EPAs: A Plan 'A+'

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November 18 2007

EXECUTIVE SUMMARY

The Economic Partnership Agreements (EPAs) as currently proposed by the European Union (EU) to the African, Caribbean and Pacific countries (ACPs) will prove extremely costly to the ACP economies. This is because, as documented by the note, ACPs have still high or substantial tariffs on imports from the world. If the EU products enter the ACP markets duty-free, the EU firms could price their products at a (much) higher price than the world price. ACP consumers—households <u>and</u> firms—will be hurt. ACP governments will lose tariff revenues.

That said, there is little doubt that the WTO waiver on the current EU-ACP Agreements will expire by December 31, 2007—mostly for political reasons—and that the EU has no intention to table a Plan B. And alternatives, such as the GSP or the EBA, are unattractive for many ACPs on a purely economic basis, or from a political point of view.

As a result, the ACPs should take an initiative—a 'Plan A+'. The note explores what could be envisaged in the Doha Round context. The ACP could offer a better access to their markets to the <u>non</u>-EU WTO Members for being allowed by these countries to limit the forthcoming preferential liberalization towards the EU. An attractive, mutually beneficial, Doha-consistent ACP offer would consist in the ACPs cutting substantially their bound tariffs, and modestly their applied tariffs. As bound tariff cuts substantially reduce the current huge uncertainty in trading with the ACPs, they will generate new trade opportunities, more diversified ACP economies, and better regional trade agreements between the ACPs willing to do so. In short, they will deliver a much more progressive and balanced liberalization of the ACP economies than the one envisaged by the current EPAs.

Such an offer is attractive to non-EU WTO Members—from China to the US. These countries are unlikely to be pleased by ACP markets being open to EU firms while remaining closed to their own firms.

The note also explores ways for the ACP countries to conclude 'Interim Agreements' with the EU in 2007—without preempting an attractive, Doha-consistent solution by hasty decisions taken in the EPA context.

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18 Novembre 2007

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Sous leur forme actuelle, les Accords de Partenariat Economiques (APE) proposés aux pays d'Afrique, des Caraïbes et du Pacifique (ACP) par l'Union Européenne (UE) seront des plus coûteux pour les économies ACP. La raison en est que les pays ACP imposent encore des droits de douane élevés ou appréciables sur leurs importations, comme le montre cette note. Du coup, si les produits de l'UE entrent sur les marchés ACP sans payer de tels droits de douane, les firmes européennes pourront pratiquer sur ces marchés des prix (bien) supérieurs aux prix mondiaux. Les consommateurs des pays ACP—ménages et entreprises—en seront gravement affectés, et leurs gouvernements perdront des recettes fiscales.

Reste que la dérogation de l'OMC qui permettait le maintien de préférences unilatérales expirera au 31 Décembre 2007, largement pour des raisons politiques, et que l'UE n'a pas l'intention de proposer un 'plan B'. Quant aux alternatives disponibles, comme le SPG ou l'initiative TSA, elles ne sont pas attractives pour nombre de pays ACP, pour des raisons économiques ou politiques.

Les pays ACP doivent donc prendre une initiative—un plan 'A^{+}'. Cette note explore ce qui pourrait être fait dans le cadre de l'agenda de Doha. Ainsi les pays ACP pourraient-ils offrir un meilleur accès à leurs marchés aux Membres hors-UE de l'OMC, en échange d'un accord de ces Membres sur une libéralisation limitée des pays ACP vis-à-vis de l'UE. Une offre attractive, mutuellement bénéfique et compatible avec l'agenda de Doha consisterait en une réduction appréciable des droits de douane consolidés des pays ACP, et modeste de leurs droits de douane appliqués. Comme les baisses des droits de douane consolidés réduiront fortement la grande incertitude actuelle liée aux échanges avec les pays ACP, ils engendreront de nouveaux flux commerciaux, une plus grande diversification des économies ACP et de meilleurs accords régionaux entre les pays ACP désireux de poursuivre cette voie. En somme, ils engendreront une libéralisation des économies ACP bien plus progressive et équilibrée que celle proposée par les APE.

Une telle offre serait aussi attractive pour les Membres hors-UE de l'OMC, de la Chine aux Etats-Unis, lesquels n'ont aucun intérêt à voir les marchés ACP s'ouvrir totalement aux entreprises européennes tout en restant largement fermés aux leurs.

Cette note examine enfin des pistes permettant aux pays ACP de conclure des 'Accords intérimaires' avec l'UE en 2007, sans pour autant compromettre une solution attractive dans le cadre des négociations de Doha par de décisions hâtives dans le cadre des APE.

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Introduction

Almost eighty African, Caribbean and Pacific countries (ACPs) are at the crossroads. On the one hand, their current tariff structures will make the Economic Partnership Agreements (EPAs) as currently proposed by the European Union (EU) extremely costly to their own economies, for reasons explained in the first section. On the other hand, the WTO waiver on the Cotonou Agreements will expire by December 31, 2007, mostly for political reasons, and the EU clearly has no intention to table a Plan B.[1]

There is thus a need for the ACPs to take an initiative—to design their own "Plan A+"—for reducing the costs that the EPAs, as currently conceived, will impose on their economies. Some of the ACPs might simply decide to turn back to existing schemes—the Generalized System of Preferences (GSP), or, in the case of the Least Developed Countries among the ACPs, Everything but Arms (EBA). Or they might want to use the forthcoming "Duty free-Quota free" (DFQF) initiative adopted at the 2005 Hong Kong Ministerial of the World Trade Organization (WTO). But, how could the ACPs that are not eligible for these schemes, or that would not find them attractive, limit the costs generated by the EPAs? This note explores the wide range of opportunities offered by the ongoing Doha Round negotiations that the ACPs should thoroughly examine. A companion note [Bouët *et al*. 2007] provides estimates of the benefits flowing from these opportunities.

The need for a Plan A+

Why will the EPAs be costly to the ACPs? The main reasons are captured by the following example (for recent and more detailed analyses, see Delpeuch [2007] or Delpeuch and Harb

[1] This note does not question the political or legal justification for EPAs. Rather, it takes them for granted and tries to offer solutions as beneficial to ACP countries as possible. Similarly, the note takes for granted the absence of alternatives offered by the Commission, and it does not address the question of the appropriate EU reaction.

[2007]). Nigeria's average bound[2] tariffs vis-à-vis the rest of the world are 150 percent in agriculture (farm and food products) and 66 percent manufacturing (NAMA) as shown in Annex Table A. If the EU products enter the Nigerian markets duty-free, the EU firms could price their products at a (much) higher price than the world price—up to 1.5 and 0.6 times more in agriculture and in NAMA, respectively. The EU firms would need to charge such high prices when they are inefficient, compared to the exporters from non-EU countries. In short, the preferences granted by the ACPs in the EPAs are equivalent to ACPs subsidies to inefficient EU firms. But, the EU firms could also charge such high prices when they are efficient, simply to grab the rents generated by the high tariffs imposed by the ACPs on imports from non-EU sources. Of course in such circumstances, Nigerian consumers—and that includes Nigerian firms (it is often forgotten that firms are large consumers)—will hardly benefit from any liberalization gains, while the Nigerian government will lose tariff revenues.

Table 1. ACPs current bound and applied tariffs: an overview

	Agriculture (farm and food)				Manufacturing (NAMA)				Overall
	bound tariffs		applied tariffs		bound tariffs		applied tariffs		binding
	average	maximum	average	maximum	average	maximum	average	maximum	coverage
	1	2	3	4	5	6	7	8	9
Number of countries with available data	55	11	62	11	55	11	62	11	53
Average tariff or binding coverage	78,1	85,9	17,1	48,4	46,2	75,9	12,0	40,0	64,3
Number of countries with:									
bound tariff higher than 30%	48	9	--	--	37	8	--	--	37
bound tariff higher than 50%	37	9	--	--	23	8	--	--	30
bound tariff higher than 70%	33	7	--	--	12	6	--	--	28
applied tariff higher than 15%	--	--	33	11	--	--	15	11	--
applied tariff higher than 20%	--	--	18	8	--	--	3	9	--
applied tariff higher than 30%	--	--	2	4	--	--	1	4	--

Sources: WTO Member Information (www.wto.org). WTO, UNCTAD and ITC, "World Tariff Profiles" (2007) when data not available in Member Information files. Bound tariffs are not dated. Applied tariffs are 2001 data (if 2001 data are not available earlier data have been used). In order to be comparable to bound tariffs, applied tariffs are in HS1996 (not HS 2002).

It could be said that this example provides too dark a picture of the situation because effectively applied tariffs may be lower than bound tariffs. Table 1 suggests that this *caveat* should be treated with great caution. First, half of the ACPs have average applied tariffs higher than 15 percent in agriculture and one fourth have average tariffs higher than 15 percent in manufacturing—tariffs above 15 percent already constitute serious barriers to trade. Second, the 'peak' (highest) applied tariffs are very high—almost 50 percent on average for all the ACPs in agriculture, and 40 percent in manufacturing. These peak tariffs are the most important ones from an economic perspective because they are concentrated on products domestically produced, and because, as shown by economic analysis, they are the source of the largest welfare costs for the country imposing them. Last but not least, many ACPs tariffs

[2] Once a tariff rate is bound, it cannot be raised without compensating the affected trading partners or allowing those partners to retaliate.

are still not bound. As a result, they can be increased without restraint, hence represent huge risks for foreign traders. For instance, half of the African ACPs have bound less than a third of their tariff lines. Indeed, the increase of imports from the EU following the implementation of the EPAs is likely to induce ACPs governments to raise their unbound tariffs on non-EU imports. This economically unsound, but politically driven reaction from the ACPs should be expected if the estimates provided by Bouët *et al*. [2007] are verified.

The opportunities offered by the Doha Round

As the WTO waiver on the Cotonou Agreements expires by December 31, 2007, and as the EU has shown no intention to table a Plan B, some ACPs might decide to turn back to existing schemes—the Generalized System of Preferences (GSP), or, in the case of the Least Developed Countries among the ACPs, Everything but Arms (EBA). However, the estimated impact of such decisions provided by the companion note [Bouët *et al*. 2007] strongly suggest that such alternatives are unattractive, either on a purely economic basis (the GSP) or from a political point of view (the EBA option is fundamentally an unilateral, hence reversible, EU decision)[3].

Alternatively, the eligible ACPs might want to use the "Duty free-Quota free" (DFQF) option adopted at the 2005 Hong Kong Ministerial of the World Trade Organization (WTO). Such an option has the advantages to be based on a robust multilateral commitment from the importing countries, and to open to the eligible ACPs the markets of the advanced and willing emerging economies (not only the EU markets). But, as of mid-November 2007, this option is not yet definitively adopted, and it is based on a 97 percent (not 100 percent) share of imports from the eligible countries—a provision that could seriously restrict its economic impact on the eligible countries.

As a result, almost all the ACPs have different, but equally strong, incentives to look for an initiative of their own in the WTO that would reduce, as much as possible, the costs of the preferences that the ACPs should give to the EU under the EPAs.

[3] Moreover, the rules of origin used under the EBA make EBA preferences very difficult to use. For more details on the rules of origin problems (and a comparison with the rules of origin used under AGOA), see Collier and Venables (forthcoming).

In short, such an ACP initiative would look like the following: the ACPs would offer better market access to non-EU WTO Members for being allowed by these countries to limit the forthcoming preferential liberalization towards the EU—in short, for 'rebalancing their EU-non EU tariffs'. It is beyond the scope of this note to specify by how much the ACPs could be allowed to limit their forthcoming preferential liberalization towards the EU. The magnitude of such a limit could only be settled by negotiations. It could range from no forthcoming preferential liberalization (in this case, the ACPs would have obtained a new 'full waiver' by offering some opening of their markets to non-EU countries) to a substantial preferential liberalization (in such a case, the ACPs would have obtained a 'partial waiver').

Rather, this note explores the critical first step of the process—the ACP initiative – both the substance of the initiative as well as its benefits for ACP countries.

It is often said that the non-EU WTO Members would not entertain such an ACP initiative because it would infringe the WTO disciplines on preferential trade agreements (GATT Article XXIV).[4] This is far from certain. The non-EU industrial countries or the emerging economies will not like to see ACP markets being open only to EU firms while remaining closed to their own firms—especially since ACP tariffs are so high and/or uncertain (unbound). As a result, many non-EU countries may be open to reviewing EU-ACP trade relations with some sympathy for the ACPs, all the more if the ACPs were to offer them some market opening of their own. This open mind from the non-EU WTO Members is all the more plausible if, as suggested by the companion note [Bouët *et al*. 2007], the trade diversion away from the imports from non-EU countries to imports from the EU is large.

Paradoxically, the only WTO Member that has no trade-related interest in reviewing the EPAs is the European Union itself. This is because the EPAs combined with the current ACPs tariffs will undoubtedly make life much more difficult for U.S, Chinese, etc., exporters to the ACPs, and much easier for the EU firms. However, as stressed in the conclusion, the EU has also development-related interests in reviewing the EPAs. If the currently proposed EPAs would benefit some European exporters, the EU clearly has a long-term stake in the development of the ACPs.

[4] It should be stressed that the currently proposed EPAs have not been presented to other WTO members, hence might be challenged by some of them. Moreover, the non-ACP developing countries negotiating preferential agreements with the EU have an interest in 'better' EPAs in order to avoid any negative precedents that could impact their own bilateral negotiations with the EU.

Step 1: Sketching the ACP initiative

In such a context, what could the ACPs present in the WTO in order to get a green light for limiting as much as possible their need to reciprocate against EU preferences? For simplicity sake, what follows focuses on the NAMA sector. This sector is easier to examine because the text tabled by the Chair for the Doha Round is relatively simple (the Agriculture Chair text has had to take into account many specific issues). But, a similar exercise could be done for agriculture.

Column 1 of Table 2 gives the status that 65 ACPs have in the Doha NAMA negotiations. (The other ACPs are only observers to the WTO, a status that will not prevent them from being part of an agreement.) As shown in Annex Table B, each EPA region includes ACPs enjoying between with two and four different types of status at the Doha Round, further complicating the issues (although this additional complexity seems manageable). The six different types of WTO status are:

- the developing countries with a 'non-low' binding coverage (DC1 in Table 2);
- the developing countries with a 'low' binding coverage defined as less than 35 percent (DC2 in Table 2);
- the least-developed economies (LDC in Table 2);
- three types of small and vulnerable economies (SVE1, SVE2 and SVE3 in Table 2);

Column 3 provides the binding commitments put forward in the NAMA Chair text for each of these six status groups. Column 4 gives the tariff-cut formula when available.

Table 2. The ACPs between the EPAs and the Doha Round: the basic configurations in the NAMA case

Doha status	Number of ACPs	Commitments tabled by the NAMA Chair in the Doha Round: Binding commitments	Tariff cuts rules	EPA Plan A+ (rebalancing EPAs with the Doha Round)
1	2	3	4	5
DC-1 [a]	5	binding 90% to 100% (depends from the exception option)	Swiss 19-23	binding 100%, with the exception option under para. 7b
DC-2 [b]	7	binding 90% at an average level not exceeding 28.5%	no formula	binding 90% at an average level not exceeding 27%
LDC	38	substantial increase in tariff bindings	none	binding 80% at an average level not exceeding 28.5%
SVE-1 [c]	12	binding 90% at an average level not exceeding 22%	no formula	binding 90% at an average level not exceeding 21%
SVE-2 [d]	2	binding 90% at an average level not exceeding 18%	no formula	binding 90% at an average level not exceeding 17%
SVE-3 [e]	1	binding 90% at an average level not exceeding 14%	no formula	binding 90% at an average level not exceeding 13%

Source: The Chair text in the Doha NAMA negotiations.

Notes:
[a] Developing countries with 'non-low' binding coverage
[b] Developing countries with low binding coverage (lower than 35 percent).
[c] Small and vulnerable economies with a bound tariff average (in NAMA) at or above 50 percent.
[d] Small and vulnerable economies with a bound tariff average (in NAMA) at or above 30 percent, but below 30 percent.
[e] Small and vulnerable economies with a bound tariff average (in NAMA) below 30 percent.

Discussions to be held in early 2008 should aim at precise definition and negotiation of the ACPs initiative. Column 5 of Table 2 simply aims to give a sense of what, concretely, might be envisaged. Before examining Column 5 in detail, it is crucial to stress that concessions made in the WTO are expressed in bound tariffs—a useful degree of flexibility, compared to concessions made in the EPAs that are defined in applied tariffs.

For the DC1 group, the NAMA text tables a 90 percent binding commitment and the use of a Swiss formula for cutting bound tariffs, with a Swiss coefficient ranging from 19 to 23).[5] The NAMA text also defines three alternative options for making exceptions to the Swiss coefficient. One of these options consists of binding 100 percent of the tariff lines and using a Swiss coefficient increased by 3 points (for instance, a coefficient of 26 if the finally agreed coefficient is 23). This option is by far the most economically sound [Messerlin, 2007]. As a result, the DC1 group of the ACPs could offer to the WTO Members a 100 percent binding commitment with a Swiss coefficient of 26 as the 'price to be paid' for lower commitments by these ACPs towards the EU under the EPAs. The focus on the Swiss coefficient element of the offer is imposed by the fact that the three DC1-type ACPs for which data are available have already a very high binding coverage (96.6 to 100 percent).

For the DC2 group, the NAMA text tables a 90 percent binding commitment, with an average level of bound tariffs not exceeding 28.5 percent. The DC2 group of ACPs could table a proposal with the same binding coverage (a real effort for almost all of them), possibly combined with a lower average bound level, say 27 percent—both offers being the 'price to be paid' for lower commitments by these ACPs towards the EU under the EPAs.

For the various SVEs, the NAMA text tables a 90 percent binding commitment, with an average level of bound tariffs not exceeding three different thresholds (depending on the type of SVEs). These ACPs could table a proposal with the 90 percent binding target and (since such a binding offer would represent a true effort only for two SVE-type ACPs) with an average bound tariff that is, approximately, one percentage point lower than the level currently scheduled by the NAMA Chair text.

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[5] The Swiss formula is $T = [rt/(r+t)]$ where 't' is the initial tariffs, 'T' the post-negotiation tariffs, and 'r' the reduction coefficient (hereafter the "Swiss coefficient"). In what follows, the expression "a Swiss19" means a Swiss coefficient of 19. For illustration sake, a tariff of 300 percent would be cut down to 17.9 percent (with a Swiss19) to 21.4 percent (with a Swiss23) and 23.9 percent (with a Swiss26).

Finally, for the LDCs group, the NAMA text includes a 'substantial increase' in tariff bindings which is currently undefined. The LDC group of ACPs could then use the 80 percent threshold included in the EPAs as defining the coverage of their binding commitment in the Doha Round—a true effort for two-thirds of them. They could also consider the offer of an average bound level not exceeding 28.5 percent because it would homogenize the various EPAs regions in terms of 'average' level of protection, hence enhancing regional integration among ACPs.

All these suggestions show a wide range of opportunities for the ACPs in the Doha Round which could allow them to get the green light for limiting their future preferential liberalization towards the EU.

Step 2: Calculating the magnitude of the ACP initiative

Table 3 aims to give a concrete sense of the outcome of all these proposals for the ACPs (for which the necessary information for assessing these proposals is easily available).[6] Column 2 provides the Swiss coefficients associated to the above proposals. When ACPs exhibit lower applied tariffs than those indicated in the above proposals (such as for Madagascar, Mali or Senegal), the Swiss coefficients are those keeping roughly unchanged the average applied tariff. Swiss coefficients are useful for two reasons. First, they allow direct and easy comparisons among the various proposals. Second, they can serve as the basis for calculating the impact of the various deals to be considered by the ACPs, as does the companion note [Bouët *et al*. 2007].

[6] Table 3 is based on two assumptions. First, data on tariffs are expressed in the Harmonized System at 6 digits. Negotiators may use more disaggregated tariffs. However, such a difference has generally no impact on tariff averages (of course, it may have on peak tariffs). Second, when no binding tariff was mentioned in the data, a 30 percent tariff was added to the existing applied tariff. That explains the differences between Table 3 and Table B in the Annex.

Table 3. ACPs, EPAs and the Doha Round: the NAMA case

	Doha status	Swiss coefficient	Average tariffs				Tariff water [a]		
			bound		applied		coverage	average	
			initial	final	initial	final	(final) [b]	initial	final
	1	2	3	4	5	6	7	8	9
Central Africa									
Cameroon	DC-2	60	47,9	26,4	17,4	17,4	68,7	30,5	9,0
Gabon	DC-1	23+3=26	16,2	9,6	17,3	9,6	55,0	-1,1	0,0
Eastern Southern Africa									
Burundi	LDC	70	49,0	27,8	21,9	18,6	62,6	27,1	5,9
Madagascar	LDC	70	34,3	22,7	5,6	5,6	99,4	28,7	17,1
Rwanda	LDC	40	91,8	27,1	17,8	16,7	56,2	74,0	9,3
Kenya	DC-2	60	45,1	25,2	14,8	12,9	95,9	30,3	12,2
Wstern Africa									
Mali	LDC	70	32,3	20,7	10,5	9,0	85,7	21,8	10,1
Senegal	LDC	70	30,0	21,0	11,6	11,6	100,0	18,4	9,4
Ivory Coast	DC-2	60	33,9	20,4	11,6	10,6	80,4	22,3	8,8
Nigeria	DC-2	60	56,9	28,5	25,2	21,3	65,0	31,7	3,3
Carribbean Region									
Guyana	SVE-1	40	50,7	22,3	9,6	8,8	96,3	41,1	12,7
Trinidad and Tobago	SVE-1	40	50,8	21,9	6,6	6,2	94,6	44,2	15,3

Sources: WTO Member Information (www.wto.org). WTO, UNCTAD and ITC, "World Tariff Profiles" (2007) when data was not avaible in Member Information files. See notes in Table 1.
Notes: [a] difference between bound and applied tariffs. [b] percentage of tariff lines with tariff water.

Table 3 shows that the above proposals would deliver three key results. First, the ACPs would substantially cut their bound tariffs—on average, by almost half, as shown by columns 3 and 4. Second, the ACPs would modestly cut their applied tariffs (on average by 10-15 percent, as shown by columns 5 and 6), meaning that the ACPs would avoid significant tariff revenue losses. Last but not least, the ACPs would substantially cut the 'tariff water' (that is, the difference between the bound and applied tariffs) in their tariff structures, as shown by comparing columns 8 and 9. More precisely, the share of tariff lines for which there is still some tariff water (bound tariffs higher than applied tariffs) remains large (80 percent), but the remaining tariff water is often lower than 10 percent—when it is higher, it is because the ACPs in question have already low applied tariffs (for instance, Madagascar, Mali or Trinidad and Tobago).

The positive economic impact of cuts in bound tariffs and in tariff water should be stressed because it is generally ignored. Cuts in ACPs bound tariffs would reduce substantially the uncertainty in trade with the ACPs, and they are all the more important for the ACPs because the small size of their economies already leads foreign exporters to pass over them in favor of other, larger, markets. The final level of tariff water for the ACPs included in Table 3 would be roughly 10 percent—a quite affordable risk for foreign traders, while still offering some flexibility to the ACPs governments in case of turbulences. In other words, substantial cuts in bound tariffs and tariff water represent a true market opening, creating new trade flows and opportunities.[7]

The Plan A+ would also offer more opportunities of diversification to the ACP economies, enhancing the emergence of industrial sectors, as observed in Kenya and in a few other ACP economies. Last but not least, it would allow the ACPs willing to define 'external common tariffs' (customs unions) to do so in a WTO-consistent way (contrary to what is happening)—killing two birds with one stone. In short, the Plan A+ would generate a more progressive and balanced liberalization of the ACP economies than the one envisaged with the current EPAs.

This crucial conclusion deserves a final remark. It is not yet possible for trade models to estimate the impact of decreasing risks in trade due to smaller tariff water. It is thus important to keep in mind that the companion note [Bouët *and al*. 2007] does not take into account a critical aspect of the above proposals—underestimating their positive impact on the ACPs.

The 'Interim Agreements': Playing for time

Tables 2 and 3 suggest quite a broad range of possible, balanced, and mutually profitable agreements. However, doing nothing on the EPA front before December 31, 2007, would send the wrong message to the other WTO Members (and to the EU). As a result, how is it possible to combine the sketched ACP initiative with the EPA negotiations?

The 'Interim Agreements' on the EPAs between the EU and the ACPs, to be signed within the next few weeks, should have two goals. They should show that the ACPs are willing to move forward and take initiatives. They should not preempt the negotiations between the ACPs and the non-EU countries by hasty decisions taken in the EPA context before December 2007. What follows explores various possibilities, to be combined or not.

The products with no noticeable domestic production. These products would probably be among the 80 percent of trade that would be liberalized by the ACPs in the EPAs as currently conceived, and among those with low or moderate tariff rates (it is beyond the scope of this technical note to go into details to define them). For the many small ACP economies, these

[7] Contrary to what is often believed, particularly in the negotiating circles, cuts in applied tariffs are not the only ones to create new trade flows.

products may represent a substantial proportion of the 80 percent of tariff lines to be liberalized.

The ACPs could agree on eliminating the tariffs on such imports from the EU. But, at the same time, and pending the results of the 2008 negotiations in the WTO forum, the ACPs could impose a 'value-added tax' (VAT) on imports from the EU at the same rate(s) as the corresponding tariffs imposed on imports from non-EU sources. As a result, ACP protection would remain non-discriminatory, since the imports from the EU and those from the non-EU sources would be taxed at the same rate. And there would be no infringement of the WTO 'national treatment' (even if, as is likely, the VAT is levied only at the border in ACPs) since there is no domestic production that would be exempt from the tax.

The products with non-sensitive domestic production. These products are likely to constitute the rest of the 80 percent threshold imposed by the EPAs (to the extent that the previous products do not account for 80 percent, on their own). The VAT option on imports from the EU is excluded since it would infringe the WTO national treatment principle.

Alternative options could be (i) not to include these products in the Interim Agreements, hoping for results on the 'rebalancing' exercise from the Doha negotiations in early 2008, or (ii) to begin to reduce the tariffs on imports from the EU for the products with the lowest tariffs on imports from non-EU countries (that is, those with the lowest risk of trade distortion between EU and non EU sources of imports), or (iii) to begin a slow and progressive elimination of the tariffs on imports from the EU, or (iv) some combination of the previous options.

The products with sensitive domestic production. These products are likely to be concentrated in the 20 percent 'not to be liberalized' in the current EPA context—once again, conditional on an agreement by WTO Members on the European Commission's proposals for thresholds (90 percent for the bilateral trade, and 80 percent for the ACP part of the bilateral trade).

Conclusion

The ACPs are the only countries that can resolve, in a beneficial way for their economies, the dilemmas posed by the expiration of the Cotonou waiver and the Commission's proposed

EPAs. They could rightly argue that the current insistence of some WTO Members on strict respect for GATT Article XXIV (reciprocal trade concessions) has a perverse outcome in this particular case. After all, the ACPs are required to enforce reciprocity, hence grant preferences—huge, since the ACPs have high bound tariffs—at precisely the time when the EU is *de facto* reducing the preferences it is granting to them.[8] But such an argument would have very little weight in the absence of an initiative from the ACPs themselves.

The European Union's position also deserves a final remark. In the face of genuine alternatives, to insist on the EPAs as currently conceived would be to reveal that the European Union is more interested in extracting preferential access from the ACPs—in other words, in excluding efficient competitors (including China) from their markets—than in following a development-friendly trade policy. If the EU's commitment to development is as strong as it regularly claims it is, then the EU should be a strong supporter of 'rebalancing' the ACPs market access commitments via-à-vis the EU, following the ACP initiative in the WTO forum.

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[8] This is due both to the Doha Round negotiations and to the fact that the EU is negotiating numerous bilateral agreements.

Table A. ACPs current bound and applied tariffs

Countries	Regional groupings	Doha status	Agriculture (farm and food) bound tariffs avg	max	Agriculture (farm and food) applied tariffs avg	max	Manufacturing (NAMA) bound tariffs avg	max	Manufacturing (NAMA) applied tariffs avg	max	Overall binding coverage
1	2	3	4	5	6	7	8	9	10	11	12
Central Africa											
Gabon	CEMAC	DC-1	59,9	60,0	22,7	30,0	16,2	60,0	17,3	30,0	100,0
Cameroon	CEMAC	DC-2	80,0	80,0	22,9	30,0	78,7	80,0	17,4	30,0	
Congo	CEMAC	DC-2	30,0		22,6		14,7		17,7		16,1
Central African Rep.	CEMAC	LDC	30,0		22,1		37,9		17,4		62,5
Chad	CEMAC	LDC	80,0		22,1		75,0		17,4		13,5
Eq. Guinea	CEMAC	LDC			22,1				17,4		
Sao Tome Principe		[obs]									
Eastern and Southern Africa											
Kenya	EAC-COMESA	DC-2	96,9	100,0	19,2	40,0	92,3	100,0	14,8	40,0	14,6
Zimbabwe	COMESA-SADC	DC-2	139,6				10,8				21,0
Burundi	COMESA	LDC	94,6	100,0	34,8	40,0	35,9	100,0	21,9	40,0	21,8
Congo DR	COMESA-SADC	LDC	98,2		12,8		95,9		11,9		100,0
Djibouti	COMESA	LDC	48,4		21,7		39,9		29,1		100,0
Eritrea	COMESA	LDC			17,3				16,7		
Ethiopia	COMESA	LDC			17,3				16,7		
Madagascar	COMESA-SADC	LDC	30,0	30,0	6,0	20,0	25,7	30,0	5,6	30,0	29,7
Malawi	COMESA-SADC	LDC	121,3		14,7		42,4		13,3		31,2
Rwanda	COMESA	LDC	73,7	100,0	14,2	30,0	91,8	100,0	17,8	30,0	100,0
Somalia	COMESA	LDC									
Uganda	EAC-COMESA	LDC	77,7		19,0		50,6		11,7		15,8
Zambia	COMESA-SADC	LDC	123,3		18,8		42,2		13,2		16,7
Mauritius	COMESA-SADC	SVE-3	119,6		7,1		19,1		3,0		17,8
Comoros	COMESA	[obs]			26,2				13,1		
Seychelles	COMESA	[obs]									
Sudan	COMESA	[obs]	74,3		14,6		91,9		19,4		100,0
South Africa											
Botswana	SACU-SADC	DC-1	38,4		9,3		15,7		7,8		96,6
Swaziland	SACU-COMESA-SADC	DC-1	40,8		9,3		15,7		7,8		96,6
Namibia	SACU-SADC	DC-2	40,8		9,2		120,0		11,7		13,4
Angola	SADC	LDC	52,8		9,6		60,1		6,8		100,0
Lesotho	SACU-SADC	LDC	200,0		9,0		60,0		7,8		100,0
Mozambique	SADC	LDC	100,0		16,4		6,6		11,4		13,6
Tanzania	EAC-SADC	LDC	120,0		19,0		120,0		11,7		13,4
Western Africa											
Ivory Coast	ECOWAS	DC-2	14,9	64,0	14,8	20,0	9,0	25,0	11,6	20,0	33,1
Ghana	ECOWAS	DC-2	97,1				34,7				14,3
Nigeria	ECOWAS	DC-2	150,0	150,0	33,6	100,0	66,0	150,0	25,0	100,0	19,2
Benin	ECOWAS	LDC	61,8		14,3		11,4		11,6		39,3
Burkina Faso	ECOWAS	LDC	98,1		14,3		13,1		11,6		39,2
Gambia	ECOWAS	LDC	103,5				56,1				13,7
Guinea	ECOWAS	LDC	39,7		14,6		10,0		11,5		38,9
Guinea Bissau	ECOWAS	LDC	40,0		14,3		50,0		11,6		97,8
Liberia	ECOWAS	LDC									
Mali	ECOWAS	LDC	59,1	75,0	15,5	25,0	15,5	60,0	10,5	25,0	40,6
Niger	ECOWAS	LDC	83,1		14,3		38,1		11,6		96,5
Senegal	ECOWAS	LDC	29,8	30,0	14,8	20,0	30,0	30,0	11,6	20,0	100,0
Sierra Leone	ECOWAS	LDC	40,3		16,4		48,5		13,1		100,0
Togo	ECOWAS	LDC	80,0		14,3		80,0		11,6		14,0
Mauritania		LDC	37,7		12,4		10,5		10,5		39,3
Cape Verde	ECOWAS	[obs]			11,7				10,2		
Carribbean region											
Cuba		DC2									
Haiti		LDC	21,3		5,7		18,3		2,4		89,2
Suriname		LDC	19,9				17,1				
Antigua Barbuda		SVE-1	105,0		15,0		51,4		8,9		97,9
Barbados		SVE-1	111,2		30,0		72,9		11,0		97,9
Belize		SVE-1	101,4		20,7		51,5		9,3		98,0
Dominica		SVE-1	112,2		20,4		50,0		8,3		94,8
Grenada		SVE-1	101,0		16,9		50,0		9,2		100,0
Guyana		SVE-1	99,9	100,0	21,6	100,0	50,7	100,0	9,6	70,0	100,0
Saint Kitts and Nevis		SVE-1	108,6		13,3		70,8		8,6		97,9
Saint Lucia		SVE-1	114,6		14,8		53,9		8,0		99,6
Saint Vincent Grenadines		SVE-1	91,7		16,6		54,5		8,9		99,7
Trinidad and Tobago		SVE-1	91,7	156,0	16,6	67,5	50,8	100,0	6,6	45,0	100,0
Dominican Republic		SVE-2	39,6		13,1		34,2		7,8		100,0
Jamaica		SVE-2	97,1		17,2		42,4		5,8		100,0
Bahamas		[obs]			24,1				31,2		
Pacific region											
Papua New Guinea		DC	48,3		16,7		30,1		3,7		100,0
Tonga		SVE			25,3				15,8		
Fiji		SVE-1	48,9		25,7		40,0		7,8		52,3
Solomon Islands		SVE-1	76,3		17,5		79,6		14,1		100,0
Samoa		[obs]									
Vanuatu		[obs]			33,2				13,8		
Cook Islands											
Kiribati					24,9				16,3		
Marshall Islands											
Micronesia					4,6				4,5		
Nauru											
Niue											
Palau					2,7				3,0		
Timor-Leste											
Tuvalu											

Source: WTO member information (www.wto.org) and WTO, UNCTAD and ITC “World Tariff Profiles” (2007) when data was not avaible in member informatic
Notes: Bound tariffs are not dated. Applied tariffs are almost always 2001 data, unless not available and thus earlier data. Indeed, for practical reasons, appliec tariffs were needed in HS1996, and not HS 2002, so as to be comparable to bound tariffs.
avg = average, max = maximum, [obs] = observer status at the WTO.
[a] Developing countries with 'non-low' binding coverage
[b] Developing countries with low binding coverage (lower than 35 percent).
[c] Small and vulnerable economies with a bound tariff average (in NAMA) at or above 50 percent.
[d] Small and vulnerable economies with a bound tariff average (in NAMA) at or above 30 percent, but below 30 percent.
[e] Small and vulnerable economies with a bound tariff average (in NAMA) below 30 percent.

Table B. The ACPs between the EPAs and the Doha Round

Countries	Doha status	Commitments tabled by the NAMA Chair in the Doha Round: Binding commitments	Tariff cuts rules	EPA Plan A+ (rebalancing EPAs with the Doha Round)
1	2	3	4	6
Central Africa				
Gabon	DC-1	binding 90% to 100% (depends from the exception option)	Swiss 19-23	binding 100%, with the exception option under para. 7b
Cameroon	DC-2	binding 90% at an average level not exceeding 28.5%	no formula	binding 90% at an average level not exceeding 27%
Congo	DC-2	same	no formula	same
Central African Rep.	LDC	substantial increase in tariff bindings	none	binding 80% at an average level not exceeding 28.5%
Chad	LDC	same	none	same
Eq. Guinea	LDC	same	none	same
Sao Tome Principe	[obs]			
Eastern and Southern Africa				
Kenya	DC-2	binding 90% at an average level not exceeding 28.5%	no formula	binding 90% at an average level not exceeding 27%
Zimbabwe	DC-2	same	no formula	same
Burundi	LDC	substantial increase in tariff bindings	none	binding 80% at an average level not exceeding 28.5%
Congo DR	LDC	same	none	same
Djibouti	LDC	same	none	same
Eritrea	LDC	same	none	same
Ethiopia	LDC	same	none	same
Madagascar	LDC	same	none	same
Malawi	LDC	same	none	same
Rwanda	LDC	same	none	same
Somalia	LDC	same	none	same
Uganda	LDC	same	none	same
Zambia	LDC	same	none	same
Mauritius	SVE-3	binding 90% at an average level not exceeding 14%	no formula	binding 90% at an average level not exceeding 13%
Comoros	[obs]			
Seychelles	[obs]			
Sudan	[obs]			
South Africa				
Botswana	DC-1	binding 90% to 100% (depends from the exception option)	Swiss 19-23	binding 100%, with the exception option under para. 7b
Swaziland	DC-1	same	Swiss 19-23	same
Namibia	DC-2	binding 90% at an average level not exceeding 28.5%	no formula	binding 90% at an average level not exceeding 27%
Angola	LDC	substantial increase in tariff bindings	none	binding 80% at an average level not exceeding 28.5%
Lesotho	LDC	same	none	same
Mozambique	LDC	same	none	same
Tanzania	LDC	same	none	same
Western Africa				
Ivory Coast	DC-2	binding 90% at an average level not exceeding 28.5%	no formula	binding 90% at an average level not exceeding 27%
Ghana	DC-2	same	no formula	same
Nigeria	DC-2	same	no formula	same
Benin	LDC	substantial increase in tariff bindings	none	binding 80% at an average level not exceeding 28.5%
Burkina Faso	LDC	same	none	same
Gambia	LDC	same	none	same
Guinea	LDC	same	none	same
Guinea Bissau	LDC	same	none	same
Liberia	LDC	same	none	same
Mali	LDC	same	none	same
Mauritania	LDC	same	none	same
Niger	LDC	same	none	same
Senegal	LDC	same	none	same
Sierra Leone	LDC	same	none	same
Togo	LDC	same	none	same
Cape Verde	[obs]			
Carribbean region				
Cuba	DC2	binding 90% at an average level not exceeding 28.5%	no formula	binding 90% at an average level not exceeding 27%
Haiti	LDC	substantial increase in tariff bindings	none	binding 80% at an average level not exceeding 28.5%
Suriname	LDC	same	none	
Antigua Barbuda	SVE-1	binding 90% at an average level not exceeding 22%	no formula	binding 90% at an average level not exceeding 21%
Barbados	SVE-1	same	no formula	same
Belize	SVE-1	same	no formula	same
Dominica	SVE-1	same	no formula	same
Grenada	SVE-1	same	no formula	same
Guyana	SVE-1	same	no formula	same
Saint Kitts and Nevis	SVE-1	same	no formula	same
Saint Lucia	SVE-1	same	no formula	same
Saint Vincent Grenadi	SVE-1	same	no formula	same
Trinidad and Tobago	SVE-1	same	no formula	same
Dominican Republic	SVE-2	binding 90% at an average level not exceeding 18%	no formula	binding 90% at an average level not exceeding 17%
Jamaica	SVE-2	same	no formula	same
Bahamas	[obs]			
Pacific region				
Papua New Guinea	DC2	binding 90% at an average level not exceeding 28.5%	no formula	binding 90% at an average level not exceeding 27%
Fiji	SVE-1	binding 90% at an average level not exceeding 22%	no formula	binding 90% at an average level not exceeding 21%
Solomon Islands	SVE-1	same	no formula	same
Tonga	SVE?			
Samoa	[obs]			
Vanuatu	[obs]			
Cook Islands				
Kiribati				
Marshall Islands				
Micronesia				
Nauru				
Niue				
Palau				
Timor-Leste				
Tuvalu				

Source: The Chair text in the Doha NAMA negotiations.
Notes: [obs] = observer status.
[a] Developing countries with 'non-low' binding coverage
[b] Developing countries with low binding coverage (lower than 35 percent).
[c] Small and vulnerable economies with a bound tariff average (in NAMA) at or above 50 percent.
[d] Small and vulnerable economies with a bound tariff average (in NAMA) at or above 30 percent, but below 30 percent.
[e] Small and vulnerable economies with a bound tariff average (in NAMA) below 30 percent.