

COSTS AND BENEFITS OF A COMPREHENSIVE EPA

by
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In this second installment the aim is to look at the balance sheet from a CARIFORUM (CAR) perspective. On the benefit side of the equation the regional strategy for a net gain in the EPA focused essentially, in terms of goods, on preserving preferential exports not covered by the Generalised System of Preferences (GSP) and exploiting additional access for products still under some restriction in the form of most favoured nation tariffs, quotas, etc. The main immediate benefits that were secured are the export earnings that would have been lost if the GSP route was taken and the additional sugar and rice quotas. In the longer term, benefits would flow from attracting new additional investment and development assistance to develop new exports.

In an attempt to facilitate the above, relaxation and simplification of the Rules of Origin and the development of standards in Sanitary and Phytosanitary Standards (SPS) and Technical Barriers to Trade (TBT) were also part of this effort. The rules of origin proved the most problematic and have been so since the first Lome Convention in 1975. All efforts to make them respond to low value added in small economies have been fruitless so far. Advances over the years have been largely in derogations and value cumulation across countries. Even though some relaxation came especially in textiles, the region did not make any noteworthy advance here where it was expected that FTA rules of origin would be more preferential than those in non-reciprocal arrangements. This matter is up for renewed talks in five years.

In services, the main achievement was to get the EU to liberalize at least 94% of W120 list of sectors while the respective figures for CAR LDCs and MDCs are 65 and 75%. In the most difficult mode in services negotiations, **the temporary movement of natural persons** (Mode 4), the EU has granted market access for Caribbean professionals in 29 sectors for Caribbean Contractual Service Suppliers (CSS) to enter the EU to supply services once a contract has been secured. The EU has liberalized 11 sectors for temporary entry by CAR Independent Professionals (IPs) or self employed persons. The significance of this concession can be judged from the fact that both in the WTO and in other bilateral FTAs the EU does not have market access commitments of this kind for temporary entry.

The above allows exports to be expanded where capacity exists in some key areas as tourism, professional services, entertainment, information services, maritime services, and open a wide range of other service areas where the region can develop capacity quickly. It is expected that there will be increased trade in the short term in business services once CAR firms position themselves to take advantage of outsourcing opportunities from their European counterparts.

Probably the most controversial aspect of the EPA is the question of additional - to that of the Cotonou 10th EDF (European Development Fund)- development assistance to assist the process of adjustment and restructuring. Here it was felt that the 10th EDF did not embrace a liberalization effort and as such additional resources were needed. The debate on this issue was intense and protracted with CAR arguing they would need additional funding to cater for implementation, trade adjustment and the building of competitiveness in new areas. CAR also noted that the regional allocation was reduced at the time of the Lome IV Convention in 1990, and since then with the entrance of Haiti, Suriname and the Dominican Republic, the level of

funding has never recovered to what it was in Lome III. On a per capita basis, CAR also noted that the funding was inadequate given the levels of poverty and the high level of indebtedness.

The EU, while noting that there were still huge outstanding grant sums from the previous EDFs, insisted that there was significant assistance to the traditional sectors as rum, bananas, rice and sugar. In addition, the 10th EDF regional allocation was more than doubled and an additional allocation of 25% was made to the original 10th EDF. Furthermore, the EU argued that under the 10th EDF national indicative programmes, countries are already using the funding to support EPA related activities, and the decision of EC Member States to increase their AFT funding will make available more resources. Finally, the EU noted that because of long transition periods, the period of adjustment will go over the 10th EDF into the 11th EDF. They also pointed to the fact that many CAR countries were now graduated from international lending agencies and could support market or near-market lending as provided by the European Investment Bank (EIB).

The issue at one point could have been a deal breaker but in the end the region, rather than argue indefinitely for a few dollars more, decided to settle for a more structured approach to this type of funding and rely on the available sources. This was indeed a cost to the region but caution should be exercised in assessing it. In my view it should not play a major part in negating benefits if a more efficient use is made of existing resources and other non-EDF EU and non-EU AFT resources are adequately mobilized. As part of the final equation it should also be borne in mind that in return for no significant additional funding concessions may have been obtained in other areas.

Most critics of the EPA had put their faith in this dimension with some of them even erroneously assuming that the EPA was replacing Cotonou and the 10th EDF. Disappointment in this area should not however, cloud the good prospects for successful implementation.

On the costs side, attention was paid to achieving lengthy transition periods and exclusions that would minimize the costs of adjustment in terms of jobs and output and facilitate new production. Agriculture was the sector most targeted as being vulnerable in this regard. CAR liberalized 86.9% of the value of its imports with 82.7% within the first 15 years and 86.9% over 25 years. It excluded 493 products or 9.8% of tariff lines equivalent to 13.1% of CAR imports. The major products excluded are live animals, fresh fruits and vegetables, dairy and cheese, wines and spirits, processed agricultural products, chemicals, furniture and some industrial products. In agriculture 75% of the value of EU imports is excluded from CAR liberalization commitments and the EU will eliminate subsidies on items whose tariff has been reduced to zero.

CAR also achieved a record set of above-10-years transition periods with 61.1% of imports fully liberalized in 10 years out of which currently 51% attract zero duties and an additional 1.8% cover items attracting nuisance tariffs that were immediately liberalized.

Revenue cost was also minimized by preserving the main revenue streams through lengthy transitions and providing assistance for fiscal reform. CAR can apply a **general moratorium** on its tariff liberalisation commitments on all products for the first three years of the Agreement. For revenue sensitive items such as gasoline, motor vehicles and parts, the moratorium is extended to 10 years. **Other Duties and Charges** (ODCs) (important for most OECS countries) are to be maintained during the first seven years and then phased out over the subsequent three years.

As for the costs of services liberalization, the main sectors that most CARIFORUM states have liberalized are: Business services (accounting, architecture, engineering, etc); Computer and

related Services; Research and Development; Environmental services; Management Consultancy; Maritime Transport; Entertainment; and Tourism. A number of the commitments will be phased-in over time in some CAR states to address national sensitivities.

Without getting into a full technical analysis at this point, it is clear that a casual examination of the two main cost items would reveal that they are not burdensome and involve minimal costs. Most manufacturing firms have been protected for long periods and still enjoy at a maximum 20% tariff. The phasing out of this tariff in 10-25 years in some cases would have been a natural process even without the EPA since these industries which are no longer infants should have long outgrown the need for such protection. In addition, even at a 20% tariff, one has to be competitive against Chinese producers to stay in business today. New industries should not be made to rely on tariffs in these small economies even though this infant industry facility is included for the LDCs and Guyana.

The small range of production in the region can easily be covered by these sizeable exclusions and long transitions. In some cases they go beyond the entire economy many times. Furthermore, trade with the EU is largely non-competing since these small economies do not produce such goods or the wage cost in Europe does not allow the EU to compete in these markets.

As for revenue loss, there were just a few countries which have not undertaken the reforms that are still trade dependent. Several reports have already shown that even more revenue from indirect taxes plus other tax reforms can be collected without any additional administrative costs. In any case, revenue in so far as it could be collected by other means should not be an obstacle to a more efficient trade policy.

The above position of minimal costs in relation to the benefits is expected to hold even if arguments about a possible improved WTO compatible schedule, loss of policy space, the negative impact on CSME and the presence of Singapore issues (investment, competition and intellectual property provisions) are taken into account. None of these areas threaten the above conclusion. On the contrary, they reinforce the benefits of a comprehensive EPA.

Space does not permit a discussion of these issues. Suffice it to state that trade (goods and services) with the EU is larger than trade among CAR. The region therefore cannot afford to be myopic and neglect the second most important source of trade and investment. Open regionalism is essential for such small economies, and even though a more preferential component in CARICOM especially in labour movement and some other areas of policy harmonization will always remain within the CSME, it must not be stretched to the point where it discriminates seriously against more important trading partners. Furthermore, the extension of the FTA to include the Singapore issues is basically a modernizing operation in terms of standards to facilitate the trade as can be seen from the more advanced systems in Investment and Intellectual Property of the two Member States that have long ago extended these concessions to the US in recognition of the importance of the US as a more important source of investment and trade.

The debate on costs and benefits will no doubt continue to rage. Even with the best models, it is impossible to precisely predict a clear net gain or loss given all the dynamic factors involved. Conceptually however, a comprehensive asymmetrical EPA that includes goods, services and trade-related issues would seem to offer superior development results than all the other debated options.