ▶ Policy space/option under the regime of the EPA has been restrictive.
- ▶ Ghana is unable to adjust its tariffs to protect vulnerable local industries such as the poultry, rice and tomatoes sub-sectors.
- ▶ The existence of a standstill clause is depriving Ghana the policy space to use tariffs as a trade management tool.

Smallholder agriculture

- Growth of this sector has been sluggish under the regime of IEPA, particularly in the poultry and cereal sectors.
- EU poultry exports to Ghana have been increasing steadily within the period of IEPA; warding off competition from bigger players namely, USA and Brazil.

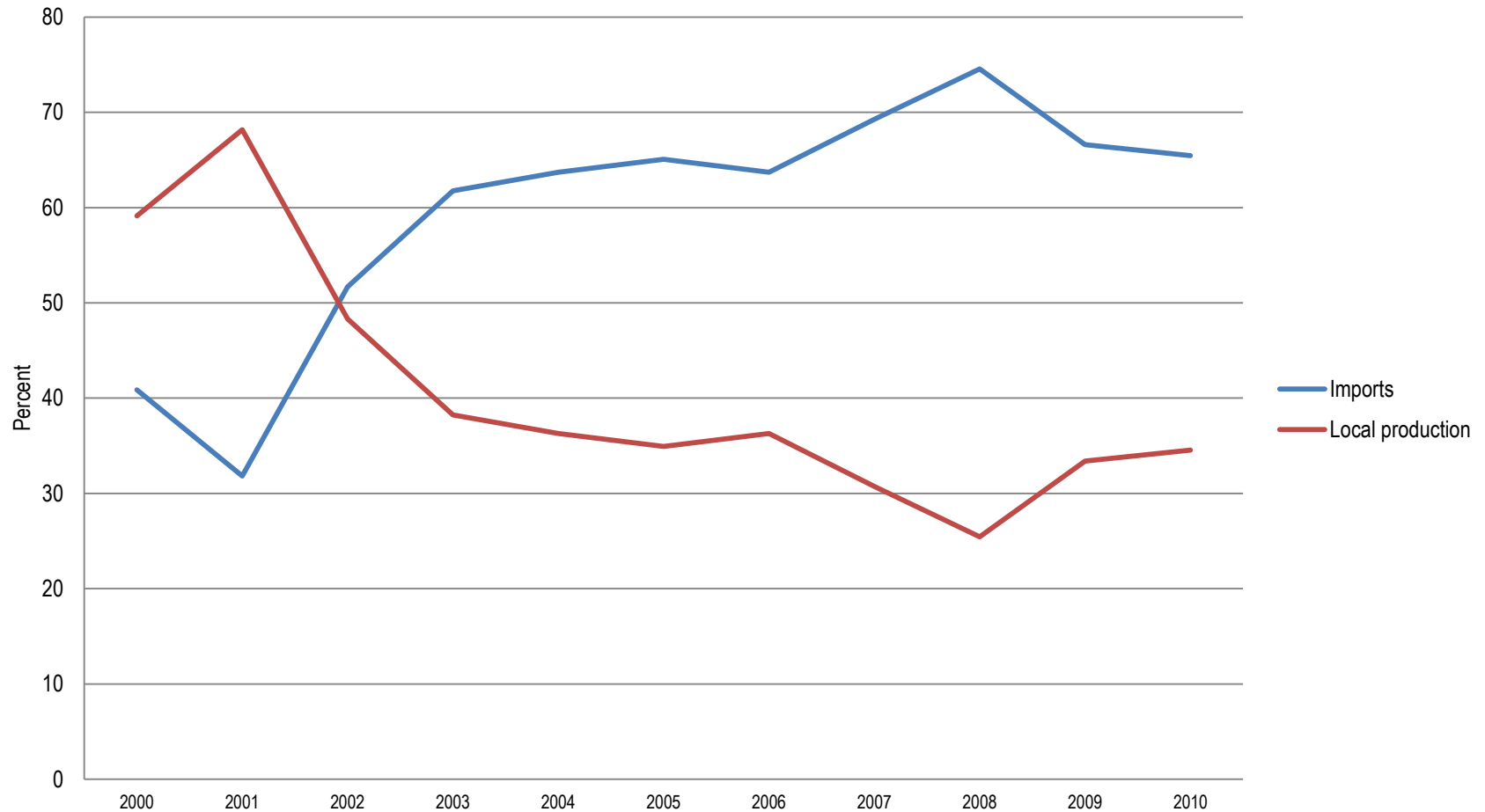
However the IEPA has sustained Ghana's non-traditional export sector which would have suffered disruption had Ghana not initialed it.

Share of Rice Import vs. local production (1960-2012)

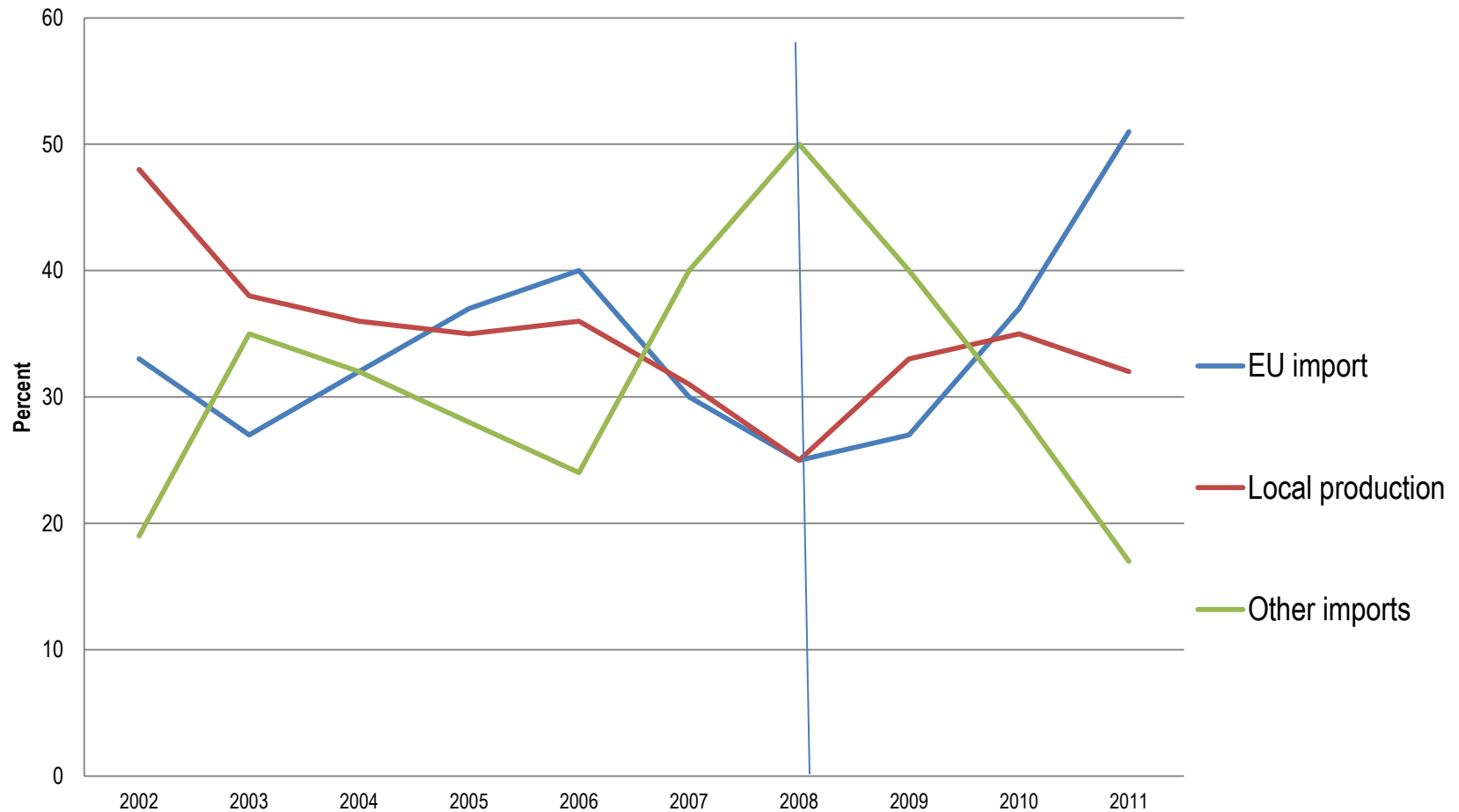


Import share of local poultry market (2000–2010 (MT))

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Trend of Local production in comparison with EU and other imports (2002–2011)



- ▶ The EPA is likely to result in crowding out and eventually collapsing the manufacturing sector in Ghana which has over 95 percent of its exports to the EU market being primarily raw materials. Thus Ghanaian manufacturers cannot compete fairly in the more technologically advanced European markets.

Government Revenue

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- ▶ Main sources of Government revenue is custom duties/tariffs on imported goods.
- ▶ EU's share of Ghana's imports has been declining but still constitutes some 27 percent of Ghana's imports as at 2008 (period before EPA)

Trend of EU share of Ghana's imports (1990-2011)

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EPA & Government Revenue

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- ▶ Beginning from 2013, (i.e. the start period of liberalization of first tranche items), Ghana tariff revenue from EU imports will experience a decline (under the regime of IEPA) from US\$310.9 million in 2013 to US\$273.8 million in 2016, a decline of about 12 percent.
- ▶ Pattern of revenue losses (under the regime of IEPA) will continue through to 2022 and beyond.

EPA and Government revenue

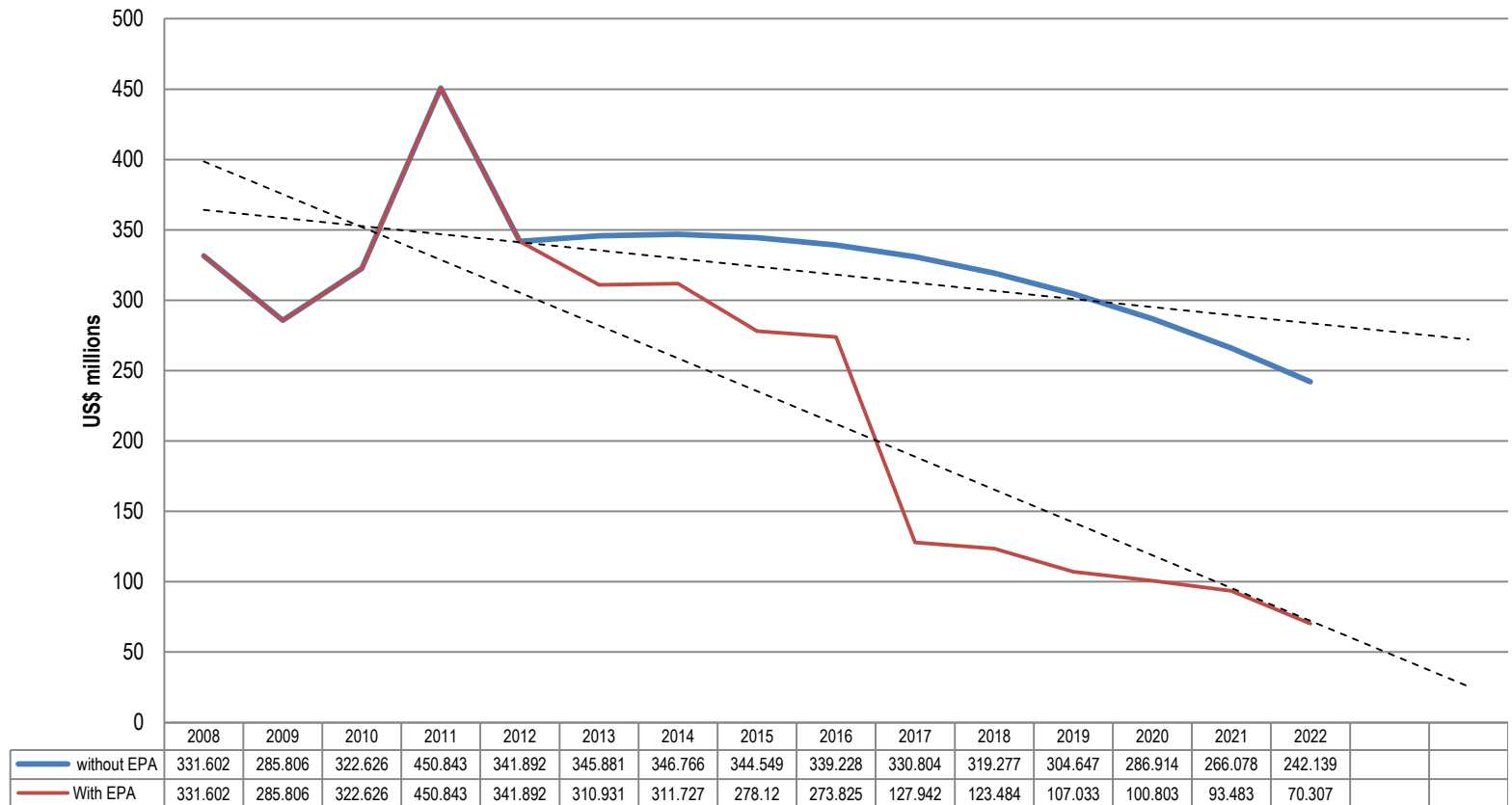
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- On the average, Ghana would lose about US\$ 88,575 million per annum between 2008 and 2022 in import revenue.
- Decline to be felt most from 2017 after the country liberalizes two-thirds of its trade with the EU.

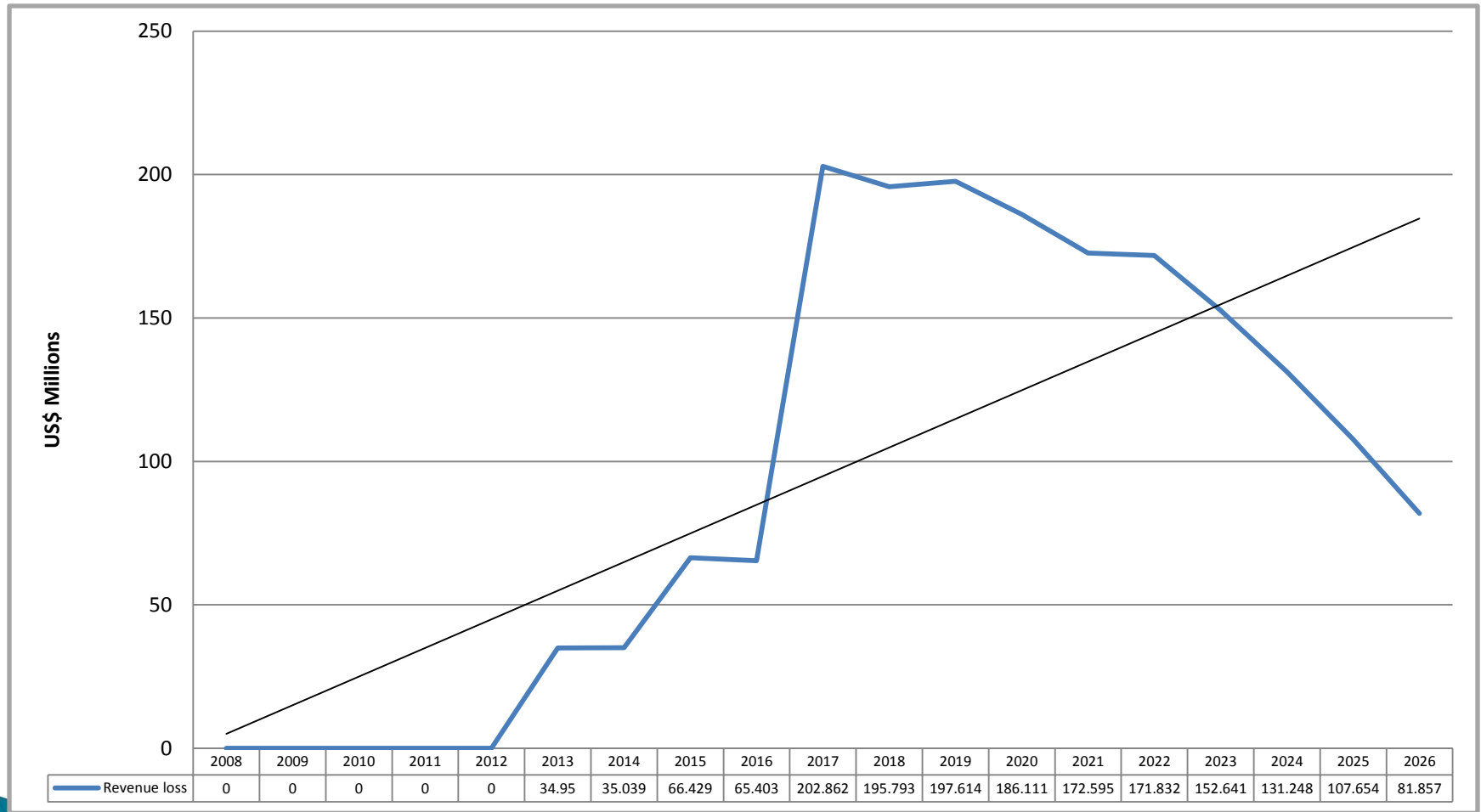
EPA & revenue cont.

- Cumulatively, Ghana would lose US\$ 1,126,807 (a little over 1.1 million) between 2008 and 2022.
- Relates to only the direct revenue forgone in liberalizing 75 percent of Ghana's trade with the EU per the current schedule under the IEPA.

Trend of Ghana's tariff revenue with and without (I) EPA



Trend of Ghana import revenue loses under IEPA

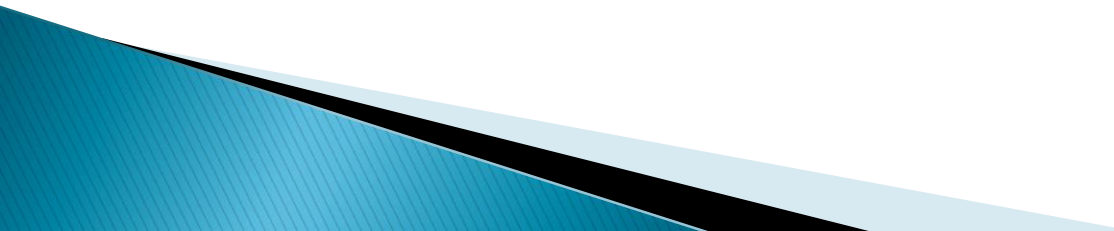


Government Revenue

- ▶ However, should Ghana decide to opt out of the EPA, its import tariff revenue from EU imports will decline anyway but the rate of decline would not be as steep as it would be witnessed under an EPA regime.
- ▶ The expected decline would however be compensated for by import tariff revenues from other countries.

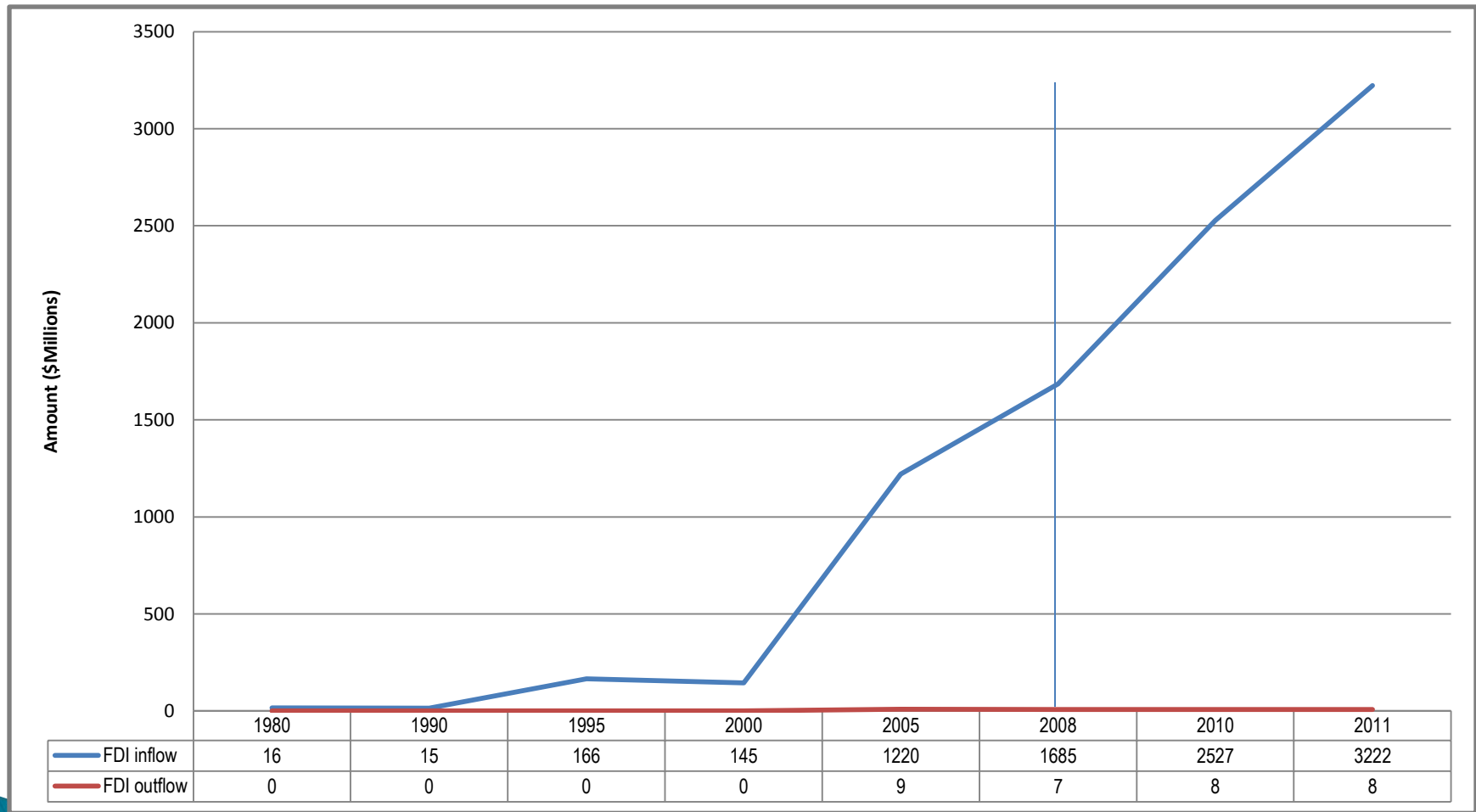
EPA and FDI inflows

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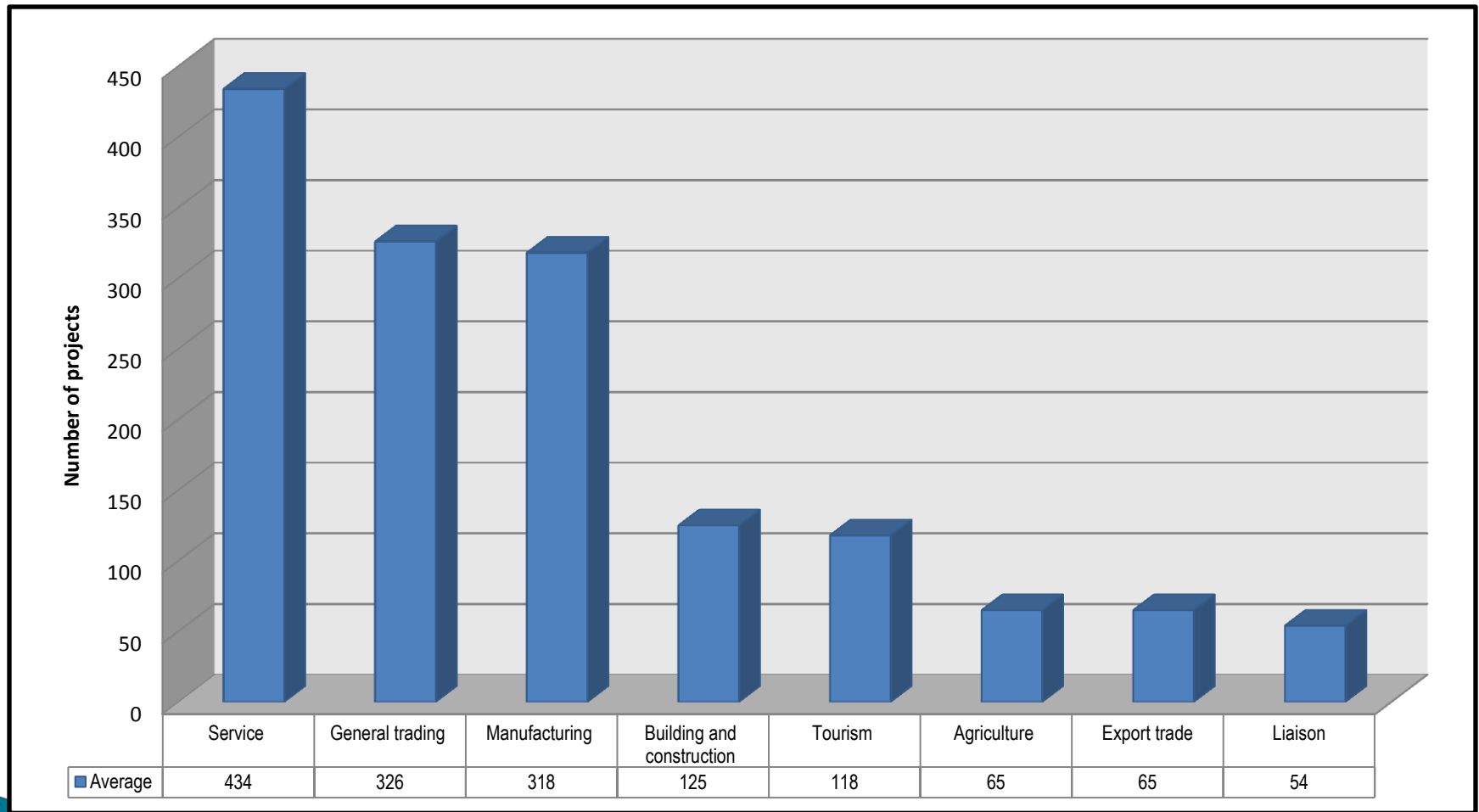
- ▶ No contribution to Foreign Direct Investment (FDI) inflows to Ghana than would have pertained had Ghana not initialed it.
 - ▶ The increase in FDI inflows witnessed during the period of the IEPA is largely due to oil related investments.
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Trend of Ghana FDI inflow and outflow \$Million (1980-2011)

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Average sector distribution of FDI inflow, 2006 and 2010



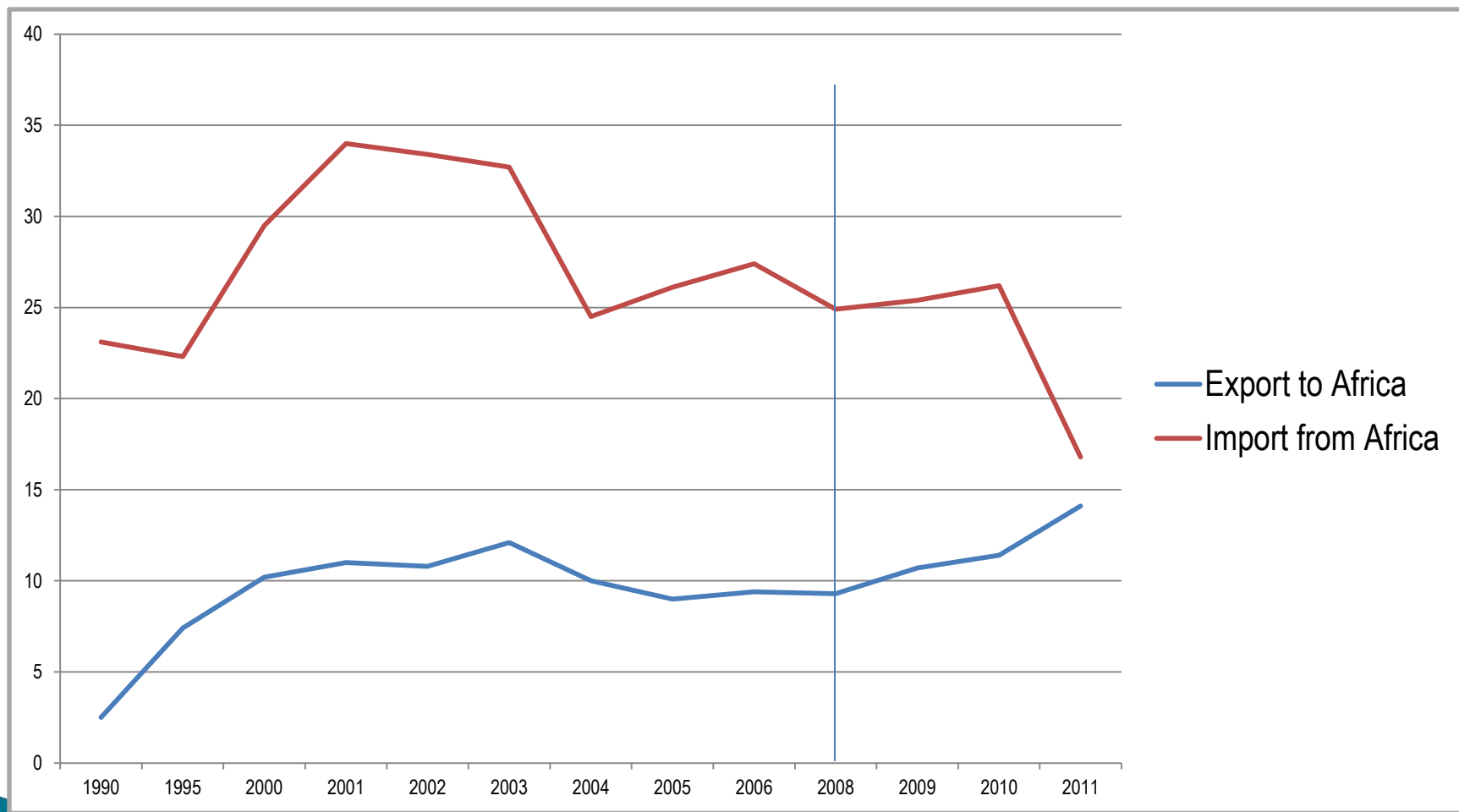
EPA and Regional Integration

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- ▶ The EPA in its current form would stifle regional integration.
- ▶ The EPA will also result in crowding out of local manufacturers export to countries in the West African sub-region.

Share (%) of Ghana import and export trade with Africa (1990–2011)

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AVAILABLE POLICY OPTIONS

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- ▶ The policy mix should include the development of high value products and non-agricultural linkages to spur agro-based industrial growth and export and broaden the tax base to increase revenues.
- ▶ Value added product export driving by industrialisation policies i.e growing the productive capacity of the economy to be domestically and internationally competitive in the production and export of value added commodities.

POLICY OPTIONS cont.

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- ▶ Stimulate growth in the agriculture sector by focusing on interventions that are necessary to create the basic conditions for improving the productivity in food crop production complemented by increased investment in agriculture research and related services and infrastructure.

Policy option cont.

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- ▶ Support the food crop sector by building their productive capacity and increasing their productivity to spur agro-based industrial development.
- ▶ Do non-taxed smallholders segment which constitutes nearly 70% of Ghana's poverty bracket

Recommendations for Ghana socio- Economic Development



Government of Ghana

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- ▶ To develop, Ghana need a strong and vibrant export sector that is efficient, diversified and not just dependent on primary commodity exports.
- ▶ Given Ghana's currently low productive capacity, it is not possible to fully take advantage of the free EU market access offered under the EPA without subjecting the fragile manufacturing sector to stiff competition on the domestic market leading to their imminent collapse.

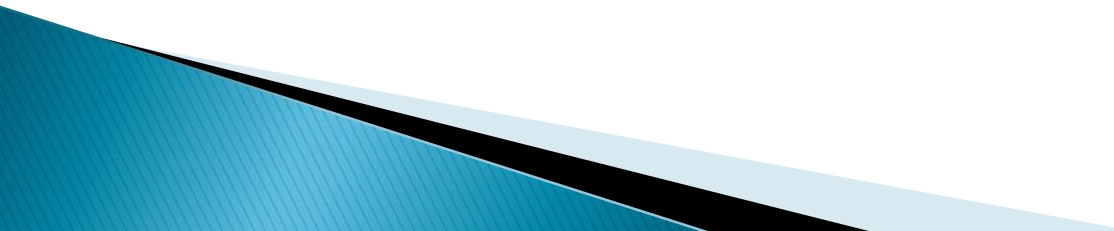
Government of Ghana

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- Work with ECOWAS to renegotiate the terms of the full EPA as a bloc, to maximise the benefit of EU market access while minimising the cost of EPA on the economy.
- It is also important for Ghana to proactively limit the opening of not just its market but also the West African market to low-priced EU imports.

Gov't of Ghana cont.

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- Consider the need to pursue a long term productive strategy targeting particular value chains through broad-based consultations with key stakeholders.
 - This will enable effective identification of key industries and the appropriate technologies to fuel such an agro-based industrialization strategy as well as address the supply side constraints limiting the productive capacities of local industries.
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Gov't of Ghana cont.

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- ▶ Coordinate its investments more efficiently and effectively to facilitate increased productivity of local industries.

European Commission (EC)

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To support the development aspirations of ACP countries; EU must:

- ▶ Respond favorably to the request of ACP countries for re-negotiation of the contentious issues in the EPA.

To the EC

- ▶ Allow for greater flexibility in market access arrangements and refrain from pushing countries that have initialed EPAs to sign and ratify these agreements in haste and without amendments.
- ▶ Refrain from further overloading and complicating the negotiations by demanding that ACP countries include issues and rules in the agreements that are not required for WTO compatibility, such as the MFN clause and rules on export restrictions, as well as services and the intellectual property rights.

EC *cont.*

- Ensure that EPA negotiations respond positively to requests for reliable and additional aid for regional economic development.

CIVIL SOCIETY

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Civil Society must:

- Continuously sustain the EPA debate in the media and policymaking cycles through broad-based advocacy campaigns targeting policymakers, trade associations and non-state actors.
- Engage the Parliamentary Select Committees on Trade and Industry and Agriculture on Ghana's socio-economic development and options going forward.

Civil Society

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- ▶ Identify and engage Parliamentarians with strong interest in the EPA issue (across the major political divide) and support them to lead the crusade among colleague legislators.

The end!!

QUESTIONS AND COMMENTS