

### **Six common misconceptions about Economic Partnership Agreements (EPAs) - Brussels, 11 January 2008**

#### **Misconception #1: ACP countries have been forced into interim EPAs by European Commission pressure**

This is not true. The pressure came from the expectations of other WTO members, including non-ACP developing countries, that the EU and the ACP would respect their commitment to make their trade relations WTO-compatible by 1 January 2007. The countries that signed interim EPAs recognised they need to do this to be part of the multilateral trading system and made clear their strong commitment to the objectives of the agreements and their conviction to build on them to agree full regional Economic Partnership Agreements in 2008.

#### **Misconception #2: Countries that have signed interim EPAs will see their markets flooded with cheap European imports**

This is not true. The suggestion that the EU was motivated by commercial self interest in the EPAs is wrong: EU companies want integrated supply chains that build up processing in ACP countries, not barriers that prevent it. EU companies export very little to the ACP and EU investors show too little interest in building up companies in these markets, not too much!

Under the terms of the interim EPAs, the ACP countries are free to exclude a wide range of sensitive goods and sectors from any liberalisation. Perhaps you have heard that Ghana's chicken farmers would be overwhelmed by EU imports if they signed an EPA? Well, the EU and Ghana agreed early in their negotiations to exclude all chicken products from liberalisation, so under an EPA there will be no change at all in the tariffs Ghana uses to protect its poultry sector.

#### **Misconception #3: By signing interim EPAs with individual countries the EU has undermined attempts at regional integration.**

This is not true. The ACP and EU commitment to regional integration and building regional markets among ACP countries has not changed. The EU and the Caribbean signed a full regional EPA in December 2007 but elsewhere the overriding priority had to be to secure market access for the remaining 22 ACP countries that are not Least Developed Countries - they otherwise faced the risk of increased tariffs on 1 January 2008 because they do not benefit from the EU's Everything But Arms initiative . The interim agreements not only avoided this risk but are specifically drafted to lay the basis for negotiations towards full regional EPAs to continue.

#### **Misconception #4: Cuts in import duties as ACP countries liberalise will undermine government revenue**

ACP countries have excluded many products from any liberalisation at all and will liberalise other tariffs over ten to fifteen years, lowering the tariffs on imports that the ACP economies need first. This will prevent dramatic changes in revenue. This said, the EU is ready to assist with fiscal reform and adjustment to help cushion any net fiscal losses observed as a result of EPAs and has the means to do so.

Economically, moving away from high tariffs is an important part of economic reform and the right thing to do. Replacing customs tariffs by other sources of fiscal revenue makes sense because taxes on imports suppress economic activity and are better replaced by sales, excise or other revenue taxes. These other forms of taxes are a more sustainable way to finance much needed basic social services such as health and education. In the early stages of liberalisation customs revenues can even increase as trade is stimulated when tariffs begin to come down.

#### **Misconception #5: The EU has suggested that future development funds are conditional on the signing of an EPA**

This is not true. The EU never tied development finance to the signing of EPAs. For example, on 9th December 2007 in Lisbon, the Commission signed strategy papers allocating €8 billion of the 10th European Development Fund (EDF) to 31 African countries for 2008 – 2013 using development criteria independent of the country's position on EPA (half of them have not agreed any form of EPA). The regional financing element of the EDF does support ACP regional integration but its programming guidelines *do not* specify that this must involve an EPA. It states only that where there is an EPA, funds must support the smooth implementation of any related commitments.

#### **Misconception #6: The EU is still insisting on negotiating on issues such as investment and services in full EPAs, even where ACP countries do not want to do so**

This is not true. The EU has never said that it would insist on these issues being covered by EPAs. But it has said that it believes that there are good development reasons why they should be. Services like telecommunications, banking and construction are the backbone of a growing economy and most ACP countries desperately need to attract foreign investment in these sectors and others. Every ACP investment report published says that breaking the dependence on basic commodity exports requires a transparent secure, rules-based investment climate. EPAs can help establish this and many ACP countries agree: as an example, both the full Caribbean EPA and the interim EPA with Pacific countries already include services chapters.