

Proceedings

**Workshop on Impact of Economic Partnership Agreement
with the European Union on Ethiopian Economy: Synthesis
of Impact Assessment Studies especially for Marginalised
Groups and Civil Society**

**CUTS International (London) & ActionAid Ethiopia
Funded by the Danish Ministry of Foreign Affairs**

March 2006

Introduction

Eastern and Southern Africa (ESA) countries, including Ethiopia, are currently negotiating an Economic Partnership Agreement (EPA) with the European Union. An EPA would replace the Cotonou agreement which governs the relationship between the EU and African, Caribbean and Pacific (ACP) countries. The negotiations were started in September 2002 and are expected to be completed by December 2007. Needless to say, the outcome of these negotiations will have profound economic, political and social implications. Thus, it is imperative to analyse existing EPA impact studies so that civil society can utilise the conclusions of these studies to defend the interests of poor and marginalised groups.

It is in light of the above background that CUTS International and ActionAid Ethiopia signed an MoU to undertake a joint project which aims to contribute to the achievement of a rights based, development friendly, gender sensitised outcome to the EU and ESA EPA Negotiations, and organised a one day technical workshop on the **Impact of Economic Partnership Agreement with the European Union on Ethiopian Economy: Synthesis of Impact Assessment Studies for Poor and Marginalised Groups**.

Objective of the Technical Workshop

To initiate a discussion on an EPA and to present the impact assessment studies that have been conducted.

Methodology

The methodology of the workshop was a general introduction about EPA and the four presentations of the day. Accordingly, Mr. Mamo E. Mihretu made a presentation on the

Impact of EPA on the Ethiopian Economy: Selected Issues in Agriculture and Manufacturing Sectors; Mr. Yalew Teshome on the Fiscal Impact of an EPA and its Implications for the Realisation of Economic and Social Rights; Mr. Million Habte on The Social Impact of an EPA and the Role of Civil Society; and Mr. Geremew Ayalew (Head, Foreign Trade Relation Department, Ministry of Trade & Industry, Chairperson-NDTPF) on The State of Play of the EPA Negotiations. The presentations were followed by comments and a question and answer period. And finally, it was announced that this technical workshop is the first part of the activities planned for the project, and consultative workshops for a larger group of civil society would be organised in the coming months.

Presentations and Discussions

The presentations are summarised as follows:

Impact of an EPA on Ethiopia's Economy in general, and Agriculture and Manufacturing Sectors in particular

- One possible justification of an EPA between the EU and ACP States would be that the Lome IV Convention, which expired in February 2000, envisaged a non-reciprocal trading arrangement between the EU and ACP countries. One of the pitfalls of this agreement was it was a non-reciprocal market access of ACP goods to the EU market and this is not compatible with the WTO. The Lome Convention did not meet Article 24 of the GATT nor the Enabling Clause. For these reasons under the Cotonou Agreement of June 2000 the Lome Agreement was no longer justifiable. EPA became a possible new trading agreement.
- The impact of an EPA on Ethiopia's exports is almost nil because under Everything but Arms (EBA) Initiative Ethiopia already has free access to the EU market.

- Ethiopia has numerous supply-side constraints that need to be focused on primarily, and even though the EU has provided free access to Ethiopian exports, this access can be withdrawn at anytime (EBA is not contractual). An EPA would create more secure market access to Ethiopian exports and this will increase investors' confidence in investing in Ethiopia in the long run.
- An EPA will increase the European Union's exports to Ethiopia, which will have a positive impact in the long run. On the other hand, a trade diversion effect will also be caused which will affect regional integration.
- The short-term effect of an EPA on welfare is not favourable as Ethiopia generates most of its income from import duties, but in the long run the effect may be positive due to increased investments.
- The effect on the export side of agriculture mainly depends on Ethiopia's supply and trading capacity as well as the agricultural policy of the EU. The Common Agricultural Policy (CAP) also needs to be reformed on products of interest to Ethiopia. Then a positive impact may be seen from an EPA but currently in the short-term Ethiopia's agriculture is threatened.
- An EPA has no direct short-term benefit on the export of manufactured goods because of EBA, but on the import side there is a fear of an EPA threatening local industry.
- An EPA is a development tool and Ethiopia's gain should be measured against economic development dimensions. An adjustment facility is important as well as an infra-structure fund.

Fiscal Impact of an EPA and its implication on the Realisation of Economic and Social Rights

- Revenue loss which will result from the dismantling of tariffs, revenue loss from taxes and local producers facing competition from EU producers and EU imports, are noticeable fiscal impacts of an EPA.
- LDCs are inevitably going to experience budgetary constraints, and this would result in governments failing to live up to their commitment under their constitutions and international and regional human rights instruments which state that governments have to provide basic education, health facilities and other services.
- To fulfil their international commitments, the Ethiopian government directly and the EU indirectly have to ensure that the social and economic rights of destitute people are respected.
- Under the right to development, EPA emphasis is placed on the realisation of basic human rights.
- The EU claims that it is strongly committed to respect for human rights and development assistance; therefore if human rights are affected as a result of an EPA, it is the duty of the EU to respond to this matter.
- Ethiopia should be helped with development assistance in order to protect social, economic and development rights that may arise from an EPA.

The Social Impact of an EPA and Role of Civil Society

- The social impacts of an EPA are not quantifiable as much as the economic impacts. Social impacts include; human rights issues, environment issues, employment impact and poverty reduction.
- Is an EPA a means for the EU to implement some agendas which it could not under WTO? Or is it really targeted to reduce poverty in a partnership arrangement? The arrangement should be interpreted to give effect to poverty reduction. This is something to be cautious about.
- Taking into consideration the nature of an EPA, the involvement of civil society in the economic and development process is encouraged. They could play a crucial role during negotiations, by giving input for negotiating positions and, post-negotiations, by analysing the impacts of an EPA on poor and marginalised groups. Lessons can also be taken from the WTO, where involvement of civil society has led to briefings to NGO's. WTO has also dedicated a special section on their website to civil society members.
- Some existing arguments against the involvement of civil society in trade negotiations are: how many people are they really representing; are they protectionist? Civil society should be given a space in EPA negotiations as it is in a better position to identify real interests and concerns at a grass roots level. In other words, they better understand the needs and concerns of the poor than governments.

The State of Play of EPA Negotiations

- The main principles of an EPA are; to be an instrument for development; bring regional integration; preserve the Lome status quo; put in place WTO

compatible trade relations; and maintain special and differential treatment to ACP LDCs.

- The overall objectives were also stated as; sustainable development, smooth and gradual integration, eradication of poverty, improving supply capacity, fostering structural transformation and supporting regional integration.
- Based on the above mentioned objectives and principles, multi-phase negotiations have been launched, which are grouped by regions and clusters. Ethiopia is in the process of negotiating EPAs under Eastern and Southern Africa (ESA) with the EU. What basically interests Ethiopia in concluding an EPA is the development support package.

Questions

After each presentation participants raised several questions. The main ones are as follows:

- Are there any in depth studies as yet of the impact of an EPA as there are in other countries such as Kenya and Sudan?
- What is the role of the African Union in this EPA?
- While looking at Right to Development we also need to look at the individual level. Is there room to look at the moral and historical aspect of each country individually?
- How important is regional integration for Ethiopia?
- Is the liberalisation process good for African countries?
- How is the loss of government revenue going to be addressed in Ethiopia?

- Is it realistic to say that the government is actually providing good health care etc at the present state? What can we remove from supply side constraints ourselves, without waiting for development assistance?
- How many COMESA members are ready to form customs unions by 2007?
- What is the priority subject when approaching the EU?
- Has Ethiopia considered any other options other than an EPA, and was civil society involved?
- Do ministers have a role in the “state-of-play” or is it limited to technical groups and experts only?

Reflections

Presenters responded to the above questions as follows:

- There are some studies on the impacts of an EPA on the Ethiopian economy but they are not comprehensive enough to enable the government to base its policy decisions on them. Now the process is already at an advanced stage where it is working toward the negotiation issue, and it is not plausible to make more impact studies. There is also the belief that needs based research is more appropriate rather than broad in depth study. Also, a different approach is required in different parts of Ethiopia to make the general public aware of EPAs and get inputs from the public and incorporate them in the negotiations positions.

- The AU involvement in an EPA comes in at some level because all countries report to AU about the status of sub region negotiations, and the progress of each sets a precedence for the next.
- As the Cotonou Agreement states that each country's individual needs should be addressed, such is the case for an EPA also.
- Regional integration is good for Ethiopia because of the market access that will result from it, and because competition among COMESEA countries is possible. An EPA is supposed to strengthen regional integration efforts but might weaken it because of the trade diversion effect. Therefore, there needs to be a focus on development dimensions.
- There are pros and cons of liberalisation and many debates carried out around it as can be seen from studies by the UN Economic Commission for Africa, but the bottom-line is that there is no other option other than addressing adjustment costs.
- The Ethiopian government plans to address revenue loss by adjusting the tax basis from indirect tax to direct tax and stretching its capacity to collect tax.
- The government must provide basic provisions such as education and health for the poor because it is obliged to do so under the Ethiopian constitution and regional and international human rights instruments. Currently, the government endeavours to provide basic services. As for addressing supply side constraints of the Ethiopian economy, today's discussion is focusing specifically on EPAs, and this partnership is one of the ways to address supply side constraints. Also, an EPA is expected to address only trade-related supply side constraints, not all supply side constraints of the Ethiopian economy.

- The actual readiness of each country will be known at the end of 2007. It is not something that can be forecasted. At present, 11 countries have signed COMESA FTA.
- As our primary concern is not the market right now, development support will be the primary issue.
- The decision to join ESA was a political one and as EPA is under ESA this was the basis for joining.
- The development cluster benefit is a priority in the present government so the role of ministers, especially that of the assigned ambassador, is to follow the progress of an EPA closely.

Comments

Presenters and participants made some additional comments as follows:

- The importance of reliable research to show the impacts of an EPA was clearly stressed. In addition, a strong linkage with Northern CSOs to transmit some of our studies was also suggested.
- While there is a consensus that an EPA ought to be a development tool, the disagreement is on how to achieve it. The EU tries to sell an EPA by arguing that it would provide for a wide market (and this would attract FDI to ACP countries). But, for ACP countries including Ethiopia to benefit from a wider market, the supply side constraints need to be solved first.
- There are some that are against an EPA, stating that it would benefit only the EU, and that an EPA is the EU's strategy to get access to poor

countries' market. One response to this statement was that the campaigns mentioned above are not saying stop EPAs completely, but stop it from continuing in the present form.

- One positive aspect of an EPA is that it is an ideal area to work together with the government.
- Civil society has previously pushed in areas they firmly believe in all around the world and their success has been noted. And in Ethiopia they have developed and grown over the years. Therefore, the role of civil society in providing balanced and informed information is important in the negotiation process.
- FTA is not a prerequisite for forming a customs union; therefore countries with a budget dependant on revenue must overcome this hurdle. But, in the present situation it is better to form free trade unions.
- OXFAM/UK is presently contributing to the EPA debate by raising public awareness in different parts of the country. For a number of reasons, the Ethiopian government has not given due attention to EPA negotiations, unlike for example Kenya which has allocated 2 million dollars and carried out 28 sectoral impact studies already.
- EPA awareness creation workshops have been given at regional levels and will continue to be carried out in the future.
- As conflicts of legitimate concerns may sometimes occur amongst NGO's over the same topic, broader perspectives are necessary.