What Role for South Africa in EPAs and Regional Economic Integration?

Christopher Stevens and Jane Kennan

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Introduction

This paper asks two questions:

- what is the likely impact on regionalism in Southern Africa of the EU's insistence on economic partnership agreements (EPAs); and
- what should the Southern African Customs Union (SACU) in general and South Africa in particular do about it?

The issues

In principle, an EPA could have one of four effects on regionalism.

1. It might provide the pressure to accelerate the leisurely pace at which customs unions (CUs) and free trade areas (FTAs) are being formed in Africa and force countries to choose between incompatible groups when they belong to more than one.

2. By contrast, it might reinforce internal barriers between countries even whilst they liberalise towards the EU (for the reasons explained in more detail below).

3. Thirdly, no state within a region might join the EPA.

4. Finally, and perhaps most likely, it may result in some countries becoming more integrated, others joining the same EPA but reinforcing their internal borders, and yet others remaining outside the EPA.

The EPA impact will depend on how far countries within a region make similar or different choices. The first and third options will be the least disruptive to current integration efforts. By definition the first would enhance them, and the third would be a continuation of the *status quo*. It is the second, and especially, the fourth that would tend to weaken regional integration.

Without attempting to predict a very murky future the paper argues that there is a significant risk it is the fourth option that will come to pass and that EU pressure will fracture the Southern African Development Community (SADC). It is even more hazardous to forecast how the pieces will rearrange themselves, but one plausible configuration would be for:

- there to be a SACU EPA that is based on the Trade, Development and Co-operation Agreement (TDCA) retrofitted to meet the needs of Botswana, Lesotho, Namibia and Swaziland (BLNS);
- Tanzania to join an EPA based either on the Eastern and Southern Africa (ESA) grouping or on the East African Community (EAC);
- Angola and Mozambique to remain outside any EPA and to utilise their access to the EU market under Everything But Arms (EBA).

Such an outcome would not *necessarily* create a problem for SACU – but realistically its neighbours would be wasting their time staying outside a SADC EPA unless they took trade measures that would have an adverse impact. The principal reason to remain outside an EPA would be to avoid reciprocity. But this goal could be undermined by cross-border trade if the outsider also participated in an effective FTA/CU with countries that were EPA members. So the expectation must be that trade barriers between SACU and its neighbours would cease to decline and might be reinforced. At the same time, those states that had joined EPAs might

well end up offering more favourable access to their market to suppliers in the EU than those in South Africa.

Scope of the paper

Such forecasting is necessarily highly speculative and so is not taken much further in the paper; the purpose of introducing the speculation is to explain why the research reported in the paper is relevant to big questions for SACU. The paper concentrates on explaining the stresses to regionalism being created by EPAs. These apply to all the ACP regions, not just SADC, but they have a special form for the latter because of the pre-existence of the TDCA and of SACU.

It is the adverse implications of the second and fourth outcomes sketched above that are the focus for this paper which builds on one presented at a SAIIA conference a year ago (Stevens and Kennan 2004). That paper compared the possible reciprocity schedules of Mozambique and Tanzania with what has been agreed under the TDCA. It concluded that these two countries might be chary of joining an EPA with BLNS since, by so doing, they would be letting in via South Africa duty free imports of goods that they might well wish to exclude from reciprocity. The paper then considered how far in such circumstances BLNS could secure their interests by having the TDCA retro-fitted. The key tables from the paper are presented in the Annex for ease of reference.

Since then we have extended this analysis of the potential destructive regional effects of EPAs in two ways. First, we have applied to all the ACP regions except the Pacific a basic methodology that identifies whether countries appear likely to seek similar or different reciprocity schedules. Second, we have undertaken a more in-depth analysis to ESA to obtain indicators of the probability that *potential* problems will turn into real ones.

This paper summarises the findings from this research which reinforce the picture painted by the tables in the Annex. This is that there exists considerable destructive potential and a strong probability that EPAs will create real problems. It also extends the analysis in last year's paper to discover how far the 'autonomous' reciprocity schedules that BLNS might produce are incompatible with the TDCA.

Setting the scene: EPAs and reciprocity

What the EU wants

Since 1975 the EU has had special aid and trade agreements with the ACP group, which now includes all of SSA, under four Lomé Conventions and, from 2000, the Cotonou Agreement. These agreements have provided the ACP with a very favourable trade regime, a substantial aid budget, and a set of joint institutions.[1] Although hedged with some limitations and onerous rules of origin (Stevens 2005), ACP exporters have generally enjoyed a tax advantage over some of their competitors when selling into the European market products facing tariffs.

Whilst the Cotonou Agreement lasts until 2020, its trade regime is due to be replaced by 2007 with a set of EPAs which fulfil the requirements of the World Trade Organization (WTO) for

1. South Africa belongs to the ACP group but is covered by neither the aid nor the trade regime of the Cotonou Agreement – see Stevens 2000.

free trade agreements.[2] One salient characteristic is 'reciprocity': the ACP will have to remove tariffs on some imports from the EU, in contrast to Lomé and Cotonou which were non-reciprocal; in return for preferential access to the EU market the ACP had only to treat imports from the EU no less favourably than from other sources.

Much comment has focused on the national economic and social implications of partial liberalisation by ACP states, but this paper deals with another potential effect of EPA reciprocity: on regionalism (in Southern Africa in particular). Most SSA states belong to some form of FTA and/or CU endeavour (ECA 2004: Table 2.1). Indeed the complaint has been that they may belong to too many: that countries sign up to mutually incompatible accords. How might the insinuation of the EU into this faltering process via EPAs affect the outcome?

As suggested above, the impact could be positive: if EPAs incorporate the intra-regional liberalisation foreseen in the current pacts it could enhance their stability by increasing the cost of recidivism. A state that failed to alter its tariffs at the agreed time would fall foul not only of its neighbours but also of the EU. It would face the possible sanction of losing preferences on its exports to the EU and, perhaps, of aid as well. By making 'locking in' more plausible, it could be argued that EPAs would enhance the gains from integration, not least by increasing predictability.

Alternatively the impact could be negative. By increasing the stakes, EPAs might make regional liberalisation less likely. Some countries willing to remove barriers to imports from their neighbours with similar economies may be unwilling to offer the same terms to highly competitive (and possibly dumped) EU imports. Regional groups may splinter between those willing to liberalise towards the EU and the others.

The effects on SADC

Despite the uncertainties surrounding the details of EPAs it is already becoming apparent that they are provoking regional realignments. The parties to the SADC Trade Protocol have split into two groups: at present 16 of the states in SADC and the Common Markets for Eastern and Southern Africa (COMESA) are negotiating with the EU under the banner of ESA. The rest of SADC (the four non-South African members of SACU, Angola, Mozambique and Tanzania) are negotiating a completely separate EPA. comesa

Further splintering may result from the fact that the SACU states are covered *de facto* although not *de jure* by the TDCA between the EU and South Africa. Their partners in any SADC EPA would, effectively, be accepting the import regime that South Africa has agreed with the EU unless they retain robust border controls to filter out EU-originating goods. In either case, the SADC Trade Protocol is weakened: if there are separate EPAs, the Protocol signatories will have different external trade policies; if there is a single EPA with rigorous internal border controls, intra-regional trade will be hindered.

Quantifying the potential effects

Since no EPA exists, even in embryonic form, its effects cannot be analysed, and since the EU has declined to indicate its detailed ideas these cannot form the basis for simulations. Other than waiting until one side reveals its hand and/or a draft is in being, therefore, the only

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2. These are set out in Article XXIV. Whilst both parties insist that EPAs will be 'development agreements' and not merely free trade areas, there is no suggestion by the EU that this will remove the obligation to meet the conditions of Article XXIV.

way ahead is to make plausible assumptions (which can be amended as the negotiations progress and more detail becomes known).

Five sets of assumptions are required. The first two establish the potential scale of the problem and are applied to the case of the TDCA and the SADC minus group in this paper. The other three indicate the likelihood of the potential being realised and have been applied to an analysis of ESA trade which is reported below.

One assumption concerns how much trade must be liberalised. Several alternative figures have been used to produce the results reported here. In most cases the results described in the paper assume that each ACP member of an EPA will have to reduce to zero its tariffs on a basket of goods that accounted for 80 percent by value of its imports from the EU in 2003. The underlying research used a range of value shares from 67 percent to 83 percent but for many countries the results do not vary substantially from the out-turn when an 80 percent threshold is used.

In the case of BLNS, though, a lower threshold of around 76 percent is used. This figure is derived from an informal estimate made by a Commission official of the proportion of trade that the SADC minus group would need to liberalise (Maerten 2004). It is believed to be based on the fact that if the EU liberalises on 100 percent of its imports, arithmetically the task of achieving a 90 percent liberalisation of total trade will require less than 80 percent liberalisation for a region that imports from the EU less than it exports.[3]

A second assumption concerns the choices that governments will make when selecting the products to include and exclude from the liberalisation basket. There is scope for plenty of country-level research to follow up on the possible choices that will be made. But at a cross-country level the only reasonable assumption that can be made at this juncture is that countries' current trade policy reflects their priorities. On this assumption the products currently facing the highest applied tariffs are the ones for which governments most want to keep tariffs (whether for protectionist or revenue-raising purposes). Once this assumption has been made it is possible to identify which goods would be excluded from liberalisation for any given threshold of 'substantially all' trade.

The remaining assumptions concern the cases in which tariff differences between countries might cause problems for intra-regional trade that would not otherwise arise. It is assumed that the most potentially problematic differences in reciprocity schedules are those: between geographically contiguous states; on items for which there is a large price difference between the protected and the liberalised market; that are easily transportable. Intra-regional integration is unlikely to be hurt by concern over EU corrugated sheets being shipped across SSA borders because there is a tariff of 10 percent in one country and of 0 percent in the other. But the situation could be different if the price difference is large, the product easily transportable, and one country has a powerful domestic producer lobby likely to fight its

[3] The reason for adopting the 76 percent threshold is that the analysis represents the 'best-case' scenario: by maximising the number of potential BLNS exclusions the likelihood of some of them being excluded also under the TDCA is enhanced. The reason the analysis is 'around' 76 percent arises from a technical feature of the analysis, and the fact that its purpose in this case is not to help BLNS prepare a realistic negotiating position with the EU but to identify the overlap with the TDCA. When compiling each country's 'exclusion basket' we add in first the imports with the highest tariff, and keep going until the threshold is reached. Often the 'marginal product' (the last one that would be included) is imported to a significant value, such that if it is added to the exclusion basket the threshold is breached, but if it is excluded the value of items that are not liberalised falls well below the allowable threshold. For the purposes of this paper, we have assumed that such items will not be liberalised and allowed the threshold to be breached in a minor way to make this possible.

corner against indirect imports. Figures have to be set for the scale of the price difference and transportability that is required to produce 'a problem'.

Research evidence

For the ACP

Taking only the first two assumptions (that countries can exclude 20 percent of their imports from the EU and choose to select the items with the highest applied tariffs), we can identify in broad terms how many of the goods in one country's exclusion basket are also in those of their regional partners.[4]

The results (Table 1) suggest that there is very little natural overlap. There is not a single product that would be in all the exclusion lists of all members of any of the groups! And there would be very few that are common even to half of the members of a group. Indeed, in all cases apart from ESA over half (and as much as 92 percent for West Africa) of the products included in any one country's basket of exclusions would be absent from the exclusion lists of all its partners.

Table 1. Differences within sub-Saharan African regions

Region	Proportion of exclusions (%):[a]		
	Common to all	*Common to half*[b]	*No overlap*
Central Africa	0	12	51
East and Southern Africa	0	2	43
SADC	0	3	64
West Africa	0	0.2	92

Notes:
(a) Shares calculated in relation to the items excluded by any member if 80 percent of imports are liberalised.
(b) Or, where there is an uneven number of countries within the group for which the necessary data are available, just over half.
Sources: Derived from data obtained from COMEXT 2004 and UNCTAD's TRAINS database.

In order to gain an impression of the likelihood of these potential problems being unresolvable and problematic, values for the other three assumptions have been applied to the trade of ESA and over one thousand 'problem products' were identified. These included several typical 'import substituting' industries: processed foods, paints, plastic sheeting and articles, tyres, footwear, and furniture. [Stevens forthcoming] It is in these areas of light manufacturing that the problems may be most common.

For SADC minus

The special problems of the region

It has long been clear that the position of BLNS as both *de facto* participants in the TDCA and members of an EPA would cause problems. The current assumption is that BLNS will join an EPA with some of the other SADC states but it is easy to see that SACU's neighbours might be uneasy about the implications of this due to fears of leakage from the TDCA.

4. This table and the others do not take account of two groups of products: those with tariffs expressed wholly or partly as specific duties, and those with incomplete data in UNCTAD's TRAINS database, which is the source used for all the SSA tariff data.

This is because the products that will be excluded from any liberalisation under the TDCA have already been established, as has the tariff reduction schedule for the rest. Any partners of BLNS's in an EPA would have to:

1. accept the TDCA exclusions and timetable; or
2. accept BLNS membership of two, separate and different, reciprocal trade agreements with the EU.

Both of these options are problematic. The first is barely conceivable. Under the TDCA the first phase of SACU liberalisation began in 2000 and, by the time the EPAs are due to come into effect (in 2008), only four years will remain before full implementation. The second option would require the retention of robust rules of origin and customs controls between the BLNS and other EPA members. This would undermine Southern African integration less dramatically than the exclusion of BLNS from any EPA but in a more corrosive, drawn-out fashion. Without such intra-regional border controls, imports from the EU could evade any exclusions or delays that were in the EPA but not in the TDCA.

Excluding BLNS from a SADC EPA would, of course, drive a wedge between Southern African states. BLNS would be forced to negotiate on their own. The outcome could be either a separate agreement to the TDCA or a retro-fitting of the latter to include, for BLNS alone, preferences in the EU that they currently enjoy (or may aspire to) that are not available to South Africa.

If the TDCA is to be re-negotiated why not also change the liberalisation schedules which South Africa is implementing to make them more compatible with the needs of SADC members? This option would certainly solve the problem but is not taken further in this paper as being unrealistic. It would require both the EU and South Africa to re-open a done deal. The reasons why the EU might be unwilling to do so are self-evident, but the South African government might be equally reluctant. Unless the '86 percent of trade' formula were abandoned, any changes to the liberalisation already agreed would require South Africa to include off-setting products that are currently excluded.

What might be feasible (and would be required if BLNS were to use the TDCA as their EPA) would be to extend the EU's liberalisation. This is because the TDCA currently excludes some products (such as sugar) that are important BLNS exports to the EU. The reason this would be feasible is that the nature of the products means that it would be technically possible to limit the preferences to BLNS suppliers.

Identifying the problem products

The precursor to this paper, which was presented at a SAIIA conference in November 2004, analysed the imports of Mozambique and Tanzania to identify the items that these countries might wish to exclude from reciprocity and to compare their treatment in the TDCA. The results, presented in Annex Tables 1 – 4, show that many of the items that Mozambique and Tanzania might wish to exclude are being liberalised wholly or partially under the TDCA, whilst many that they may wish to keep liberal are excluded from liberalisation under the TDCA.

For SACU

The exercise for Mozambique and Tanzania has not been redone, but it has been extended to the 'other side' of the SACU border to determine how much latitude BLNS actually have to

include and exclude items that are sensitive for them from liberalisation under an EPA. Using the two assumptions set out below, we have produced a list of the items that each of the BLNS might wish to exclude from liberalisation under an EPA, and have identified the treatment being accorded to these items under the TDCA. The two assumptions are that:

- each BLNS state must liberalise a basket of goods that accounted for about 76 percent of their imports from the EU in 2003 (and may, therefore, exclude from liberalisation about 24 percent);
- and that (with one exception explained below) each state chooses to exclude from liberalisation the items facing the highest applied tariffs.

The TDCA provides for South Africa to take three types of action in relation to different imports: to liberalise fully, to exclude completely, and to liberalise partially. The overlap between potential BLNS exclusions/inclusions in the liberalisation basket with the first two categories of TDCA action is straightforward, but with the third there may be cases in which some elements of a Harmonised System (HS) 6-digit sub-head are being liberalised and others not. To help give a flavour of the extent of this overlap, Table 2 provides a schedule for the products in which South Africa is liberalising partially under the TDCA. The results for BLNS are then linked to the information in this table.

Table 2. Schedule for partial liberalisation by South Africa under the TDCA

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12
A. Footwear & leather 1	20	18	16	14	12	11	10					
B. Footwear & leather 2	30	29	28	27	26	25	24	22	20			
C. Motor 1	15	14	13	12	11							
D. Motor 2	30	28	25	23	20	19	18	16	15	13	12	10
E. Motor 3	10	9	8	7	6							
F. Motor 4	20	19	18	17	16	16	15	14	13	12	11	10
G. Motors partial 1	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp
H. Motors partial 2	MFNat	MFNat	MFNat	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp	-5pp
I. Textiles - clothing	40	37	34	31	29	26	23	20	(a)			
J. Textils – fabrics	22	20	19	17	15	13	12	10	(a)			
K. Textiles - household	35	32	29	26	24	21	18	15	(a)			
L. Textiles – yarns	17	15	14	12	10	8	7	5	(a)			
M. Tyres 1	25	23	21	19	17	15						
N. Tyres 2	15	14	13	12	11	10						
O. Tyres 3	20	18	16	14	12	10						
P. Tyres 4	30	27	24	21	18	15						

Note:
(a) In the period from year 8 to year 12, South Africa would provide EU exports with a preference margin of around 40 percent compared to MFN tariffs.
Source: EC 1999: Annex III, List 5.

Tables 3–6 provide the results for each of the four non-South African members of SACU. In the case of Botswana we identified 225 products which accounted in total for 24.9 percent of imports from the EU in 2003 (and hence slightly broke our ceiling), and it is these that are covered in Table 3.[5] Of the 225 products, 144 will be fully liberalised by South Africa by 2012 under the TDCA, and a further 27 will be partially liberalised. Just 15 out of the 225 will remain completely protected.

[5] We have excluded from the analysis a single item (HS 870120 – road tractors for semi-trailers) which was imported to a considerable value in 2003 and therefore absorbs the whole of the 'exclusion basket'. It has been disregarded because it is assumed not to be a product for which there are domestic producers that need to be protected, and because imports in 2003 may have been untypically large.

Similar information is provided in Table 4 for Lesotho, which covers 98 products (again, slightly exceeding the set exclusion basket because they accounted for 27 percent of import value in 2003). Fifty-six of these products will be fully liberalised by South Africa at the end of the implementation period, and a further 9 will be partially liberalised. Only ten will remain protected. In Namibia it is a similar story (Table 5). Of the 485 products covered (accounting for 23.1 percent of import value in 2003) just 37 will remain protected by South Africa under the TDCA. For Swaziland just nine out of the 120 products (accounting for 25.7 percent of import value) are not being liberalised by South Africa (Table 6).

Table 3. Overlap with the TDCA: Botswana[a]

Sector	Already liberalised	Liberalised by 2012	Partial liberalisation – see Table 2 for schedule/extent										No liberal-isation
			A	*B*	*C*	*E*	*F*	*H*	*J*	*K*	*L*	*M*	
Agricultural	0	3											
Non-agricultural	39	141	1	10	2	2	4	2	1	3	1	1	15
Total	**39**	**144**	**1**	**10**	**2**	**2**	**4**	**2**	**1**	**3**	**1**	**1**	**15**

Note:
(a) The TDCA schedules are at 8 digits of the South African nomenclature; the imports from the EU analysed here are at HS6. In calculating the figures in this table, only the latest possible scheduled liberalisation has been taken into account. So an HS6 import that has some 8-digit elements due for liberalisation in 2005 and some in 2012 has been counted under 2012; one that has some 8-digit elements that were liberalised in 2003, others that will be liberalised in 2012, and others that will be partially liberalised by 2012 has been counted under 'partial liberalisation'; and one that has some elements that will be liberalised either fully or partially and some that will not is counted under 'no liberalisation'. In addition, as items liberalised on entry into force of the TDCA are not listed at all in the schedules, it is possible that any or all of the HS6 imports analysed encompassed 8-digit sub-headings in the South African nomenclature that were liberalised in 2000.
Sources: Eurostat 2003; UNCTAD TRAINS; EC 1999.

Table 4. Overlap with the TDCA: Lesotho[a]

Sector	Already liberalised	Liberalised by 2012	Partial liberalisation – see Table 2 for schedule/extent							No liberalisation
			B	*C*	*F*	*I*	*J*	*K*	*L*	
Agricultural	1	3								1
Non-agricultural	22	53	2	1	1	1	2	1	1	9
Total	**23**	**56**	**2**	**1**	**1**	**1**	**2**	**1**	**1**	**10**

Note:
(a) See Table 3, note (a).
Sources: Eurostat 2003; UNCTAD TRAINS; EC 1999.

Table 5. Overlap with the TDCA: Namibia[a]

Sector	Already liberal-ised	Liberal-ised by 2012	Partial liberalisation – see Table 2 for schedule/extent													No liberal-isation
			B	*C*	*E*	*F*	*G*	*H*	*I*	*J*	*K*	*L*	*M*	*O*	*P*	
Agricultural	10	27														7
Fisheries																1
Non-agricultural	70	303	10	2	2	3	2	3	2	2	4	4	2	1	1	29
Total	**80**	**330**	**10**	**2**	**2**	**3**	**2**	**3**	**2**	**2**	**4**	**4**	**2**	**1**	**1**	**37**

Note:
(a) See Table 3, note (a).
Sources: Eurostat 2003; UNCTAD TRAINS; EC 1999.

Table 6. Overlap with the TDCA: Swaziland[a]

Sector	Already liberalised	Liberalised by 2012	Partial liberalisation – see Table 2 for schedule/extent								No liberal-isation
			B	*C*	*F*	*H*	*J*	*L*	*M*	*P*	
Agricultural	0	7									
Non-agricultural	13	77	5	1	2	1	1	1	2	1	9
Total	**13**	**84**	**5**	**1**	**2**	**1**	**1**	**1**	**2**	**1**	**9**

Note:
(a) See Table 3, note (a).
Sources: Eurostat 2003; UNCTAD TRAINS; EC 1999.

The clear picture being painted is that almost all of the items thrown up by this analysis as ones that BLNS might wish to exclude from an EPA are already being liberalised under the TDCA. Of course, the simple assumptions used to produce Tables 3–6 may be wrong. Governments may not wish to exclude the items on which they have the highest tariffs. This is the more likely in the case of BLNS because existing SACU tariffs will have been set largely under the influence of South Africa.

None the less, the results are sufficiently alarming to counsel the need for BLNS to undertake their own analysis 'for real' in order to produce a genuine list of the products they would wish to exclude from liberalisation. These lists would have to be very different from the ones that result from the application of current tariff levels in order to produce a result that is in conformity with the TDCA liberalisation schedules.

Until that happens, it must be assumed as a working hypothesis that, unless rigorous border controls are maintained within SACU, the provisions already agreed in the TDCA may thwart the ability of BLNS to develop autonomous exclusion schedules from 'their' EPA. And if this is the case, it raises the question of the utility for a single CU to have two separate trade agreements with a single external trade partner. Would it not be better, the question must arise, to develop the TDCA so that it could become an acceptable post-Cotonou framework for BLNS trade and aid with the EU?

Retro-fitting the TDCA

This section simply reproduces the analysis presented in the November 2004 paper in order to provide a complete picture. It aims to assess how difficult would it be for the BLNS to safeguard their access to the EU market if the non-SACU states were to decide in due course that they could not afford to enter an EPA with them. This boils down to the answers to a political and a logistical question:

- would the EU agree either to re-open the TDCA or to negotiate a parallel accord with the sole purpose of granting certain preferences to BLNS but not to South Africa;
- how difficult would it be to keep BLNS exports of the items covered by this extension separate from, and uncontaminated by, South African products?

The answer to the second question is likely to have a bearing on the answer to the first. It would be churlish on the part of the EU (and strongly opposed by at least some member states) to curtail Swazi exports of sugar and Botswana/Namibia sales of beef merely because no other SADC state is willing to enter an EPA with them. And any architecture for the continuation of these preferences will require measures to prevent leakage to South Africa. Retro-fitting the TDCA would be no more difficult (provided South Africa did not insist upon re-opening its own terms at the same time) than any other bespoke arrangement for BLNS.

Tables 7–10 take the main EU imports from each of BLNS in 2002 that face positive MFN tariffs and compare the treatment under Cotonou and the TDCA. If BLNS are given post-2007 treatment that is no better than under Cotonou and do not diversify their exports then the only 'problem items' will be those listed in the tables where the TDCA does not provide for equivalent access. These two assumptions of neither access improvement nor diversification are, of course, unrealistic. But all four states can build more realistic scenarios and then replicate this exercise which, at least, provides a benchmark on how difficult it would be to retro-fit the TDCA as of today.

The expectation must be that the logistical problems are surmountable. This is because BLNS have had better access to the EU than South Africa for three decades and so it must be possible to keep their exports separate. There already exists, for example, an established system for sugar, beef and, more problematic, citrus. The tables suggest that these are the only significant problem items apart from fish unless South Africa and the EU agree a fisheries accord.

Table 7. Botswana: top exports [a] to the EU in 2002 for which EU MFN tariff not zero

CN_2002	Description	Share of total (%)	Cotonou tariff	EU liberalisation under the TDCA
02013000	fresh or chilled bovine meat, boneless	9.1	0% + 24.2€/100 kg net	To be reviewed periodically
85443090	ignition wiring sets and other wiring sets for vehicles, aircraft or ships	7.0	0	2003

Notes:
(a) Highest-value items accounting cumulatively for 90 percent of total export value to the EU.
Source: UNCTAD TRAINS.

Table 8. Lesotho: top exports [a] to the EU in 2002 for which EU MFN tariff not zero

CN_2002	Description	Share of total (%)	Cotonou tariff	EU liberalisation under the TDCA
03056200	cod 'gadus morhua, gadus ogac, gadus macrocephalus', salted or in brine only (excl. fillets)	7.6	0	Elimination in equal annual steps starting Yr 6 after entry into force of Fisheries Agreement
61103091	men's or boys' jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or	6.2	0	2006
03056990	fish, salted or in brine, but neither dried nor smoked	5.6	0	Elimination in equal annual steps within 3 years of entry into force of Fisheries Agreement
61091000	t-shirts, singlets and other vests of cotton, knitted or crocheted	4.5	0	2003
62046239	women's or girls' trousers and breeches, of cotton (not of cut corduroy, of denim or knitted or crocheted and excl. industrial and occupational clothing, bib and brace overalls, briefs and track suit bottoms)	2.0	0	2003

Notes:
(a) Highest-value items accounting cumulatively for 90 percent of total export value to the EU.
Source: UNCTAD TRAINS.

Table 9. Namibia: top exports [a] to the EU in 2002 for which EU MFN tariff not zero

CN_2002	Description	Share of total (%)	Cotonou tariff	EU liberalisation under the TDCA
03042055	frozen fillets of cape hake 'shallow-water hake' 'merluccius capensis' and of deepwater hake 'deepwater cape hake' 'merluccius paradoxus'	20.9	0	Elimination in equal annual steps starting Yr 4 after entry into force of Fisheries Agreement
02013000	fresh or chilled bovine meat, boneless	9.2	0% + 24.2€/100 kg net	To be reviewed periodically
03037811	frozen cape hake 'shallow-water hake' 'merluccius capensis' and deepwater hake 'deepwater cape hake' 'merluccius paradoxus'	7.7	0	Concessions 'shall be envisaged in the light of the content and continuity of the Fisheries Agreement'
03037981	frozen monkfish	6.2	0	
03026966	fresh or chilled cape hake 'shallow-water hake' 'merluccius capensis' and deepwater hake 'deepwater cape hake' 'merluccius paradoxus'	5.3	0	
03049047	frozen meat of hake 'merluccius', whether or not minced (excl. fillets)	3.7	0	Elimination in equal annual steps starting Yr 4 after entry into force of Fisheries Agreement
08061010	fresh table grapes	2.9	0 to MFN	2010

CN_2002	Description	Share of total (%)	Cotonou tariff	EU liberalisation under the TDCA
02023050	frozen bovine boned crop, chuck and blade and brisket cuts	1.4	0% + 17.6€/100 kg net	To be reviewed periodically
03037590	frozen sharks (excl. dogfish)	1.3	0	Elimination in equal annual steps within 3 years of entry into force of Fisheries Agreement
03042095	frozen fillets of saltwater	1.2	0	Elimination in equal annual steps starting Yr 6 after entry into force of Fisheries Agreement
03037998	'frozen saltwater fish, edible	1.1	0	Elimination in equal annual steps within 3 years of entry into force of Fisheries Agreement [b]
03037993	frozen pink cusk-eel 'genypterus blacodes'	0.9	0	Elimination in equal annual steps within 3 years of entry into force of Fisheries Agreement
03037987	frozen swordfish 'xiphias gladius'	0.7	0	

Notes:
(a) Highest-value items accounting cumulatively for 90 percent of total export value to the EU.
(b) Due to frequent tariff code changes, it is not absolutely certain what code this item appears under in the TDCA. However, based on the description, it is believed that the TDCA schedule shown here is correct.
Source: UNCTAD TRAINS.

Table 10. Swaziland: top exports [a] to the EU in 2002 for which EU MFN tariff not zero

CN_2002	Description	Share of total (%)	Cotonou tariff	EU liberalisation under the TDCA
17011110	raw cane sugar, for refining (excl. added flavouring or colouring)	62.2	0	To be reviewed periodically
54025200	filament yarn of polyester, incl. monofilament of < 67 decitex, single, with a twist of > 50 turns per metre	5.4	0	2000
08054000	fresh or dried grapefruit	3.9	0	2000
22071000	undenatured ethyl alcohol, of actual alcoholic strength of >= 80 %	2.6	0	To be reviewed periodically
08051050	fresh sweet oranges	2.5	0 to MFN	To be reviewed periodically
20083071	grapefruit segments, prepared or preserved, containing added sugar but no added spirit, in packings of=< 1 kg	2.3	0	2003
20083090	citrus fruit, prepared or preserved (excl. added spirit or sugar)	2.2	0	2000
08051030	fresh navels, navelines, navelates, salustianas, vernas, valencia lates, maltese, shamoutis, ovalis, trovita and hamlins	2.1	0 to MFN	To be reviewed periodically
20082079	pineapples, prepared or preserved, containing added sugar but no added spirit, with sugar content of =< 19 %, in packings of =< 1 kg	1.8	0	2010
20082099	pineapples, prepared or preserved, in packings of < 4.5 kg (excl. added sugar or spirit)	1.7	0	2010
02013000	fresh or chilled bovine meat, boneless	1.4	0% + 24.2€/100 kg net	To be reviewed periodically
38249099	chemical products and preparations of the chemical or allied industries, incl. those consisting of mixtures of natural products, n.e.s.	1.0	0	(b)

Notes:
(a) Highest-value items accounting cumulatively for 90 percent of total export value to the EU.
(b) Due to frequent code changes it is unclear what tariff code this item appears under in the TDCA.
Source: UNCTAD TRAINS.

What next for SACU?

This paper should not be seen as an attempt to drive a wedge between the seven SADC states that are negotiating together on an EPA, but at the same time it would be imprudent to assume that these will necessarily continue to a successful conclusion. So it would be sensible and forward-looking to consider alternatives that are 'outside the box'.

One such alternative is to consider overcoming the problem (if it emerges) by expanding SACU, at least to Mozambique which, otherwise, might be completely isolated in respect of effective regional agreements. The threat to Southern African regional integration is occurring at precisely the time that the new revenue-sharing formula and institutions has given SACU an opportunity and a legitimacy to look further afield. The stresses created by the EU may provide a strong incentive to consider new ways to cement regional economic integration.

A parallel paper at the November 2004 SAIIA workshop examined the feasibility of using SACU expansion *inter alia* as a way of neutralising the anti-regionalism bias introduced by the EPAs. Its conclusions are restated below. They do not seek to answer definitively whether expansion is in the broader economic interests of the existing SACU members and the potential new entrants or whether it is politically feasible. Both require detailed studies of the economies and polities not only of the SACU members but also of the potential new entrants.

Rather, the findings are based on research relating to a prior concern: is there sufficient *prima facie* evidence that SACU expansion could be realistic to warrant further action. Is it worthwhile 'flying a kite': raising the interest of potential new members that the SACU states would be willing to consider expansion? Would the required substantial economic studies justify the resources that they would need?

The answer given to this modest question is a positive one. There are clear problem areas that would require negotiation, but they *appear* to be quite limited. The obstacles would seem to be perfectly surmountable if the political will exists to overcome them. The principal problem areas assessed, and the broad findings of the underlying research, are as follows.

- ♦ **Revenue impact for SACU members:** in the main, enlargement would have positive revenue effects, and in those cases where it would be negative the scale is modest;
- ♦ **Revenue impact for new entrants:** this is less obviously favourable, but a shift away from trade taxes (which will be eroded by liberalisation) towards revenue based partly on domestic economic activity (as provided by the new SACU revenue-sharing formula) could be advantageous;
- ♦ **Competition effects for all parties:** these appear to be sufficiently localised that they could be dealt with through negotiation;
- ♦ **Impact on third parties:** the extent of either formal challenge in the WTO or bilateral pressure from states facing higher most-favoured-nation (MFN) tariffs in the new entrants appears to be sufficiently localised to be dealt with through negotiation.

Clearly, SACU expansion would have major implications for both existing and potential entrants which go well beyond a comparison of *current* trade policy. Given that EPAs will reduce the trade taxes that countries receive, for example, the SACU system that places more emphasis on domestic tax raising could well be attractive. So the point of comparison needs to be between an expanded SACU and a possible split of Southern Africa into two sub-

regions, each of them agreeing to liberalise substantially towards the EU but not necessarily towards each other.

At the same time, a failure to take action risks the region simply becoming a victim to stresses that have been either caused or exacerbated through the EU initiative on EPAs. Precisely because the issues involved in SACU membership are substantial and evidence on the extent to which EPAs are fracturing SADC may not emerge for some time, it is important to begin developing 'what if' scenarios. These would assess the feasibility of different regional configurations assuming different outcomes of the EPA talks. One thing we can assume is that the *status quo* will not persist. There must be an assumption that some Southern African states will join EPAs, but even if none did the *status quo* would change because some regional exports to Europe would suffer preference loss. Each of the plausible new configurations would make SACU expansion more or less feasible compared to the alternative. It would be wise to try to quantify these different levels of feasibility in advance of having to take decisions.

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UNCTAD TRAINS. *Trade Analysis and Information System* operated by the *World Integrated Trade Solution (WITS)*

Annex

Annex Table 1. Mozambique: highest-tariff imports from EU [a]: summary of liberalisation under the TDCA[b]

Sector	Already liberal-ised	Liberalisation by		Partial liberalisation – see Table 2 for schedule/extent									No liberal-isation
		2005	*2012*	*B*	*F*	*G*	*I*	*J*	*K*	*L*	*M*	*N*	
Agricultural	66	17	52										17
Fisheries													9
Manufactures	96	15	256										
Textiles/clothing	2	7	9				141	25	11	1			1
Footwear			1	34									
Motor	4		3		2	1					4	2	5
Total	**168**	**39**	**321**	**34**	**2**	**1**	**141**	**25**	**11**	**1**	**4**	**2**	**32**

Notes:
(a) The 781 highest-tariff HS6 imports from the EU in 2002 which cumulatively accounted for not more than 20 percent of total imports from the EU.
(b) The TDCA schedules are at 8 digits of the South African nomenclature; the Mozambican imports from the EU analysed here are at HS6. In calculating the figures in this table, only the latest possible scheduled liberalisation has been taken into account. So an HS6 import that has some 8-digit elements due for liberalisation in 2005 and some in 2012 has been counted under 2012. And one that has some 8-digit elements that were liberalised in 2003, others that will be liberalised in 2012, and others that will be partially liberalised by 2012 has been counted under 'partial liberalisation'. In addition, as items liberalised on entry into force of the TDCA are not listed at all in the schedules, it is possible that any or all of the HS6 imports analysed encompassed 8-digit sub-headings in the South African nomenclature that were liberalised in 2000.
Sources: Eurostat 2003; UNCTAD TRAINS; EC 1999.

Annex Table 2. Tanzania: highest-tariff imports from EU [a]: summary of liberalisation under the TDCA[b]

Sector	Already liberal-ised	Liberalisation by		Partial liberalisation – see Table 2 for schedule/extent									No liberal-isation
		2005	*2012*	*B*	*C*	*F*	*I*	*J*	*K*	*L*	*M*	*N*	
Agricultural	27	10	31										16
Fisheries													6
Manufactures	124	57	314										5
Textiles/clothing	1	3	9				60	28	10				1
Footwear			1	26									
Motor	6		1		2	2					3	1	1
Total	**158**	**70**	**356**	**26**	**2**	**2**	**60**	**28**	**10**	**0**	**3**	**1**	**29**

Notes:
(a) The 781 highest-tariff HS6 imports from the EU in 2002 which cumulatively accounted for not more than 20 percent of total imports from the EU.
(b) The TDCA schedules are at 8 digits of the South African nomenclature; the Tanzanian imports from the EU analysed here are at HS6. In calculating the figures in this table, only the latest possible scheduled liberalisation has been taken into account. So an HS6 import that has some 8-digit elements due for liberalisation in 2005 and some in 2012 has been counted under 2012. And one that has some 8-digit elements that were liberalised in 2003, others that will be liberalised in 2012, and others that will be partially liberalised by 2012 has been counted under 'partial liberalisation'. In addition, as items liberalised on entry into force of the TDCA are not listed at all in the schedules, it is possible that any or all of the HS6 imports analysed encompassed 8-digit sub-headings in the South African nomenclature that were liberalised in 2000.
Sources: Eurostat 2003; UNCTAD TRAINS; EC 1999.

Annex Table 3. Mozambique: major sensitive imports from the world[a]: South African liberalisation under the TDCA

HS6	Description	South African liberalisation under the TDCA[b]			
		Before 2008	*After 2008*	*Partial*	*None*
170111	Raw sugar, cane				X
271000	Petroleum oils&oils obtained from bituminous minerals,o/than crude etc				X
630900	Worn clothing and other worn articles				X
730511	Pipe,line,i/s,longitudinally subm arc wld,int/ext cc sect,dia >406.4mm	X			
730512	Pipe,line,i/s,longitudinally wld w int/ext circ c sect,ext dia>406.4mm	X			
730519	Pipe,line,I or s,int/ext circ cross sect,wld,ext dia >406.4mm,nes	X			
730890	Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406)		X		
842139	Filtering or purifying machinery and apparatus for gases nes		X		
850423	Liq dielectric transf havg a power handlg capacity exceedg 10,000 KVA		X		
853710	Boards,panels,includg numerical control panels,for a voltage < V>		X		
870323	Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc		X		X
870421	Diesel powered trucks with a GVW not exceeding five tonnes			X	
870899	Motor vehicle parts nes		X	X	X

Note:
(a) All imports from the world in 2002 which accounted for 0.5 percent or more of total import value and for which the SACU MFN tariff is potentially higher than the current national tariff (and greater than 10 percent).
(b) Where a cross appears in more than one column for the same item, this reflects different treatment under the TDCA of different 8-digit elements of the HS6 heading. And, as items liberalised on entry into force of the TDCA are not listed at all in the schedules, it is possible that any or all of these HS6 imports encompasses 8-digit sub-headings in the South African nomenclature that were liberalised in 2000.
Sources: ITC TradeMap; SADC Secretariat; EC 1999

Annex Table 4. Tanzania: major sensitive imports from the world[a]: South African liberalisation under the TDCA

HS6	Description	South African liberalisation under the TDCA[b]			
		Before 2008	*After 2008*	*Partial*	*None*
401120	Pneumatic tires new of rubber for buses or lorries			X	
620343	Mens/boys trousers and shorts, of synthetic fibres, not knitted			X	
630900	Worn clothing and other worn articles				X
730890	Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406)		X		
870210	Diesel powered buses with a seating capacity of > nine persons			X	
870323	Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc		X		X
870333	Automobiles with diesel engine displacing more than 2500 cc		X		X
870421	Diesel powered trucks with a GVW not exceeding five tonnes			X	

Note:
(a) All imports from the world in 2002 which accounted for 0.5 percent or more of total import value and for which the SACU MFN tariff is potentially higher than the current national tariff (and greater than 10 percent).
(b) Where a cross appears in more than one column for the same item, this reflects different treatment under the TDCA of different 8-digit elements of the HS6 heading. And, as items liberalised on entry into force of the TDCA are not listed at all in the schedules, it is possible that any or all of these HS6 imports encompasses 8-digit sub-headings in the South African nomenclature that were liberalised in 2000.
Sources: ITC TradeMap; SADC Secretariat; EC 1999