SADC-EU EPA
Outreach South Africa

SADC-EU ECONOMIC PARTNERSHIP AGREEMENT REGIONAL INTEGRATION IN AFRICA

ABOUT THIS PAPER

Regional integration is the process by which countries in a neighbourhood come together to pursue common objectives. It encourages cooperation between countries through the sharing of common resources and assets to achieve stability, peace and wealth. One of the main objectives of regional integration is to promote economic development and trade cooperation. This paper looks at how the Economic Partnership Agreement between the European Union (EU) and the SADC EPA Group of countries (SADC-EU EPA) provides a building block for regional integration in Southern Africa as well as facilitating greater linkages with the rest of the world.

SADC-EU EPA OUTREACH SOUTH AFRICA

The Economic Partnership Agreement between the European Union and the Southern African Development Community EPA Group, comprising Botswana, Lesotho, Mozambique, Namibia, South Africa, and Swaziland, came into effect in October 2016.

The SADC-EU EPA Outreach South Africa initiative supports the implementation of the agreement in South Africa by providing information on its potential benefits. It comprises the Delegation of the EU to South Africa, the Department of Trade and Industry, the Department of Agriculture, Forestry and Fisheries, and the South African Revenue Service. It is funded by the European Union.

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ABBREVIATIONS

ACP	African, Caribbean and Pacific
AEC	African Economic Community
AfCFTA	African Continental Free Trade Agreement
AU	African Union
BIAT	Boosting Intra-African Trade
BLNS	Botswana, Lesotho, Namibia and Swaziland
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EDF	European Development Fund
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EC	European Commission
EU	European Union
FTA	Free Trade Area
GI	Geographical Indication
ICT	Information and Communication Technology
ICTSD	International Centre for Trade and Sustainable Development
NTBs	Non-Tariff Barriers (NTBs)
OCTs	Overseas Countries and Territories
PIDA	Programme for Infrastructure Development in Africa
REC	Regional Economic Community
RISDP	Revised Regional Indicative Strategic Development Plan
RoO	Rules of Origin
SACU	Southern African Customs Union
SADC	Southern African Development Community
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TDCA	Trade, Development and Cooperation Agreement
TFTA	Tripartite Free Trade Area
WEF	World Economic Forum

INTRODUCTION

Regional integration is the process by which countries in a neighbourhood come together to pursue common objectives. It encourages cooperation between countries through the sharing of common resources and assets to achieve stability, peace and wealth. One of the main objectives of regional integration is to promote economic development and trade cooperation.

There are two main forms of integration – economic and political integration. Economic integration can take place through the formation of free trade areas, customs unions or monetary unions. Political integration needs a total integration process, which entails a single market, common social policies with common political institutions and sharing the same foreign policy.

In reality, geographical proximity as well as cultural, historical and ideological similarities, competitive or complementary economic linkages, and a common language among the partner countries are some of the desirable conditions for effective economic integration.

Regional trade integration has long been a strategic objective for Africa. There are long-standing regional integration initiatives between the countries of Southern Africa, including a customs union among the Southern African Customs Union (SACU) member states – Botswana, Lesotho, Namibia, South Africa and Swaziland – and a free trade area among some of the Southern African Development Community (SADC) countries. Members of the SADC Free Trade Area are Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

The conclusion of the Economic Partnership Agreement between the European Union (EU) and the SADC EPA Group of countries (SADC-EU EPA) provides a building block for regional integration in Southern Africa as well as facilitating greater linkages with the rest of the world.

The SADC-EU EPA came into effect in October 2016. The parties to the agreement include the SACU countries – Botswana, Lesotho, Namibia, South Africa and Swaziland – plus Mozambique. Under the agreement the trading relationship between the five SACU member states and the EU is now covered by one arrangement.

The new trade deal:

- Facilitates regional integration.
- Encourages the development of regional value chains.
- Facilitates trade by simplifying and harmonising customs administration.
- Provides a policy space for regional development.
- Provides safeguards to protect regional industries.

BENEFITS OF REGIONAL ECONOMIC INTEGRATION

The benefits of regional economic integration have been recognised by many countries in all corners of the world with initiatives being pursued to link markets together. The following are some potential positive results of economic integration:

Freer movement of goods (gains in trade) – integration can facilitate cross-border trade by simplifying procedures and opening up borders. This entails removing tariffs and non-tariff barriers for goods, such as simplifying rules of origin, reducing import and export licensing processes, removing import and export bans, and reducing onerous customs procedures that can limit cross-border trade. Lowering trade barriers can also contribute to reducing trade and operating costs for businesses operating in the region.

Exposure to a larger market (economies of scale) – the creation of a larger market by reducing barriers between the countries in a region can promote greater productivity and allow businesses to benefit from economies of scale. Integration can attract higher levels of investment to a region due to the appeal of a larger market.

Increased levels of intra-regional trade – facilitating the movement of goods among the members of a regional bloc can foster higher levels of intra-regional trade that enhances economic opportunities and competitiveness (World Bank, 2012).

Developing regional value chains – regional integration can encourage vertical specialisation and the emergence of regional value chains, thereby creating employment and promoting export diversification (World Bank, 2012). A larger regional market can also provide greater access to the increasingly globalised value chain production with the outside world.

Export diversification – integration can provide momentum for export diversification, away from traditional markets and traditional products. In Africa, for example, goods traded among regional partners tend to be more employment intensive than minerals (which tend to form the bulk of trade with partners outside of the continent). Thus, opening up regional trade can create new opportunities for export diversification and industrialisation (World Bank, 2012).

Economic development – linked to these benefits, economic integration can contribute to economic growth, the reduction of poverty and the creation of employment. This is particularly the case if the liberalisation of the movement of goods is supported by developing regional infrastructure and steps to coordinate in areas related to supporting services. For example, some integration agreements assist with creating regional financial transfer systems that reduce transaction costs and can help to make financial services more accessible (World Bank, 2012).

Promotes closer trade policy relations – as members develop common positions on trade-related issues in the region, they exchange ideas and information on policy approaches. This can be useful for trade negotiations with third parties outside of the region.

Promotes closer integration beyond trade – fosters good relations and closer cooperation between the members of the regional bloc. Such linkages can contribute to peace and stability in a region.

From an African perspective, integration can spur states to be able to develop at a more rapid pace, increasing productivity. African markets are comparably small and some states are further marginalised by being landlocked. Through the reduction and eventual removal of trade barriers within the region, states would have greater access to markets, reducing production and importation costs as well as increasing efficiency.

REGIONAL INTEGRATION IN AFRICA

African Union (AU) Agenda 2063 sets a goal to increase intra-African trade to 50% by 2050. The Agenda is a strategic 50-year development plan for Africa's sustainable socio-economic transformation and integration. One of the main objectives in the plan is the integration of Africa. The Agenda is committed to promoting the regional integration process through the establishment of continental institutions, full economic integration and the free movement of people on the continent. The plan can be summarised around the following seven aspirations:

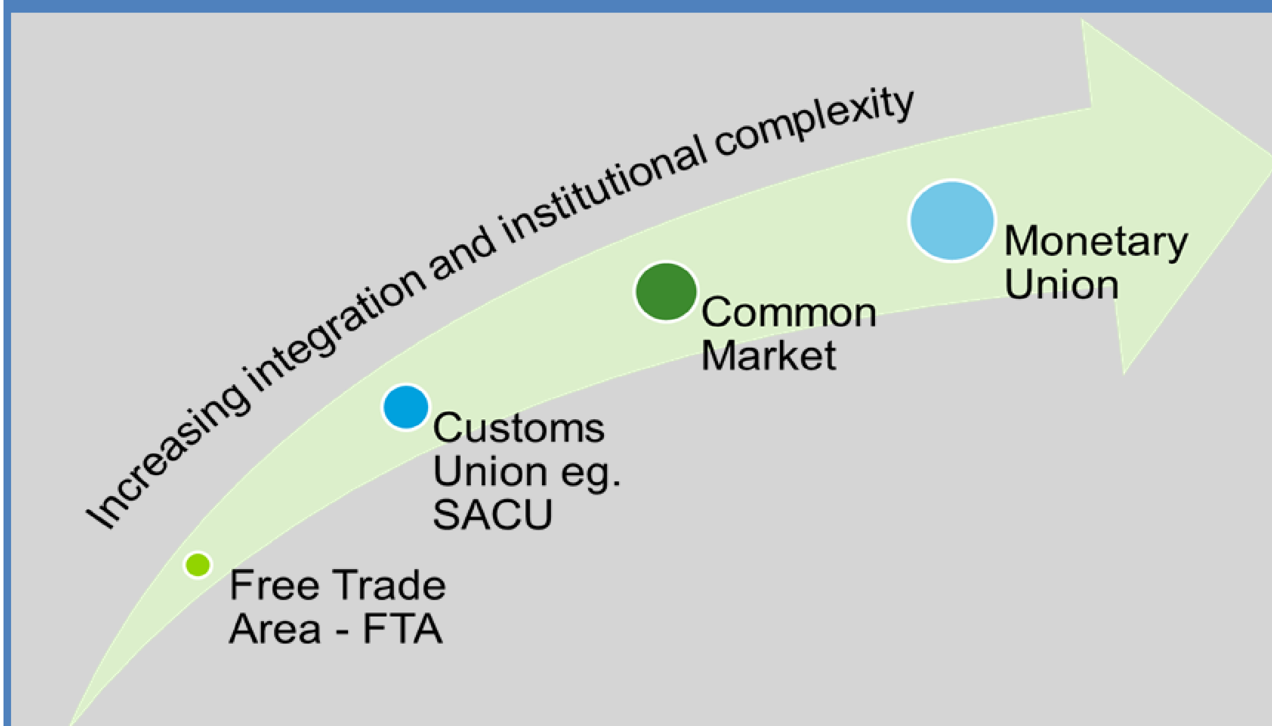
1. A prosperous Africa based on inclusive growth and sustainable development.
2. An integrated continent, politically united, based on the ideals of Pan Africanism and the vision of Africa's Renaissance.
3. An Africa of good governance, democracy, respect for human rights, justice and the rule of law.
4. A peaceful and secure Africa.
5. An Africa with a strong cultural identity, common heritage, values and ethics.
6. An Africa whose development is people-driven, relying on the potential of African people, especially its women and youth, and caring for children.
7. Africa as a strong, united and influential global player and partner.

The African agenda for regional economic integration is not a new one. Africa originally adopted the **linear integration model** that envisaged the process of integration moving through predetermined stages in line with specific timeframes for implementation. With each developmental stage achieved, states grow closer together economically and eventually politically, through the trade of goods and services as well as the movement of people and capital within the geographic area. Within the linear integration model, there are five basic stages of integration.

Preferential Trading Area > Free Trade Area > Customs Union > Common Market > Monetary Union

The European Union remains the most comprehensive example of a bloc that has progressed through the linear steps of integration.

FIGURE 1: LINEAR REGIONAL INTEGRATION PHASES



Source: Compiled by author

More recently the African regional economic integration approach has been modified to take on board concerns not captured in the traditional linear approach.

Developmental regionalism argues that market integration through tariff liberalisation requires and should be preceded by cooperation and coordination programmes to address real economy constraints. Developmental regionalism focuses on the real economy, and fosters political engagement and cooperation at an early stage of the integration process. It has seen African negotiators adopt an integration agenda under the Tripartite Free Trade Agreement that not only includes traditional market access issues but also looks at the simultaneous development of regional infrastructure and the industrialisation of member states. The recognition of ancillary pressure caused by increasing market access while not addressing the underlying economic supply-side constraints for production and trade were key considerations in the Tripartite discussions.

At a continental level, African leaders have endorsed the idea of an African Economic Community (AEC) that is built on the basis of existing Regional Economic Communities (RECs) as set out in Figure 2. This was clearly stated in the Abuja Treaty of 1991.

FIGURE 2: THE AFRICAN CONTINENTAL AGENDA

Phase 1 (5 years)	**Strengthen existing RECs and create new RECs in regions where they do not exist**
Phase 2 (8 years)	**Ensure consolidation within each REC, with a focus on liberalising tariffs, including removing non-tariff barriers**
Phase 3 (10 years)	**Set up in each REC a Free Trade Area and customs union (with a common external tariff and single territory**
Phase 4 (2 years)	**Coordinate and harmonise tariff and non-tariff systems among the RECs with a view to establishing a continental customs union**
Phase 5 (4 years)	**Set up an African common market**
Phase 6 (5 years)	**Establish the African Economic Community, including an African Monetary Union and a Pan-African Parliament**

Source: South African Department of International Relations and Cooperation

The aim of the AEC is to promote economic, social and cultural development as well as African economic integration to increase self-sufficiency, development and to create a framework for development, mobilisation of human resources and materials. The AEC further aims to promote co-operation and development in all aspects of human activity with a view to raising the standard of life of Africa's people, maintaining economic stability and establishing a close and peaceful relationship between member states.

THE AFRICAN UNION HAS RECOGNISED EIGHT RECs

Arab Maghreb Union (UMA)

Common Market for Eastern and Southern Africa (COMESA)

Community of Sahel-Saharan States (CEN-SAD)

East African Community (EAC)

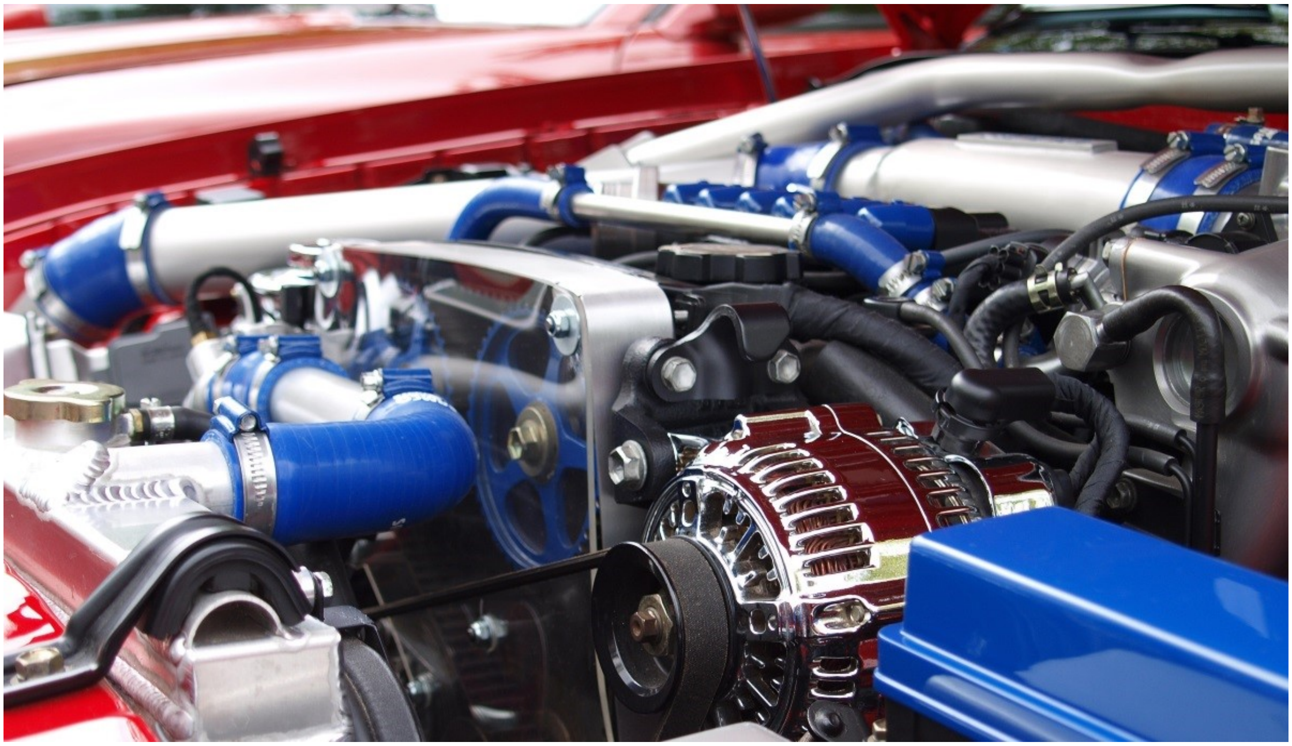
Economic Community of Central African States (ECCAS)

Economic Community of West African States (ECOWAS)

Intergovernmental Authority on Development (IGAD)

Southern African Development Community (SADC)

(Richard Frimpong Oppong)



Africa has seen increasing levels of integration in recent years but it still struggles with one of the lowest percentages of intra-regional trade worldwide – a mere 18% of total exports takes place within Africa, compared with 59% in Asia and over 69% in the European Union (Sow, 2018). This is mainly a result of a mix of trade policies that have been heavily focused on gaining access to markets outside of the continent and regional integration efforts that were not fully implemented.

With 55 economies with relatively small populations – about half of Africa's countries have fewer than 10 million inhabitants – and a third of the countries being landlocked, Africa would gain immensely from true regional integration. Regional economic communities have a stronger voice internationally and combined resources allow smaller African countries to take informed positions at international negotiations, for example trade negotiations.

According to the World Economic Forum's Africa Competitiveness Report 2013 (WEF, 2013), key barriers that prevent Africa from reaping the full benefits of international trade, and hence increased regional integration are inefficient border administration and a lack of adequate infrastructure, both in transport and information and communication technologies (ICTs). Market access is relatively open and the regulatory environment is conducive to trade in comparison with other regions (although regional differences remain in Africa).

Nevertheless, it still takes almost twice as long to trade across borders in Sub-Saharan Africa compared with other regions, such as Latin America and the Caribbean and Southeast Asia. Thus, much remains to be done to fully reap the benefits of regional integration for Africa.

African Continental Free Trade Area

The African Continental FTA (AfCFTA) is an initiative under the African Union (AU). It aims to unite all AU members under one trade agreement that builds on other continental initiatives, such as the Tripartite Free Trade Area (TFTA). The AfCFTA is a priority initiative under the AU's 2063 Agenda and aims to contribute to the broader vision of a prosperous Africa based on inclusive growth and sustainable development. The Agreement's aspiration is based on the implementation of policies aimed at achieving systematic convergence and fostering economic integration of Africa into the world economy as an equitable partner. Successful implementation of the AfCFTA is expected to increase intra-African trade to approximately $35 billion by 2022.

Negotiations of the AfCFTA started in 2015 in Johannesburg, South Africa and the Agreement was signed by 44 AU members in Kigali in March 2018. The AfCFTA will constitute the largest free trade area in the world in membership (with a potential of 55 states). It will span a market with a population exceeding one billion people and a combined GDP of more than US$3.4 trillion, according to the AU (ICTSD, 2018).

The Agreement signed in Kigali includes the legal framework for the AfCFTA but further work is required to finalise the schedules of commitments on goods and services for member states as well as the product-specific rules of origin. The timeframe for finalisation of these issues is January 2019 with phase two of the AfCFTA negotiations to be completed by January 2020.

AfCFTA members have agreed to liberalise 90% of the tariff lines for goods trade, while keeping the flexibilty to classify the remaining 10% of tariff lines as "sensitive" products with longer liberalisation periods, or as "excluded" products that will keep the current tariff levels (ICTSD, 2018).

The approach on services trade is one of progressive liberalisation using a positive list for nine priority sectors, in the first instance. A positive list approach requires countries to indicate those sectors that they are prepared to liberalise. The negotiations will be accompanied by the development of regulatory cooperation and sectoral disciplines, according to the AfCFTA Protocol on Trade in Services.

Rules of origin are required under the AfCFTA to determine those products that qualify for preferential treatment. It is expected that they will include general rules as well as a list of product-specific rules.

The AfCFTA Protocol on Trade in Goods also covers other issues:

- Customs cooperation and mutual administrative assistance.
- Trade facilitation.
- Non-tariff barriers.
- Technical barriers to trade.
- Sanitary and phyto-sanitary measures.
- Transit.
- Trade remedies.

Members have also agreed to a dispute settlement mechanism to apply under the AfCFTA.

The AfCFTA will enter into force 30 days after 22 countries have deposited their instruments of ratification. At the time of this report, Rwanda and Ghana had already ratified the Agreement.

It is worth noting that a number of AU members did not sign the AfCFTA in Kigali. This includes Nigeria, South Africa, Tanzania, Zambia and other SACU countries (except Swaziland). These countries had participated actively in the negotiations to date. Nigeria noted that it needed more time for consultations with domestic stakeholders and South Africa was not able to sign due to constitutional requirements in relation to approval of international agreements.

"Of Africa's total GDP at purchasing power parity in dollar terms of $6.7 trillion (nominal GDP is $3.3 trillion), the 44 countries that signed the ACFTA account for 65.1%, of which Egypt accounts for 18.9%. South Africa and Nigeria account for 11.9 percent and 17.6 percent respectively. Evidently then, the absence of Nigeria and South Africa from ACFTA, together accounting for 43% of intra-Africa imports and 29.5% of Africa's GDP, remains a matter of some concern. A first challenge for the ACFTA then is to get Nigeria and South Africa to sign the Agreement." – *Francis Mangeni (Daily Monitor, 2018)*

The European Union (EU) supports the establishment of AfCFTA and welcomed it as a historic decision. The EU reaffirmed that it is ready to support the implementation of the AfCFTA in the spirit of the AU-EU partnership. African trade negotiators in negotiating the EPAs with the EU gained valuable experience that is now being used in the AfCFTA process. EPAs are already bringing technical and financial assistance, capacity-building and specific expertise to African countries and regions, as noted by the EC.

"EPAs also promote liberalisation within African regions and provide for flexible rules of origin that encourage value chains. All this will help African countries to implement the Continental Free Trade Agreement. As a Free Trade Agreement, the AfCFTA once implemented will be perfectly compatible with other FTAs, including EPAs." – *European Commission*

As the process of finalising the tariff commitments of AfCFTA members continues, it will be important to consider an alignment of liberalised products with the EPAs so that there is no unintended discrimination against African partners in favour of third countries.

Although intra-African trade is starting on a low base, progress is being made. The integration programme, although seemingly slow, is being implemented at a pace that is amenable for the stakeholders involved. The AfCFTA signing provides much needed momentum. The importance of the progress being made is due to an unprecedented political will on the part of AU members to cooperate with one another and foster a more inclusive society for all Africans, starting with economic fundamentals in infrastructure development and a reduction of trade barriers for member states. For the first time in modern African history there is the possibility of a more united Africa.

Realising the potential of the AfCFTA will require simultaneous measures to boost infrastructure and address non-tariff barriers (NTBs), as noted by Francis Mangeni, Director of Trade and Customs, COMESA Secretariat (Daily Monitor, 2018). There is still a lot of work to be done before the Agreement will be operational. It will require African governments to create enabling environments for industrialisation, innovation and export diversification in order to take advantage of the economies of scale of a single African market and the removal of trade barriers.

Other Relevant African Initiatives

The AU's Action Plan for **Boosting Intra-African Trade** (BIAT) provides a broad context in which the AfCFTA negotiations are taking place. It identifies the following clusters of priority issues:

1. Trade policy.
2. Trade facilitation.
3. Productive capacity.
4. Trade-related infrastructure.
5. Trade finance.
6. Trade information.
7. Factor market integration.

Under each cluster, a series of activities were developed together with indicative timeframes and an indication of the person responsible for implementation. This Action Plan is regularly monitored by AU member states, including at the Trade Ministers meetings. It has a broad target of doubling intra-African trade from 2012 to 2022. The BIAT recognises a "developmental integration" approach that includes trade liberalisation, industrialisation and infrastructure development.

The **Plan of Action for the Accelerated Industrial Development of Africa** (2008) recognises that Africa accounts for only a negligible share of global industrial output and manufactured exports. Industrialisation is described as the "essence of development" and the Action Plan attempts to address the root causes for Africa's poor track record with this.

It sets out six priorities and lists detailed initiatives to be taken at the national, regional and continental levels in the following areas:

1. Policy on product and export diversification, natural resources management and development.
2. Infrastructure development.
3. Human capital development and sustainability, innovation, science and technology.
4. Development of standards and compliance.
5. Development of legal, institutional and regulatory framework.
6. Resource mobilisation for industrial development.

Progress reports on the implementation of the Plan of Action were envisaged every two years from high-level panels to be established at the regional level. The reports presented to date have unfortunately shown little change in the African standing in the production and trade of manufactured products. The Plan of Action has received support from the United Nations Industrial Development Organisation and industrialisation was recognized as a priority as part of the Africa-EU partnership.

To support one of the priority areas identified in the Plan of Action for the Accelerated Industrial Development of Africa, the **Programme for Infrastructure Development in Africa** (PIDA) was adopted in 2010. It is an initiative led by the African Union Commission, NEPAD Secretariat and African Development Bank to develop a vision, policies, strategies and a programme for developing priority regional and continental infrastructure in transport, energy, trans-boundary water and ICT.

PIDA is viewed as crucial to underpin the achievement of other African agreements, including the Abuja Treaty, as it will bring down costs of network services, improve competitiveness and facilitate trade. Significant work has already been done under PIDA to identify priority infrastructure projects and to develop proposals for attracting financing. It is estimated that the PIDA projects will require around $12 billion to implement.

Southern African Development Community (SADC)

In 1992 the Southern African Development Coordination Conference was transformed into a Southern African Development Community (SADC), with a focus on economic integration. It has 16 member states: Angola; Botswana; Comoros; Democratic Republic of the Congo; Lesotho; Madagascar; Malawi; Mauritius; Mozambique; Namibia; Seychelles; South Africa; Swaziland; Tanzania; Zambia; and Zimbabwe. Eight of these are among the poorest in the world, and six are landlocked.

SADC's mandate is to promote and achieve equitable and sustainable development through increased regional integration. Its action agenda focuses on trade-related issues, infrastructure, industrialisation, food security, natural resources management, environment, gender and health.

The SADC free-trade area was established in 2008. Its full implementation remains a priority, particularly the removal of non-tariff barriers and encouraging key members to join (Angola and Democratic Republic of Congo). Next steps in the regional integration agenda are aimed at developing and promoting regional industrial production capacity and improving regional infrastructure.

The attainment of minimum conditions for the SADC FTA was achieved in 2008 when 85% of intra-community trade attained zero duty. Maximum tariff liberalisation was achieved in January 2012 when the tariff phase-down for sensitive products was completed. The SADC Trade Protocol recognises differences in economic size and levels of development among its members, including granting longer tariff phase-down periods to least developed countries. The SADC trade regime also recognises the designation of sensitive products, including sugar, dairy products, textiles, motor vehicles and others. Some FTA members have lagged behind in the implementation of their tariff phase-down commitments and have received derogations.

In 2015, SADC Member States adopted the Industrialisation Strategy and Roadmap as well as the Revised Regional Indicative Strategic Development Plan (RISDP) to guide the next phase of integration and economic development of the region.

The SADC Industrialisation Strategy and Roadmap aims at accelerating the momentum towards strengthening the comparative and competitive advantages of the various economies of the SADC region. It is anchored on three pillars: industrialisation, competitiveness and regional integration.

The Revised Regional Indicative Strategic Development Plan (RISDP) is a five-year plan that guides the implementation of all SADC programmes from 2015-2020. During the period 2015-2020, SADC will strive to progress from being factor-driven to being investment-driven, while between 2021 and 2050 the region will aim to advance to being an innovation-driven economy.

The Revised RISDP identifies four main priorities to be pursued by the region from 2015-2020.

- **Priority A** seeks to promote industrial development and market integration through, among other things, strengthening the productive competitiveness and supply side capacity of member states as well as improving movement of goods and facilitating financial market integration and monetary cooperation.
- **Priority B** is on provision and improvement of infrastructure support for regional integration.
- **Priority C** is on promotion of special programmes under education and human resource development; health, HIV and AIDS and other communicable diseases; food security and trans-boundary natural resources; environment; statistics; gender equality; and science, technology and innovation and research and development.
- **Priority D** underpins the other three areas and is focused on peace and security.

Southern African countries have not fully exercised their bargaining power or reaped the benefits of trading and engaging in a globalised world. While accelerated growth is viewed as a key driver of poverty reduction, barriers (both tariff and nontariff) to the free movement of goods and services frustrate this growth. These include delays at border posts and infrastructure deficiencies.

The SADC Industrialisation Strategy and Roadmap as well as the Revised RISDP are now being implemented, including with support from the EU and other international cooperation partners.

Southern African Customs Union (SACU)

The assumption is that SACU will be the axis that drives regional integration in Southern Africa as it is already an "institutionally coherent and economically integrated core group, which could be gradually expanded to integrate more countries in the region". – McCarthy, Kruger, and Fourie, 2007

SACU is a well-established customs union that includes an operational common external tariff with the rest of the world. SACU Members have assumed a single group position in trade negotiations since the 2002 Agreement and are progressing towards a comprehensive common trade policy.

By virtue of their membership in SACU, the smaller member states (Botswana, Lesotho, Namibia, and Swaziland – BLNS) are entitled to a share of customs revenue. South Africa has a historical obligation to support them owing to the economic polarisation their membership of SACU apparently causes and their historical cession of trade and industrial policy autonomy to South Africa. The revenue-sharing formula is at the heart of SACU and its review is particularly contentious.

The SACU work programme is currently focused on issues related to customs cooperation, revenue management, intra-SACU policy development, research, and support for trade negotiations. Part Eight of the SACU Agreement 2002 deals with common policies, including industrial policies and strategies (Article 38), agricultural policies (Article 39), competition policies, laws and regulations (Article 40), and policies and instruments to address unfair trade practices (Article 41).

EUROPEAN UNION SUPPORT FOR REGIONAL ECONOMIC INTEGRATION IN SOUTHERN AFRICA

Development partnership

The EU partnership with Southern African ACP (African, Caribbean and Pacific) countries is based on the Cotonou Partnership Agreement of 2000, as revised in 2005 and 2010. At its heart the Cotonou Agreement seeks to help ACP members integrate into the global economy.

The overarching objective of EU support to Southern Africa is a stable, peaceful, prosperous region. It is widely acknowledged that economic integration featuring open and fair markets is among the key success factors for achieving stability, peace and prosperity. The European Union's establishment had similar aims and a similar politico-philosophical basis (EC, 2017).

The capacity of regional economic communities in Africa has been strengthened by significant development support provided by the EU. EDF 11 prioritises the improvement of infrastructure in Southern and Eastern Africa in line with the developmental integration approach. Other priorities include funding for economic activities such as transport, communication and energy.

The EU has also committed funds to support the implementation of EPAs, thus creating a link between its development activities and trade agenda in Southern Africa.

EU development assistance under the 10th and 11th European Development Fund programmes has had three main priorities for Southern Africa:

- **Regional economic integration.**
- **Peace, security and regional stability.**
- **Regional natural resource management.**

Much of the support has been provided to the Secretariats and Member States of regional economic communities, such as SADC and COMESA.

Implications of the EPAs

The regional approach taken in the EPAs can contribute to encouraging more trade between African partners, including through the development of regional value chains and EU support for industrialisation. The EPAs, however, have been criticised for not promoting regional integration in the ACP countries. One example cited is the configuration of the regional groupings for the Agreements. For example, SADC Member countries are part of four EPA groups. The SADC group consists of Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland (with Angola as an observer). Other SADC members form part of a separate EPA, the Eastern and Southern Africa (ESA) group. Tanzania has been participating in the EAC EPA negotiations. The DRC is participating in the Central African EPA Group.

The various EPAs are, however, cognisant of the situations that the African RECs find themselves in and each is tailored to the relevant REC's most pressing priorities. The golden threads running through all five EPAs are: furthering regional integration with an aim of continental integration, promoting sustainable development (both through manufacturing and human capital), and gradual integration into the global economy (also meaning gradual trade liberalisation).

A key principle underpinning the SADC-EU EPA is to ensure consistency with regional development policies and regional integration programmes. The chapter on sustainable development in the SADC-EU EPA recognises that regional integration is an essential part of the partnership.

Considering the African economic integration agenda outlined, there are additional implications of the EPAs beyond the structure of the negotiating groups. It has become accepted by African countries that trade is a tool of industrial policy and that the overarching emphasis needs to be put on strengthening productive capacity if higher levels of inclusive economic development are to be achieved. It is crucial that the EPAs are viewed as supporting these broader objectives.

At a more specific or technical level, the following implications of the EPAs should be carefully considered in the context of African integration, including the ongoing work under the AfCFTA:

Rules of Origin: There are some differences in the rules of origin (RoO) set out in each of the African EPAs; these also differ with existing rules applied by the RECs as well as under other bilateral trade agreements between African countries and third parties. This has implications for the administration of trade as well as in the decisions made by firms about the location of production and sourcing of inputs.

Coverage/Scope: If the EPAs proceed with the next phase of negotiations covering new generation trade issues, such as trade in services, competition and investment, it would be advancing well beyond the current scope of the engagement within the RECs in these areas. The result could be that European partners would be engaging with African partners on better terms than their neighbours. This would clearly undermine the objective of increasing intra-African trade. There is also the potential for adoption of European norms/preferences by countries that are probably not well-suited or resourced to implement them.

Regulatory Harmonisation: While there is no firm commitment to harmonisation of technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures under the African EPAs, it is an objective of the agreements. This could result in pressure to move towards European standards, which in some instances might not be appropriate for African countries, given their relative levels of development. Such an approach could also undermine attempts underway in the RECs to harmonise regulations, including standards, at a regional level in Africa. It may result in European standards being favoured above those developed locally or even international ones that are more appropriate for African regions.

Policy Space: Each of the African EPAs includes some restrictions on various trade policy tools that could be used to pursue industrial development and structural transformation, such as export taxes and infant industry protection. These provisions could limit the trade policy options available to African countries in implementing their economic development agendas. In some instances, there would be the need to consult first with the European Commission before certain measures could be put in place.

Capacity: African countries have limited financial and human resources available for trade policy and negotiations. Given the implementation requirements of the EPAs, as well as the work that is anticipated in the next phase under the rendezvous clauses, it can be expected that considerable attention will still be needed from African countries for the trading relationship with the EU. This will necessarily take away from the resources available for African economic integration processes.

A study of exporting firms in South Africa has shown that those that trade with Europe (and North America) are likely to employ more people and to benefit from skills and technology transfer as compared to those who only trade with other markets.

While these issues may appear to be challenges, there is the potential for the EPAs to enhance the structural transformation agenda of the continent both through the trade provisions as well as the accompanying development cooperation packages. For example, the EPAs provide significant market access opportunities for African exporters. A study of exporting firms in South Africa has shown that those that trade with Europe (and North America) are likely to employ more people and to benefit from skills and technology transfer as compared to those who only trade with other markets (Rankin, 2013). This might not be the case for all African exporters but it demonstrates the potential linkages between the trade preferences provided by the EPAs and the economic development objectives of Africa. By securing these trade preferences through final EPAs, African countries have also ensured market access that retains competitiveness against others that have trade agreements or are in negotiations with the EU.

Other potentially positive implications of the EPA trade provisions include:

- Built in mechanisms to enhance cooperation and collaboration in the removal of non-tariff barriers, such as customs issues and standards.
- Better access to some inputs for the agriculture and manufacturing sectors as the result of reduced tariffs on European imports.
- Cheaper high technology imports from the EU could also boost services industries, especially in knowledge intensive sectors that are crucial for upgrading the value chain, and promoting technology transfer between the parties to the EPAs.
- Opportunities to enhance the competitiveness of African economies through liberalisation of network services sectors (e.g. energy, transport, telecommunications) that underpin industrial development, trade and broader economic development. Under the rendezvous clauses there is a similar opportunity to consider improvements to the investment climates of African EPA states.

Similar potential exists in the development cooperation programmes that are envisaged in the EPAs and are starting to be rolled out as mentioned above. In the priority areas identified by each of the agreements, there is significant alignment with the activities set out in the AU Action Plan for Boosting Intra-African Trade, for example. If these resources are channelled effectively and with clear guidance from African beneficiaries then they could make a valuable contribution towards achieving the broader integration and structural transformation agenda of the continent.

SADC-EU EPA: A BUILDING BLOCK FOR REGIONAL DEVELOPMENT

Ten SADC countries have entered into trade arrangements with the European Union under the Economic Partnership Agreements. In addition to the SADC EPA Group, the ESA EPA has been implemented by Madagascar, Mauritius, the Seychelles and Zimbabwe.

Although there is not one EPA for all the SADC countries, there is scope to use the agreements to encourage linkages in the region and develop value chains, particularly those designed to increase exports, or those linked to European multinational companies.

To promote regional integration, the SADC-EU EPA makes sure that the Southern African Customs Unions functions with a common external tariff towards products originating in the EU, something which has not been the case until now (EC, 2016). It has also been agreed that SADC EPA group members grant each other what they have granted the EU under this Agreement. This will foster further regional integration, one of the objectives of the SADC-EU EPA.

Supporting SACU – the world's oldest customs union

SACU Common External Tariff preserved: The EPA has preserved the common external tariff of SACU. The SACU common external tariff entails that all goods imported into the region from the rest of the world shall apply a common pool of customs duties as per the total volume of external trade and excise duties to be based on the total production and consumption of excisable goods. Thus, one tariff schedule is used for all imports to the region from the EU. In the EPA, the article on the common external tariff states that "the provisions of this Schedule…expressed in terms of the common nomenclature of SACU as contained in the customs and excise tariff … shall be governed by the common nomenclature of SACU."[1] This common external tariff and excise regime provides a cornerstone of the customs union and SACU's relationship with third parties.[2] It also harmonises the import tariffs imposed on imports from the EU and re-establishes the common external tariff of SACU.

Common Decision-Making Bodies: The EPA sets up common decision-making bodies responsible for the implementation and monitoring of the agreement. Thus, the task of these joint institutions entails not only monitoring implementation of the Agreement, but making proposals for the review of priorities outlined in the Agreement. SACU Member States and Mozambique engage as a group with the European Union on implementing the EPA. These joint institutions include the Joint Council and the Trade and Development Committee. The Joint Council shall be composed of the relevant members of the EU Council and the European Commission or their representatives, and the relevant Ministers of the SADC EPA States. This supports the deepening of a common trade policy in SACU.

Centralised quotas: The agreement calls for centralised quota management by SACU members for imports from the EU. This encourages greater levels of cooperation in SACU through tools such as quotas.

Trade facilitation: The EPA encourages cooperation among the parties on customs administration, including rules of origin. The Agreement provides that parties "cooperate in the area of customs and trade facilitation with a view to ensuring that the relevant legislation and procedures, as well as the administrative capacity of the customs authorities, fulfil the objectives of effective control and the promotion of trade facilitation". This builds on Article 23 of the SACU Agreement that requires members to improve trade facilitation, including through the simplification and harmonisation of trade documentation and procedures. Trade facilitation measures support closer regional integration through regional trade infrastructure, such as trade corridors, but also by supporting bilateral cooperation at the border.

[1] *The Economic Partnership Agreement between the SADC EPA States and the European Union and its member states, (SADC-EU EPA) 2016, Part II: Tariff Schedule of SACU – Relation to the Common Nomenclature of SACU.*

[2] *South Africa Import Tariffs - https://www.export.gov/article?id=South-Africa-import-tariffs*

EPA provides policy space for regional development

Under the EPA there are safeguards in place to protect regional industries if imports of a specific product increase to such an extent that they cause injury or disturbance. The agreement has no less than five bilateral safeguards. This protection goes beyond that provided under the World Trade Organization rules. In some cases it will continue to apply indefinitely.

Infant industries

For infant industries, the safeguard provisions apply for the purpose of development. The Agreement provides that: "where a product originating in the EU, as a result of the reduction of duties, is being imported into its territory in such increased quantities and under such conditions as to threaten the establishment of an infant industry, or cause or threaten to cause disturbances to an infant industry producing like or directly competitive products."[3]

Safeguard measures adopted shall take the form of the levying of additional duties. These safeguard measures may be applied for a period of up to eight years and may be further extended by a decision of the Joint Council. This flexibility enables government to adjust its duties to offset an unexpected surge in imports from the EU. In addition to that, it protects the domestic market from surges in imports.

Agricultural safeguards

There is an agreed list of agricultural products in Annex IV that triggers the safeguard. The article states that "a safeguard measure in the form of an import duty may be applied if, during any given twelve-month period, the volume of imports into SACU of an agricultural product listed in Annex IV originating in the EU exceeds the reference quantity for the product therein indicated."

In addition to that, the EU has committed not to subsidise their agricultural export products.

Food security safeguards

In terms of the food security safeguard, the article states that "where essential for the prevention or relief of critical general or local shortages of foodstuffs or other products in order to ensure food security of a SADC EPA State and where this situation gives rise or is likely to give rise to major difficulties for such a SADC EPA State, that SADC EPA State may adopt safeguard measures in accordance with the procedure set out in paragraph 7(b) to (d), 8 and 9 of Article 34."

This measure is subject to an annual review and will be removed once the circumstances normalise.

Special safeguard

The EPA also includes a special safeguard for the BLNS countries. This transitional safeguard is triggered when one of the sensitive liberalised products listed in Annex V is under threat from increased EU import quantities which results in injury in any of the BLNS countries. The BLNS country is entitled to apply a transitional safeguard measure in the form of duties on the product concerned. However, that duty may not exceed the Most Favoured Nation applied rate at the time of introducing a zero-duty tariff rate quota.

Bilateral safeguard provision

The Bilateral Safeguard Provision in the EPA is in the form of a general clause which allows parties to implement safeguard measures when there is serious injury to the domestic industry producing like or directly competitive products, disturbances in a sector of the economy producing like or directly competitive products, and disturbances in the markets of like or directly competitive agricultural products. The safeguard measures applicable under this article include suspension of the further reduction of the rate of import duty for the product, increase in the customs duty on the product, and the introduction of tariff quotas. These measures will apply indefinitely on all products subject to liberalisation.

[3] *SADC-EU EPA: Article 38 Infant industry protection safeguards*

Export taxes

In the EPA, export taxes can be introduced on exports to the EU under certain circumstances, where justified for specific revenue needs, protection of infant industries, the environment, essential for the prevention or relief of critical local shortages of foodstuffs, and essential to ensure food security and industrial development. In such a situation, SADC members of the EPA may introduce, after consultation with the EU, temporary customs duties or taxes.

Spurring growth through trade

Developing regional value chains in Southern Africa

SADC EPA countries will be able to access cheaper inputs from the EU as part of the industrialisation of the region, including through greater engagement in global value chains. This is particularly important for exporters who often rely on such access to contribute to competitiveness.

Increased competition from the EU, coupled with trade defence instruments, could spur the development of more cost-effective regional value chains.

Rules of origin

There are also opportunities to take advantage of the more flexible rules of origin under the agreement.

The agreed rules of origin under the EPA provide a clear basis for trade between the two regions and a higher degree of legal certainty for traders. The rules now allow for extended cumulation[4] that can facilitate intra-regional trade and industrialisation across the region. Generally, cumulation allows for products originating in country A to be processed or added to in country B, as if they originate in country A, with the final product being from country A. The SADC-EU EPA provides for bilateral cumulation and diagonal cumulation.

Bilateral cumulation occurs when a trade agreement contains a provision allowing the parties to cumulate origin. This means that "materials originating in the EU within the meaning of this Protocol shall be considered as materials originating in a SADC EPA State when incorporated into a product obtained in that SADC EPA State".[5]

Diagonal cumulation occurs between more than two countries with identical rules of origin and cumulation of origin. For the EPA, diagonal cumulation allows materials originating in a SADC EPA country, the EU, other ACP EPA countries, or in Overseas Countries or Territories (OCTs), to be considered as materials originating in the SADC EPA country when the materials are incorporated into a product, provided the working or processing carried out goes beyond the operations referred to in Article 9(1) of the Protocol. Even if there are more than two countries involved in the manufacture of a product, the country of origin will be where the last work or processing was done.

The single transformation rule of origin for clothing and textiles provides an opportunity to increase exports in this sector to the EU from the SADC EPA countries. The EPA operates under a single transformation rule of origin in which state parties are allowed to use imported fabrics for clothing apparel to be considered as originating from that state. The single transformation rule has advantages, particularly for countries that lack the capacity to meet the double transformation standard for clothing. It allows for SADC apparel exporters to source fabrics and other intermediate inputs from any country in the world and qualify for preferential tariff-free exports to the EU (Iwanow, 2011). A single transformation rule promotes and increases intra-SADC trade, promotes competition and regional integration with global value chains.

[4] *Cumulation allows a state to claim originating status for components that did not originate in that country, but are used in the production process in that country.*

[5] *SADC EU EPA Article 3 : Bilateral Cumulation.*

The manufacturing sector is now increasingly globalised and characterised by fragmented production patterns whereby assembly of components and final products can take place in many different locations and countries. As such the use of simplified rules of origin such as single transformation facilitates and promotes integration and competitiveness of SADC textile and clothing producers in the global value chains. In a nutshell the provision of preferential market access coupled with relaxed rules of origin has resulted in phenomenal exports increases. (Iwanow, 2011)

Promotion of value addition

It is clear that the existing traded products show the potential for diversity in the relationship between the EU and SADC, including as partners in global supply chains such as in the automotive sector and for important development sectors such as agro-processing. The EPA provides opportunities to increase the range of products traded and to grow from the already strong base.

Agriculture: It is important to note that much of the new market access provisions under the SADC-EU EPA are in agricultural and fisheries products. The agreement further guarantees duty-free, quota-free access to the EU market for the BLNS countries. South Africa benefits from better market access provisions than those enjoyed under the Trade, Development and Cooperation Agreement (TDCA). This new access extends to improved trading terms for wine, sugar, fisheries products, flowers and canned fruits, including through the allocation of tariff rate quotas. In addition, South Africa has concluded a bilateral protocol on the protection geographical indications (GI) and on trade in wines and spirits.

As a result, the agricultural products such as Rooibos, Honeybush and Karoo meat of origin are protected. Furthermore, the Protocol also protects wine names such as Paarl, Robertson and Stellenbosch. South Africa agreed to protect more than 250 EU names in food, wines and spirits. The SADC-EU EPA members have also agreed not to apply any export subsidies for agricultural products. Also, the EU has agreed to phase out export subsidies to agricultural products. The agreement became effective on 1 November 2016.

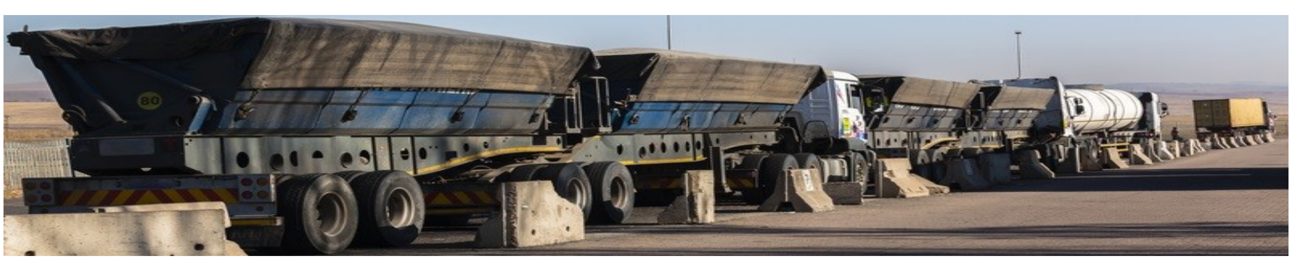
Fisheries: The SADC-EU EPA liberalises all tariff lines related to fish. The SADC EPA members countries were granted full and immediate market access into the EU. However, there are some sensitive fish lines that have not been liberalised. Parties have agreed to gradually phase them out over time.

CONCLUSION

There is no denying that the negotiations of the EPAs between the EU and African groups were difficult at times, including as they relate to the ambitious regional economic integration agenda of the continent. The final SADC-EU EPA is, however, well placed to make a positive contribution to the objectives underpinning regional integration in Southern Africa, such as the development of regional value chains and the promotion of value addition in industrial sectors.

The asymmetrical market access for exports from the SADC EPA Group countries to the EU, flexible rules of origin, extensive trade defence tools, and cooperation provisions on issues related to standards, trade facilitation and customs, all reinforce the aim of the EPA supporting regional integration.

Members of the African Union have been pushing ahead with their own trade negotiations and 44 countries signed the Agreement Establishing the Continental Free Trade Area in March 2018. The EU expressed strong support for this initiative, which is a focus of regional economic integration activities under the European Development Fund. There is still some way to go before the AfCFTA will be operational but it has reconfirmed the commitment of Africa to an integration agenda that is expected to have considerable benefits for the economic development of the continent in the future. This can only be in the best interests of both Africa and its development partners, like the EU.



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