Policy Brief

GHANA UNDER THE INTERIM ECONOMIC PARTNERSHIP AGREEMENT WITH THE EUROPEAN UNION:

IMPLICATIONS ON SOCIO-ECONOMIC DEVELOPMENT

July 2013

Introduction

The Economic Partnership Agreement (EPA) between the European Union (EU) and African, Caribbean and Pacific (ACP) countries has been fraught with disagreement since it was initiated over ten years ago. While the EU hails the agreement as a new form of partnership that will promote economic growth and poverty reduction in ACP countries, ACP countries are sceptical about the impact that EPAs will have on their developmental priorities especially, smallholder agricultural development, government revenues, unemployment, poverty, and food security.

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. The EPA sought to replace the trade chapters of the Cotonou Agreement which granted non-reciprocal (free) access to the EU market until 2008 with a non-discriminatory trade agreement in order to comply with WTO rules.

Following strong opposition to the original EPA by African countries, the EU introduced an interim EPA in 2007. 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 Economic Community of West African States (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 and ratify the interim agreement with the EU.

Given that Ghana is yet to fully commit to the EPA, policy makers and politicians have the opportunity to thoroughly consider the implications of signing a full EPA on the socio-economic development of Ghana. This policy brief provides information and practical guidance to policy makers and other stakeholders on the socio-economic implications of the EPA.

Why the (interim) Economic Partnership Agreements?

From the perspective of the EU, the EPA is significant for the following reasons:

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

For some African countries including Ghana, the incentives to opt for the interim EPA included:

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

What does Ghana's interim EPA with the EU contain? (What will Ghana gain from Economic Partnership Agreements? What has the EU offered in terms of Market Access?)

Ghana's interim EPA with the EU contains a number of provisions:

- In line with the liberalization schedules: All exports from Ghana have entered the EU market duty and quota free since the 1st of January 2008 with the exception of rice and sugar which had transitional periods of 2010 and 2015. In return, Ghana agreed to liberalize 80 percent of its imports from the EU representing 81 percent of tariff lines over the next 15 years starting January 2008 and ending 2022.

- Concerning 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 (i.e. emergency situations) but only with prior consultation with EU. This provision is subject to review after 3 years[1].

- As regards the excluded items: Most of the excluded products are plastics and related products. Others are fish and crustaceans, molluscs and other aquatic invertebrates, meat and edible meat offal, preparations of vegetables, fruit, nuts or other parts of plants, paper and paperboard and articles of paper pulp.

- According to the standstill provision: Tariffs would be bound at the applied rates. No new tariffs can be introduced. Also, once eliminated, tariffs may not be re-imposed or increased. However, exception is made for a revision for the purpose of regional integration.

- In accordance with the Most Favoured Nation (MFN) Clause: Parties to the IEPA are to extend to each other improvements in treatments should one conclude a free trade agreement with any other developed country grouping besides the EU.

- In line with the 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. This means that products made out of inputs from other West African countries like Togo or Nigeria cannot access the EU market as goods originating from Ghana.

What are the timeframes for reforms?

The interim EPA requires Ghana to gradually liberalize products in tranches beginning from January 1, 2013.

- Ghana's revised liberalization schedule[2] indicates that 995 tariff items constituting 22.6 percent of the listed items should be liberalized by January 1, 2013.
- Ghana is also required to liberalize 44.1 per cent of her imports from the EU between January 2015 and 2017.
- Liberalisation of all of the highest tariff items (20 percent) is deferred until the two final years (i.e. 2021 and 2022).
- Two-thirds (66.7 percent) of Ghana's imports will be duty free within eight years to 2016.

Has the IEPA affected Ghana's policies on smallholder agriculture development, employment, poverty reduction and food security?

There has been no drastic alteration in Ghana's socio-economic development policies in relation to agricultural development and poverty reduction before and during the period of IEPA. For instance:

- Since 1996, Ghana has had a number of agricultural development policies and strategies including the Agricultural Growth and Development Strategy (AAGD) (1996-2002) Food and Agriculture Sector Development Policy (FASDEP) I (2002-2006) and FASDEP II (2006-2009); the Comprehensive African Agriculture Development Programme (CAADP) and the Medium Term Agriculture Sector Investment Plan (METASIP). These policies show marked consistency in terms of focus on development of smallholder agriculture and poverty reduction.
- With respect to industrial development, a review of the relevant polices including the Ghana Poverty Reduction Strategy Paper I, (2002-2005) Growth and Poverty Reduction Papers II (2006-2009), National Trade Policy, National Medium-term Development Framework (MTDF) (2010-2013); and Private Sector Development Strategy (PSDS) Phase I (2005-2009) and Phase II (2010-2015) show a similar level of consistency in terms of Ghana's policy direction.

However, the provisions in the IEPA restrict the Government of Ghana to vary its policy directions especially in the use of tariffs as an economic instrument without recourse to the EU. This loss of autonomy has implications on the policy options for Ghana's socio-economic development. While it is too early to comprehensively assess the effects of such policy restrictions, historical antecedents of the dire consequences of the Government of Ghana's failure to apply tariff measures in protecting its agricultural production abound.

Free Trade Agreements preceding the IEPA have contributed to the collapse of the smallholder agricultural sector particularly the poultry sector. EU export of poultry products into Ghana has been on the increase since 2001 and actually surpassed domestic production in 2003, 2008 and 2010, even overtaking other competitors such as USA and Brazil. This broadly mirrors the 45 percent increase in EU poultry-meat exports to the ACP as a whole in 2010.

While Ghana could have used the option of varying its tariffs as a trade management tool to protect the poultry sector, Article 15 of IEPA includes a standstill clause which stipulates that no new tariffs can be introduced, re-imposed or increased. This rule extends to poultry which presently has a tariff of 20 percent and cannot be adjusted under the IEPA. Although the EU used tariff protection as its principal market management tool to expand its poultry sector, Ghana is bound under IEPA from adjusting its tariffs to manage its poultry industry[3].

Has the IEPA enhanced Ghana's export to the EU?

Signing the IEPA has sustained market access for some Ghanaian exports including: prepared or preserved tuna; pineapples; cocoa butter and cocoa paste. Other export products with sustained market access are: fresh vegetables; parts and accessories for instruments used in topography, oceanography etc. aluminium; wooden sheets for veneering and plywood; frozen octopus, cuttle fish and sharks; bananas; cassava; and palm oil. These products would not be competitive on the EU market without the IEPA.

However, analysis of Ghana's export trend before and within the period of IEPA reveals that total agricultural export to the EU has not significantly increased compared to what prevailed under the Cotonou Agreement. The observed marginal increase was influenced mainly by the export of cocoa and cocoa preparations, which constitutes about 99 percent of the food stuffs category. Vegetable products witnessed only a slight increase and animal and animal products did not record any change over the period. It can be concluded that the IEPA has not contributed to any significant growth in the non-traditional exports sector which was anticipated to enjoy some growth as a result of the access to the EU market.

Has the IEPA promoted the competitiveness of Ghana's production, manufacturing and services?

Ghana's manufacturing sector contracted in both 2007 and 2009 and grew by less than a percentage point in 2010. It is projected that the manufacturing sector would further shrink under the regime of EPA because of the following reasons:

- Over 95 per cent of Ghana's exports to the EU market are primarily raw materials. Removing tariffs on the export of these raw materials, as required under EPA would make it cheaper for European manufacturers to import them, add value to them and export it back to Ghana also at duty-free prices. Whiles this will benefit the Ghanaian consumer in the short term, the entire economy will suffer in the long term as this would expose the already vulnerable manufacturing sector to unfair competition and possible collapse with negative implications for Ghanaian jobs and poverty reduction.

- Additionally, as Ghana exports most of its processed goods to the ECOWAS sub-regional markets, a EPA between the EU and ECOWAS would make both the local and regional markets uncompetitive for most Ghanaian manufacturers given the variation in the productive capacity and technology. It is because of this and many other reasons that Ghana needs to join ECOWAS to negotiate the terms of the EPA as a unit.

How has the IEPA enhanced total government revenue?

- Ghana's tariff revenue without an EPA regime would be US$242.1 million by 2022 compared to $70.31 million under the regime of EPA.
- It is projected that starting from 2013; Ghana's tariff revenue from EU imports will experience a decline (under the regime of IEPA) from $310.9 million to 273.8 million in 2016, a decline of about 12 percent.
- In total, Ghana is expected to lose US$ 88,575 million per annum between 2008 and 2022 in import revenue. However the decline would be strongly felt from 2017 after the country liberalizes two-thirds of its trade with the EU. In 2017 alone, Ghana would lose US$ 202.8 million in tariff revenue from EU imports.
- This pattern of revenue losses under the regime of EPA will continue through to 2022 and beyond.

What can be done to safeguard Ghana's socioeconomic development aspirations?

For Ghana to develop there is the need for a strong and vibrant export sector that is efficient, diversified and not just dependent on primary commodity exports.[4] However, 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 its fragile manufacturing sector to stiff competition on the domestic market leading to their imminent collapse.

It is important for Government therefore to 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. Given that most of Ghana's processed goods are exported to the ECOWAS market, 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. This would require that the Government of Ghana plays a leading role in the integration of ECOWAS and African economies to create the much needed large regional market for trade and investment.

To enhance the competitiveness of Ghana's productive capacity, Government should consider the need to pursue a long term productive strategy targeting particular value chains. It is, however, important for such a long term strategy to be developed 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. Also, government needs to coordinate its investments more efficiently and effectively to facilitate increased productivity of local industries.

The European Commission on the other hand can assist Ghana's socio-economic development by:

1. Responding favorably to the request of ACP countries for re-negotiation of the contentious issues in the EPA.
2. Allowing 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.
3. Refraining 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.
4. Ensuring that EPA negotiations respond positively to requests for reliable and additional aid for regional economic development.

Civil Society must:

1. Continuously sustain the EPA debate in the media and policymaking cycles through broad-based advocacy campaigns targeting policymakers, trade associations and non-state actors.

2. Engage the Parliamentary Select Committees on Trade and Industry and Agriculture on Ghana's socio-economic development and options going forward. Also, Civil Society must 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.

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Detailed information on the implication of the EPA on Ghana's socio-economic development is available in ActionAid Ghana's report titled: **"GHANA UNDER INTERIM ECONOMIC PARTNERSHIP AGREEMENT (EPA): Analysis of Socio-economic Development and Policy Options under the Interim EPA Regime with the European Union"**

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Endnotes

[1] Refer to the full EPA Text
[2] Ghana revised its liberalisation schedule during 2008
[3] High tariff protection has enabled the EU poultry sector to expand (by 4.8 percent per annum between 2002 and 2010) although the EU has high poultry feed cost relative to major players such as Brazil. See CTA, Agritrade Executive Brief, September 2011
[4] CEPA (2012), A Review of the Interim Economic Partnership Agreement between Ghana and the European Union.