

# Effects of EU Trade Policies on the South: Case of SADC



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SOFIA MARCH 23, 2011

# Background



- Trade between ACP and EU under Lome Conventions for three decades
- Trade non-reciprocal
- Access of ACP exports into EU on preferential terms
- Arrangement challenged as discriminatory and preferential by Latin American countries (banana case) against WTO rules.

# WTO Position



- Ruled in favour of the Latin American countries against the EU
- Enactment of a waiver to facilitate negotiations of a new agreement (Cotonou Agreement) until 2007.
- Negotiations begin in 2002 for new trade agreement coined EPA.

# Negotiations



- Marked by controversies between EU and ACP countries
- Failure to reach agreement by 2007
- Introduction of new issues into the agreement by EU that had been rejected at the WTO level.
- Issues concern investment, competition policy, government procurement & intellectual property rights (Singapore issues)
- Division of SADC into two: Malawi, Zambia & Zimbabwe (ESA) : SACU, Angola, Mozambique & Tanzania (SADC)

# EU-SADC Trade relations



- Largest trading partner
- Former colonies of the EU powers
- Though obtained political independence in the period 1960s-1990s, economic relations established during colonial era remained intact
- SADC (excluding S Africa) trapped in commodity dependence relying on few primary products for export earnings, making them vulnerable to volatility of world commodity prices
- EU considers SADC as its traditional sphere of influence, but under threat from China

# State of negotiations



EPA Region	Countries that initialed interim EPAs (December 2007)	Countries that did not Initial interim EPAs	Countries that signed Interim EPAs (From June 2009)	Countries that initialed interim EPAs but did not sign the EPAs
ESA	Comoros Madagascar Mauritius Seychelles Zambia Zimbabwe	Djibouti Eritrea Ethiopia Malawi Sudan	Madagascar Mauritius Seychelles Zimbabwe	Comoros Zambia
SADC	Botswana Lesotho Mozambique Mauritius	Angola South Africa	Botswana Lesotho Swaziland Mauritius	Namibia

# SADC Exports



Country	Commodities
Angola	Diamonds, oil, minerals, coffee, fish & timber
Botswana	Diamonds, copper, nickel
Lesotho	Clothing, wool, livestock
Madagascar	Clothing, crustaceans
Malawi	Unmanufactured tobacco, tea, sugar
Mozambique	Unwrought aluminium, , electrical energy, unmanufactured tobacco, Seafood, cotton
Mauritius	Clothing, sugar, fish
Namibia	Diamonds, copper, gold, zinc, lead, uranium, livestock, seedless grapes
Seychelles	Fish, beverages, tobacco
Swaziland	Sugar, wood pulp, minerals
South Africa	Platinum, coal, machinery and transport equipment, Ferro alloys
Tanzania	Gold, precious mineral ores, fish

# Exports (continued)



**Zambia**

**Refined copper, copper ores and concentrates, cobalt mattes, , tobacco**

Zimbabwe

Unused postage or similar stamps, inedible crude materials, cut flowers, unmanufactured tobacco, **cotton**, agricultural products, gold, minerals

# 1.0 Threat to Domestic Production



- High levels of liberalisation of at least 80% as understood by EU under the “substantial all trade clause”
- Botswana, Lesotho, Namibia and Swaziland (BLNS) liberalise 86% of EU imports over four years (2008-2012).
- Mozambique liberalize 81% of imports from the EU by 2023.
- Zimbabwe liberalise 80% of its imports from the EU over a period of 15 years to 2024.
- Angola continues trading under the Everything But Arms Initiative.
- South Africa trading under the TDCA

# Shortfalls



- Failure to protect sensitive products
- Harmful effects on agriculture and nascent industries such as textiles
- Ineffective safeguard mechanisms against import surges
- Specialisation in the production of raw materials for export
- Dependency on food imports for food security

## 2.0 Job Losses



- Failure of domestic production to compete with high tech manufacturing factories in EU (textiles under SAPs)
- Suppression of infant downstream industries in favour of exports as a result of removal of export taxes.
- Destruction of livelihoods due to cheap imports for self-employed small scale farmers
- Migration to the West in search of menial employment (not brain drain)

# Food Insecurity & neglect of agriculture



- Food security dependent on global primary product prices that are very volatile (net food importers-Angola, Botswana and Namibia).
- Standstill clauses inadequate to protect domestic production
- Sustained dependency on export earnings from few extractive industry and agricultural products to import food
- Continued neglect of agriculture due to lack of resources

# Privatisation of Agriculture



- Introduction of contract farming
- Restricted to cash crop destined for export (cotton, tobacco, horticulture, sugar, tea, etc)
- Exclusion of food crops destined for domestic consumption (maize, tubers, small livestock)
- Private cos provide production support in the form of input packages.
- Growers deliver entire produce to contractor at prices determined by investor company
- Producer price too low that it drives growers into debt, become informal workers of the investor company, creating animosity between the two parties.

# Liberalisation/Relaxation of Investment Regulations



- Extractive industries dominated by the foreign companies with technology and financial resources for the capital intensive industry.
- EPA to give them more rights (labour & taxes) over the domestic governments
- Loss of policy space by domestic governments to regulate foreign companies (joint venture, partnership, technology transfers).
- Mineral extraction marked by secret tax deals & relaxation of labour & environmental regulations
- Increased transfer of profits & dividends
- Destruction of domestic industries (equal treatment)

# Removal of export taxes



- Prohibits countries from introducing new export taxes or increasing the applied taxes.
- Originally introduced to encourage value addition and promote downstream industries. Same path followed by developed countries historically.
- Effect is destruction of job creation and loss of fiscal revenue for domestic government and specialisation in unimpeded export of raw materials.

# Revenue Losses



- Steep cuts in tariff rates result in revenue losses for government.
- Many governments dependent on trade revenues owing to the narrow tax base at the domestic level.
- WB 7-10% of government revenue comes from import tariff charges.
- Cut in public services delivery particularly on health and education

# **Destruction of Regional integration initiatives**



- Influx of EU imports inevitably competes with local regional producers thus discouraging regional integration.
- EU imports likely to undermine regional intra-trade especially in high-value added sectors
- Kenya selling 67% of manufactured products to COMESA as compared to 10% to EU, but under EU likely to lose 15% under EPA. Same fate to befall South Africa.
- Discouragement of South-South Cooperation under the Most Favoured Nation Clause, pre-empting competition from the emerging economies of the BRICS countries offering better deals to developing countries particularly China.

end



**THANK YOU**