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EPA and Fiscal Transition in ECOWAS Countries

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Abstract

Negotiations between the European Union (EU) and the African, Caribbean and Pacific (ACP) states on the Economic Partnership Agreements (EPAs) began in 2002. The EPAs are intended to replace the most recent form of partnership framed by the Lomé convention, as it was seen to infringe the rules of the WTO. This study examines trade and fiscal implications of the EPA between the EU and the Economic Community of West African States (ECOWAS). It compares and discusses the evidence from empirical studies trying to assess these effects. In addition, it examines how West African countries prior to the EPA are preparing for the necessary transition of their fiscal regimes.

The main conclusions drawn from the study are the following: the EPA will imply significant revenue losses for West African countries and divert trade from extra- and intra-regional suppliers in favour of EU suppliers. It is doubtful whether these countries will be able to compensate entirely for losses in tariff revenue by reforming their fiscal systems. In order to truly profit from the dynamic gains from an EPA, West African countries will need financial and technical assistance provided by the EU. The EPA may not deepen regional integration nor promote South-South trade.

Abbreviations

ACP	African, Caribbean and Pacific
CARIFORUM	Caribbean Forum of the ACP Countries
CET	Common External Tariff
CGE	Computable General Equilibrium
EBA	Everything But Arms
ECOWAS	Economic Community of West African States
EEC	European Economic Community
EDF	European Development Fund
EPA	Economic Partnership Agreement
EPADP	Economic Partnership Agreement Development Program
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	General System of Preferences
HDI	Human Development Index
IMF	International Monetary Fund
ITC	International Trade Centre
LDC	Least Developed Country
MFN	Most Favoured Nation
PTA	Preferential Trade Agreement
ROW	Rest of the World
SPS	Sanitary and Phytosanitary
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial and Development Organisation
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WAMZ	West African Monetary Zone
WTO	World Trade Organisation

1 Introduction

1.1 Background

The partnership between the European Union (EU) and the former European colonies, the African, Caribbean and Pacific (ACP) countries dates back to 1963 when the first Yaoundé Convention was signed. Its major objective was to promote economic growth and development which the EU tried to achieve by offering preferential access to the European market for ACP countries. Since this was seen as discriminative against other developing countries, as well as incompatible with principles of the World Trade Organisation (WTO), a need for a new partnership was necessary.

The Cotonou agreement sets the framework for a new trade regime under the European Partnership Agreements (EPAs); these are founded on reciprocal trading agreements where European producers will gain an almost unrestricted access to the ACP markets. The negotiations on EPAs, which commenced in 2002, have raised serious concerns amongst ACP countries about the consequences of implementing the agreements. Firstly, developing countries rely heavily on trade taxes as a source of revenue, and losses in tariff revenue as a result of liberalisation may be so large that they cannot be compensated for by other means. Secondly, ACP countries fear that their domestic industries would face severe competition, undermining their development, and that agricultural production would be challenged by competition from subsidised European commodities.

The EPA negotiations were due to be concluded at the end of 2007 in time for the expiration of the Cotonou preferences. However, the negotiations have proved to be more complicated to conclude than what was expected. At the time of writing only one region, the Caribbean, has signed an EPA.

1.2 Purpose of the Study and Delimitations

The purpose of this study is to discuss the trade and fiscal implications for West African countries as a result of the EPA between the EU and the Economic Community of West African States (ECOWAS). The West African region has been chosen as it is one of the poorest regions in the world and can be expected to be hit harder than any of the other ACP regions by potential negative impacts of the EPA. It is also the region where the EPAs have faced the most outspoken political resistance.

This study will give an account of the likely trade and fiscal effects of the EPA between the ECOWAS and the EU by comparing and discussing the evidence from empirical studies trying to assess these effects. In addition, it examines how West African countries prior to the EPA are preparing for the necessary transition of their fiscal regimes.

This paper does not attempt to empirically estimate the impacts of an EPA on ECOWAS member countries but to present a coherent picture of earlier research and literature on the subject, as well as address some of the issues in the negotiations from a political economy perspective. The study focuses on trade and fiscal effects; it does not explore in depth the broader positive effects that can be expected from deepening integration and development assistance. Neither does it consider the subject of liberalisation of services or the so called “Singapore issues” – investment, competition, trade facilitation, and procurement

1.3 Outlining the Paper

The paper is structured as follows: The following section reviews the ACP-EU partnership over time as well as the design and the WTO-compatibility of the EPAs. Section three describes the economic framework for assessing impacts of the EPAs on ACP countries. Next, section four reviews in detail the EPA negotiations between the EU and the ECOWAS. Section five presents and discusses empirical studies analysing the likely impact of the EPA on individual West African countries. Finally, section six draws conclusions.

2. EPA – History and Content

The first EPA negotiations were launched in Brussels in 2002. EPAs were proposed in an attempt to replace the previous non-reciprocal preferences that were granted to the ACP countries under the previous Yaoundé and Lomé I-IV Conventions. This section describes the evolution of the partnership between the EU and the ACP countries from Yaoundé to the EPA negotiations of today.

2.1 From Yaoundé to Cotonou

Two Yaoundé conventions initially established the EU-ACP partnership, the first of which was signed in 1963 between the European Economic Community (EEC) and former European colonies (Karingi et al., 2005, pp. 8). They provided financial and social support measures through the European Development Fund (EDF) and offered reciprocal and non-discriminatory trade preferences. In 1975 the first Lomé convention, replacing the previous regimes, was signed. These trade preferences were based on preferential access for ACP countries to the EU market whereas the same concessions did not have to be extended to European exporters in return. The concept behind Lomé was for developing countries to be given the potential to expand their industrial base whilst enjoying protected markets.

In hindsight, the objectives of Lomé were not successfully reached as most ACP countries did not enjoy the expected levels of economic growth (Karingi et al., 2005, pp. 8). In total the Lomé convention was renewed four times during its lifespan, until 2000 when the EU was granted the last waiver at the Fourth Ministerial Conference in Doha. The poor economic performance of the ACP countries can be partly explained by restricted access to major export markets but to a larger extent by factors such as a turbulent political environment, ill-governed institutions, low levels of education, a fast growing population and an unfavourable climate. Another impediment facing ACP exporters was the restrictiveness of the rules of origin used to certify that the goods being exported to the EU originated from the free trade area (FTA).

In the mid-90's the EU began to acknowledge the need for a new partnership agreement (Karingi et al., 2005, pp. 8). In addition to the unsuccessful achievement of the growth and development objectives of the Lomé Conventions, these unilateral agreements were seen as incompatible with international trading rules, i.e. Article XXIV of the General Agreement of Tariffs and Trade (GATT) as discussed in the next section. Moreover ACP countries felt that the current partnership was based on conditionality rather than reciprocity and that aid could be suspended in the case that European standards in areas such as human rights, democracy or legal institutions were not met. It has also been suggested that the EU were keen to secure its market access in the regions since actors like China and the US were becoming increasingly dominant on the world market scene.

The successor of the Lomé Conventions, the Cotonou Agreement, was signed in 2000 for a period of 20 years (Fontagné et al., 2008, pp. 37). It offers a framework for negotiating trade agreements replacing the Lomé partnership with six EPAs. Apart from concluding a WTO-compatible partnership, it focuses on strengthening political dimensions such as good governance and respect for human rights; moreover it aims to integrate ACP countries into the world economy, eradicate poverty, deepen regional integration among ACP countries and provide more constructive development aid assistance. According to the last waiver granted by the WTO, the preferential access to EU markets that ACP countries enjoyed under Lomé would not extend any further than the 31 December 2007 and was due to be phased out during 2008. However, in the autumn of 2008 it was clear that the majority of the EPAs would not be signed in time (see next section for discussion of the consequences). The only ACP region to have signed a complete EPA at the time of writing is the Caribbean (EC, 2009).

The EPA negotiations are conducted in parallel with the 78 ACP countries¹ divided into 6 regional groupings: West Africa, Central Africa, Eastern and Southern Africa, Southern Africa, Caribbean and Pacific (see Appendix 1). These are not separate regional integration areas but consist of overlapping free trade areas, customs unions and non-

¹ The ACP countries Cuba and Somalia will not sign an EPA; East Timor and Equatorial Guinea have observer statuses in the negotiations.

associated countries. The division was made since larger regional units are more capable of providing measures enhancing growth, of offering competitive goods and services and also for the purpose of facilitating the dialogue (Hinkle et al. p. 268). For political and historical reasons, most African countries belong to two or more regional integration areas, thus explaining the melting-pot of regional associations (Fontagné et al, 2008, p.14). Only six of the 53 African countries belong to one, the Democratic Republic of Congo for example is a member of four. This obviously poses a challenge to the negotiations but could also be an important factor in enhancing cooperation between the different regional associations.

2.2 EPAs and the WTO

One of the main issues with the previous regimes was, as discussed earlier, that they were not WTO-compatible. According to the most favoured nation (MFN) principle of the WTO, any trade concession granted to a trading partner should be extended to all other WTO-members. There are two exceptions for which this basic principle can be disregarded. Firstly, under the *enabling clause*, preferences can be granted to developing countries provided that they are offered to all developing countries or strictly to the least developed countries (LDCs). Schemes such as the *Everything But Arms* (EBA) initiative and the *General System of Preferences* (GSP) are examples of preferences granted under the enabling clause.

Secondly, article XXIV of the GATT stipulates that the MFN principle can be set aside when it comes to free trade agreements between member countries or regional groupings. The logic behind this exemption is that free trade agreements between trading partners are seen as beneficial to the global economy as a whole. An EPA between the EU and a group of ACP countries would fall under article XXIV. The requirement for such an agreement to be WTO-compatible is that “substantially all the trade” be liberalised (Art. XXIV par. 8b) and that liberalisation takes place “within a reasonable length of time” (Art. XXIV par. 5c). The definitions of these two phrases are disputable but the European Commission offers some guidelines by suggesting that 90 percent of all bilateral trade

should be liberalised in order for a preferential trade agreement (PTA) to be WTO-compatible (Fontagné et al., 2008, p.38). This would allow ACP countries to maintain protection for some sectors that are particularly sensitive to liberalisation. For ACP countries on average, 90 percent of bilateral trade volumes would imply liberalisation of around 80 percent of imports; although at the regional level trade balances with the EU differ. For instance, in the case of ECOWAS, 21 percent of imports could potentially be excluded from liberalisation, whereas the Pacific which exports a lot more to the EU than it imports could exclude up to 42 percent of its imports. On the matter of implementation, according to the “Understanding of the Interpretation of Article XXIV of the GATT 1994”, par. 3, “a reasonable length of time” should be understood as ten years except under special circumstances. Thus any interim agreement concluded in 2008 should not extend any further than 2018 without a granted dispensation.

Since only one region, the Caribbean, had signed a complete EPA in the due time, it was seen as necessary to conclude interim agreements with regions or individual countries in order to secure their market access (EC, 2009a). Some countries have signed neither of the available agreements and will continue to benefit from EBA preferences if they are LDCs or, in the case of non-LDCs, from the GSP scheme. For the latter group, the GSP scheme provides less favourable treatment than under the Cotonou preferences, since they are available for all developing countries. The impact would be most severe for the Caribbean, the Pacific and the Eastern and Southern Africa who would face significantly higher tariffs on key exports such as sugar and bananas (Fontagné, 2008, pp.36). Moreover, ACP countries would face major competition from Asian and South American producers.

3 The Economics of EPAs

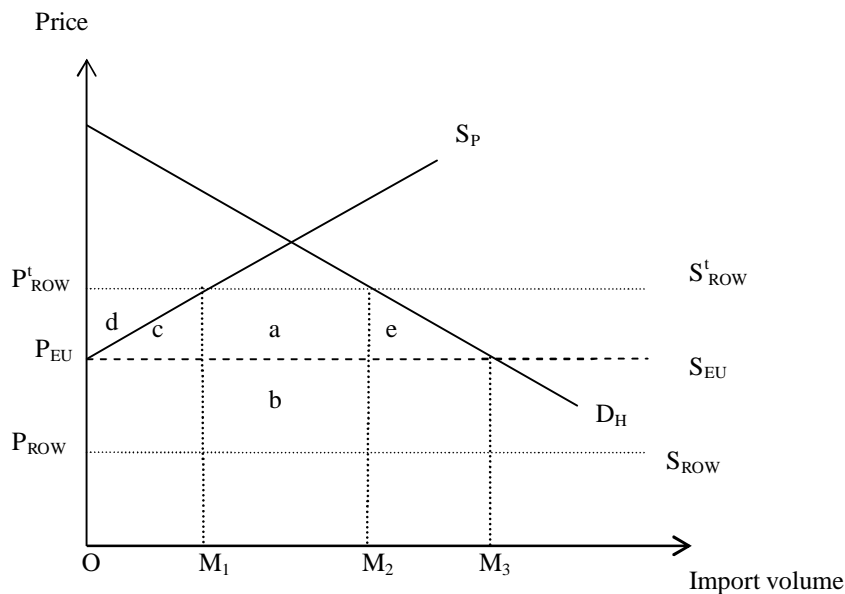
Trade liberalisation in the context of EPAs is expected to generate trade and fiscal effects on the economies of the ACP countries. As the ACP countries open up their domestic markets to the majority of European products, imports can be expected to be diverted

away from domestic and extra-EU sources in favour of European producers. Trade liberalisation will also lead to a significant decline in tariff revenues. This chapter reviews the theoretical framework for analysing the trade and fiscal effects of EPAs.

3.1 Trade Effects

Economic theory predicts that free trade agreements lead to Vinerian *trade creation* or *trade diversion* (Viner, 1950). Milner et al. (2005, pp. 331) use the partial equilibrium model of Panagariya (1998) to develop a framework for analysing the welfare effects of a PTA. Figure 1 depicts the import demand of a small home country (H) and the upward-sloping supply of a partner country (P). The supply of two additional trading partners, the rest of the world (ROW) and the EU are assumed to be infinitely elastic. This analysis makes the assumption that markets are perfectly competitive and that goods from different sources are perfectly substitutable. The EU is assumed to be the high-cost supplier.

Figure 1. Trade and Welfare Effects of an EU-ACP EPA



Source: Milner et al., 2005, p. 333

Initially, the home country imports OM_1 from the partner country and M_1M_2 from the ROW (Milner et al., 2005, pp. 331). Introducing an ad valorem tariff (t) on imports from outside the PTA implies that ROW will supply the home country at the price $P_{ROW}^t = P_{ROW}(1+t)$. If an EPA is concluded between the PTA and the EU, the relevant supply price will be P_{EU} and the EU will be the sole supplier. Imports will expand to OM_3 , where M_2M_3 represents a consumption expansion effect, OM_1 a trade creation effect and M_1M_2 a trade diversion effect. These effects are shown in Figure 1 where area $a + b$ represents total tariff revenue loss; b is the resource cost of diverting imports from the more efficient supplier ROW. Area $c + d$ shows trade creation by increased consumer surplus and area e represents increased consumption.

In this analysis, the creation of an EPA could lead to trade being either diverted from the rest of the world to the less efficient extra-regional producer EU or created by replacing intra-regional imports with more efficient EU imports (Milner et al., 2005, pp. 333). It is clear that the more efficient a producer is in relation to the EU, the smaller the cost of trade diversion, area b . In sectors where the EU is the globally efficient supplier, there will be consumption effects only, resulting in increased consumer welfare

Furthermore, the not yet industrialised ACP countries have used the infant industry argument to express their worry that imports from Europe will wipe out their domestic industries, which may still need a certain amount of protection in order to be competitive (Busse et al. 2004, p. 47). Sectors where the EU uses subsidies to obtain a comparative advantage, such as the agricultural sector, are of special interest to protect since ACP countries have a natural competitive advantage in this area.

3.2 Fiscal Effects

The second major implication of the EPAs is that they will have an impact on fiscal revenues. In the first phases of liberalisation tax revenues might increase as a result of removing prohibitive tariffs and moving towards a uniform tariff rate (Baunsgaard and

Keen, 2005, p. 3). However, as liberalisation progresses trade tax revenues will eventually decline. For ACP countries the issue of shrinking tariff revenues is critical as they continue to rely heavily on import duties as a source of government revenue. Customs duties constitute on average 25 percent of government revenue in Africa and 15 percent in the Pacific (Bilal and Rosa, 2007, pp. 4). In African LDC countries the dependency on trade taxes actually increased on average during the period 1999-2001 relative to 1992-1993. In addition, the fact that trade effects and fiscal effects are linked must be taken into account; trade diversion from external suppliers to EU suppliers would further increase the loss in revenue.

Since the trade liberalisation following an EPA will inevitably result in losses in tariff revenues, it will require compensation of those losses from other sources of revenues, preferably from the domestic tax base in order to maintain the same level of revenues (Bilal and Rosa, 2007, pp. 4). The popularity of trade taxes is explained mainly by the fact that it is simpler to collect taxes at the border than to implement a system that taxes domestic consumption and production. In the agriculture based ACP economies, structural constraints such as a large informal sector, poor tax administrations, weak and/or corrupt institutions and a large number of micro-businesses impede reform of the tax system. Fontagné et al. (2008, p. 66) has suggested that a 50 percent improvement in revenue collection could substantially alleviate negative fiscal effects.

A frequently advocated option for replacing customs duties is the value-added tax (VAT) which today is a key component in most developed countries' fiscal policies. It has the benefits of being transparent and will be non-distortive to production and consumption incentives (Ebrill et al., 2002). Furthermore since the VAT is levied on all consumption, both imported and domestically produced goods, total government revenue is likely to increase as a result. Keen and Ligthart (2002) have showed that for a small open economy an optimal strategy is a point-to-point increase in domestic consumption taxes for every tariff cut. This reform leaves consumer prices unchanged and does not offset the gain from the cut in import duties which brings prices faced by domestic producers closer to world market prices.

Whilst offsetting revenue losses by a VAT is plausible in theory, for the reasons discussed above it might be difficult to implement successfully in practice. There is clearly a need for strengthening fiscal administration in ACP countries. Yet, it should be noted that a significant part of VAT revenues is already collected at the border on imports (IMF, 2005a, p. 12). Therefore these institutions are already in place and could be expanded to the inland tax administration. However, empirical evidence on the extent to which low-income countries have succeeded in replacing trade taxes with domestic tax revenues, suggest that on each lost dollar on average only 30 cents is recovered (Baunsgaard and Keen, 2005, p. 22). Furthermore, there is no evidence that the adoption of a VAT has been related to the recovery rate.

Other taxes such as personal income tax could also be considered as a means of offsetting the revenue loss (Tanzi and Zee, 2001). However it should be taken into account that this kind of tax has generated little revenue in developing countries and that few individuals actually have an income that could be subject to taxation, especially when it comes to taxation at the higher income brackets. Problems with taxing revenue in developing countries have in general been related to higher-income earners escaping taxation by various exemptions such as tax-free capital gains and various deductions for expenses. Moreover, the low level of economic activity in these countries limits the level of tax revenue that can be collected from this source.

It is quite possible that an EPA will lead to positive dynamic effects as markets open up and producers gain access to cheaper and more differentiated inputs (Bilal and Roza, 2007, p. 11). The EPA is likely to increase competition, improve the investment climate and transfer technology. If these dynamic effects stimulate growth this will broaden the tax base and thus help tackle fiscal revenue impacts.

When assessing the magnitude of trade and fiscal effects following an EPA, the implementation period as well as the share of goods being liberalised must be taken into account. An immediate liberalisation would have a significant shock on fiscal revenues

and would also constitute a threat to import competing industries. Gradual liberalisation, which is a more realistic assumption since the EU has suggested liberalisation over a period of 15-20 years, would give the ACP countries time to adjust their industrial structure and reform their internal tax-system (Segura-Ubiergo, 2008, p. 43). Similarly, exempting some sectors altogether from liberalisation could have a moderating effect. However, it should be taken care that the decision of which industries to protect from liberalisation is not influenced by protectionist interests, which risks creating a distortive outcome (Hinkle and Newfarmer, 2005, pp. 28). If tariffs are not being eliminated on import-competing sectors, industries already protected by high tariffs would have no incentive to operate more efficiently. Instead it may be wise to exclude agricultural products that are essential to food security or cash crops that are a source of revenue for the rural population.

4 EPA between the EU and the ECOWAS

This section will give an account of the EPA negotiations between the ECOWAS and the EU up to the time of writing. It presents the pattern of EU-ECOWAS trade and explains the key issues in the ongoing negotiations.

4.1 Countries negotiating the EPA

The negotiations between the 16 West African countries and the EU are being conducted by the Regional Negotiation Committee on the West African side and on the behalf of the EU by the European Commission (ECOWAS and EC, 2004). The 15 West African countries that are currently members of the ECOWAS are: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo. In addition to these countries, Mauritania has decided to join the group for the EPA negotiations, despite its departure from the ECOWAS community in 2001. The ECOWAS members form a politically and economically diverse group. All countries except for Ghana, Nigeria and Côte d'Ivoire are classified as LDCs (Cape Verde is in a transitional phase, it was recently re-classified

as a non-LDC) which means that they benefit from EBA preferences. With a population of approximately half of the ECOWAS inhabitants and an extensive oil export, Nigeria is the dominant political and economic force in the region.

Production in the region is undiversified, of feeble competitiveness and mainly concentrated on primary products (ECDPM, 2006). The ECOWAS countries therefore are dependent on exogenous factors such as fluctuations in world market prices, climate changes and trading partners' policies.

Table 1. West African Exports to the EU, by Country

	ECOWAS exports to the EU, million euro			Share in exports to the EU
	2002	2004	2006	2006
Benin	59.8	32.5	69.9	0
Burkina Faso	54.3	41.5	30.7	0
Cape Verde	24.1	13.4	27.2	0
Côte d'Ivoire	2645	2201.4	2477	15
Gambia	24	17.3	11.4	0
Ghana	1128	1035.9	1107.4	7
Guinea	479.8	366.9	376.9	2
Guinea-Bissau	10.9	4.9	3	0
Liberia	565.9	1064.3	576.6	4
Mali	75.1	57.3	31.1	0
Mauritania	375.3	344.9	534.5	3
Niger	83.9	121.1	130.8	1
Nigeria	5028.2	5233.1	10624	65
Sierra Leone	41.8	114.1	123.7	0
Senegal	409.9	320.3	302.8	2
Togo	76.9	69.4	117.6	1
Total	11082.9	11038.3	16544.6	100

Source: EC, 2006a

In terms of ACP-EU trade relations, the West African region is important, accounting for some 40 percent of all ACP-EU trade (EC, 2006b). However, as a share of total EU extra-trade, trade flows have remained low; in 2006 ECOWAS imports to the EU only accounted for 1.2 percent and exports for 1.3 percent. Exports from the three non-LDC countries make up almost all the exports to the EU with Nigeria accounting for a substantial share of 65 percent (see Table 1).

Table 2. EU 25–ECOWAS + Mauritania: Trade over Time

	1999	2002	2006
EU imports million euro	8325.9	11127.2	16545.5
Agricultural products as % of total imports	36%	31%	19%
EU exports million euro	9895	13125.4	15389.5
Agricultural products as % of total exports	17%	17%	13%

Source: EC, 2006b

Over the last decade, the trade balance between the EU and West Africa has not changed significantly; it is largely balanced (see Table 2). The EU imports mostly oil and agricultural products from West Africa whereas it exports mainly manufactured good and vehicles (EC, 2008). The situation is less positive from the West African perspective since the agricultural sector where these countries have their competitive advantage has decreased as a share of EU imports.

4.2 State of Play in the negotiations

Towards the end of 2007, necessary concessions had not been made so that an EPA could be finalised between the West African states and the EU. The EU furthermore disagreed to the ECOWAS' request of applying for yet another waiver from the WTO. This resulted in Côte d'Ivoire and Ghana committing themselves to unilateral interim agreements with the EU (Agritrade, 2009). Nigeria, which is less dependent on exports to the EU due to its oil production, did not agree to sign an interim agreement. Instead Nigeria asked the Commission to apply its GSP+ regime which is a special trading scheme offering additional preferences to developing countries that ratify and implement a broad set of International Conventions covering human rights, labour standards and sustainable development. Nigeria's request was denied since it had not ratified the United Nations Convention on the Prevention and Punishment of the Crime of Genocide as well as on the grounds of a weak legal framework (Guardian, 2009). Nigeria is currently trading under the standard GSP scheme and benefits from duty free export of oil which constitutes 95 percent of Nigeria's total exports to the EU (EC, 2009). Cape Verde has been allowed to

export under the EBA regime for a transition period, having recently been re-classified as a non-LDC.

From the EU's side, the market access proposal includes duty free access for all goods originating from ACP countries from 1 January 2008. Rice and sugar are initially excluded; they will be duty free from 2010 and 2015 respectively (EC, 2009). This offer does not noticeably improve the situation for the LDCs since it is less generous than the EBA regime; however it does improve the existing Cotonou regime.

The interim agreements concluded with the Côte d'Ivoire and Ghana, which are intended to be phased in with the common trade agreement, were signed in late 2008 just before the expiration of the Cotonou trade preferences (EC, 2008). Côte d'Ivoire has committed itself to liberalising 81 percent of its EU imports over the next 15 years, representing 89 percent of tariff lines whereas Ghana will liberalise 80 percent of imports, representing 81 percent of tariff lines. Liberalised imports common for the two agreements include machines, certain vehicles and chemicals that are used in local industries and not produced domestically. Both countries chose to exclude chicken and other meats, tomatoes, onions, sugar, tobacco, beer and worn clothes. In addition Côte d'Ivoire added cement, malt, gasoline and cars to the list of products that should not be liberalised. Ghana chose instead to exclude wheat, frozen fish and industrial plastics. These products were chosen on the basis of protecting local industries and agricultural production but also in order to mitigate fiscal revenue losses.

The two interim agreements furthermore include a chapter on trade defence, permitting parties to reintroduce MFN duties or quotas should there be an inflow of imports from the other party to such an extent that the domestic industry is threatened. In the first phases of liberalisation, the possibility of reintroducing protection could be tempting when countries are going through a transition period and experience an inflow of imports from the partner country. There is also a chapter recognising the need for cooperation in the area of sanitary and phytosanitary (SPS) measures. However, the standardisation of these

measures has not been addressed (ECDPM, 2006). It is currently one of the major non-tariff barriers to entry for developing countries, particularly for fish products.

In the spirit of establishing a more efficient aid regime, the interim agreements also have an “aid for trade” component. One of the major constraints to export expansion and industrialisation in the ACP countries is the lack of infrastructure such as roads, ports and railroads. This implies high transport costs and presents obstacles to reaching global markets (Hinkle et al. 2006, p. 274). Carefully targeted development assistance can alleviate such supply-side constraints. As a result of the EPA, other transition costs in terms of reforming the tax system, strengthening institutions and establishing a legal framework can also be envisaged in the short to medium term. The EU has therefore agreed to assist ACP countries during the transition period through the 10th EDF and via contributions from Member States (EC, 2008). In the case of the EU - Côte d’Ivoire/Ghana interim agreements, development cooperation includes: reinforcement of productive sectors, fiscal adjustment, measures to improve the business environment and implementation of trade rules in the agreements.

On the regional level, the delay in closing the negotiations is largely due to the fact that it has taken West Africa a long time to present an offer (ECDPM, 2006). The region has found it difficult to interpret Article XXIV of GATT, to identify and to agree on products that should be excluded from the agreement and to agree on the timetable for tariff elimination. Negotiations are reported to be almost complete on the text on trade in goods, dispute settlement, trade defence instruments, SPS measures, export taxes and technical barriers to trade (Acp-eu-trade, 2009). However, significant divergences remain on the West African market offer, on the aspect of development cooperation, on rules of origin and on the MFN clause (see next section).

Other non-compromised issues include the 0.5 percent levy currently in place on all non-ECOWAS imports that the EU has requested be eliminated, the ECOWAS views this levy as a lifeline. The ECOWAS has on the other hand demanded less restrictive rules of origin than the EU proposes. Both parties are aiming at reaching a comprehensive

agreement by June 30 2009 but at the time of writing there are strong indications that the EPA may not be signed in time (Guardian, 2009). The next section reviews more in detail some of the main outstanding issues in the negotiations.

4.3 Key issues

Regional integration

As stated in the Cotonou Agreement, regional integration is an important means of integrating ACP countries into the world economy and the deepening of the regional integration process should therefore be an important cornerstone in the EPA negotiations (ECOWAS and EC, 2004, p. 2). In West Africa this process is complicated by the coexistence of two regional integration areas in the region: the West African Economic and Monetary Union (WAEMU) and the ECOWAS (see Appendix 2). WAEMU members share a common currency supported by the French treasury, the CFA franc, whereas the other mainly English-speaking countries each have their own currency. An initiative to establish a second currency union, the West African Monetary Zone (WAMZ), between the non-WAEMU countries has been undertaken with the aim of eventually merging it into the CFA franc zone (Agritrade, 2009). Unlike WAEMU which is a customs union and a monetary zone, the WAMZ-initiative has not advanced in recent years with the time-line for implementation having been pushed back several times. WAEMU has achieved deeper regional integration and is more advanced in terms of establishing a single market than the rest of the ECOWAS (ECDPM, 2006). The phenomenon of overlapping regional groupings within ECOWAS, with differing levels of integration and no clear relationship between them, hampers the regional integration process. Capital flows and free movement of persons within the region are still very limited and need to be improved.

In order to ensure WTO-compatibility and deepen regional integration, prior to the implementation of the EPA ECOWAS countries must establish a customs union with a common external tariff (CET) for which the WAEMU-tariff serves as a basis. By request of Nigeria a fifth band of 35 percent, representing the highest tariff line, was added before

its final adoption. The matter of the CET has been controversial given that large differences in applied tariffs exist between countries (Guardian, 2009). Recently, the ECOWAS ministers have demanded that the fifth band should be re-negotiated with the WTO to finally determine its product coverage, thus indicating that the CET may not be implemented in time.

Political instability and divisions between the French-speaking and English-speaking countries furthermore complicates reaching political consent. Following the suspension of Guinea from the ECOWAS as a consequence of December's military coup, the question of how to proceed with ratification of the agreement in such situations has risen (Agritrade, 2009). Furthermore, because the West African grouping for the EPA negotiations includes Mauritania, the issue also has to be solved of how to include Mauritania in the regional integration process. Mauritania left the ECOWAS in 2001 and has since remained a member of the Arab Maghreb Union.

Finally there is a general worry that European imports will weaken the synergy and integration within West Africa; trade within the region remains low, accounting for merely 8.3 percent of total trade in 2006. Within UEMOA intra-regional trade accounted for slightly more, 13 percent (ADI, 2008, p. 87). These figures could however be underestimated due to large-scale informal trade in the region, particularly cross-border trade which is not registered by the customs authorities (Agritrade, 2009).

Market Access

A draft regional market access offer was tabled by West Africa in February 2009, proposing liberalisation of 60 percent of EU imports over 25 years starting in 2010 (TNI, 2009b, p. 13). The Commission has questioned its WTO-compatibility with regards to the coverage, reciprocity and the transition period. The EU maintains its position that a final market access offer must include most sectors and cover 90 percent of bilateral trade.

For West Africa, the main issues regarding the negotiations on agriculture evolve around food security for the regions growing population and import competition from European

producers (Agritrade, 2009). Production and processing of raw materials are key sectors for the West African countries. Countries like Nigeria and Senegal are also particularly worried that the EPA will result in de-industrialisation.

Another matter for divergence is the subject of the MFN clause that the EU has proposed should be included in the EPAs (Agritrade, 2009). It obligates West Africa to grant the same trading preferences to the EU that they would to any other trading partner in a bilateral agreement, should the exports from the third country amount to more than 1 percent of total exports. This is a step towards WTO-compatibility but has also been a matter for concern for some countries who try to reduce their over-dependency on EU imports. Commentators have argued that the MFN clause would inhibit south-south trade and that it would reduce the scope for signing bilateral trade agreements with other trading partners.

Development

The negotiations are further complicated by the coexistence of several LDCs and the three non-LDCs: Côte d'Ivoire, Ghana and Nigeria. For the LDCs, the EPA will not radically improve their market access to the EU since they are already entitled to EBA preferences. The three non-LDCs, accounting for 87 percent of exports to the EU (see Table 1), obviously have a greater interest in concluding an EPA and improving their access to the European market.

Nigeria in particular stands out as an important political and economic force in the region with its population representing half of the regions inhabitants and accounting for 65 percent of exports to the EU. Its independency on bilateral trade with the EU has turned it into an outspoken EPA-opponent. The fact that Nigeria refused to sign an interim agreement indicates that the conclusion of the final agreement may prove to be complicated.

On the issue of the development assistance, the parties have decided to implement a framework for development cooperation through the West Africa EPA Development

Program (EPADP) (TNI, 2009a, p. 13). The EC has agreed to fund support related to fiscal transition while West Africa is trying to establish a link between its trade liberalisation commitments and financial support related to improved competitiveness and production structure in the region. The EC is not in favour of extending its support to that extent. The following section will look at empirical evidence related to the West African EPA.

5 Trade and Fiscal Effects of the EU-ECOWAS EPA

This section summarises empirical studies estimating the impacts of an EPA on the West African countries. Estimates on the impact of trade liberalisation will be reported from aggregated studies analysing the effects on the majority of ECOWAS countries, as well as from case studies conducted on individual countries.

As an introduction, the main features of the fiscal systems of the West African countries on which the case studies were made will be presented. The data is obtained from IMF staff reports; therefore the availability of data varies from year to year. Fiscal systems are mainly composed of taxes that can be divided into three broad groups: taxes on international trade and transactions, taxes on goods and services and taxes on income profits. For many West African countries other sources of revenue such as grants and specific taxes on mineral and oil extraction are very important. They are not always noticeable in the figures below.

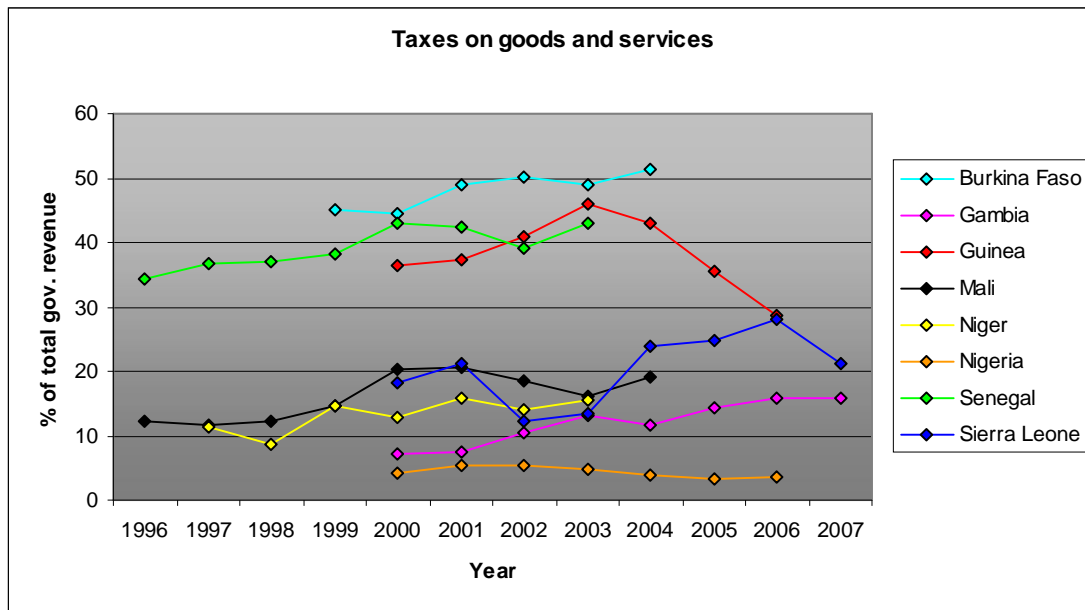
Figure 2. Taxes on International Trade and Transactions in ECOWAS Countries



Source: IMF Selected Issues and Article IV Consultations

The reliance on trade taxes is high in general in West Africa (see Figure 2). In countries like Gambia, Sierra Leone and Mali it is especially significant, amounting to nearly 50 percent of government revenue. However, in most of the countries depicted the trend goes towards decreasing importance of trade taxes, especially in countries such as Senegal that has successfully implemented fiscal reform (see the section on Senegal below)

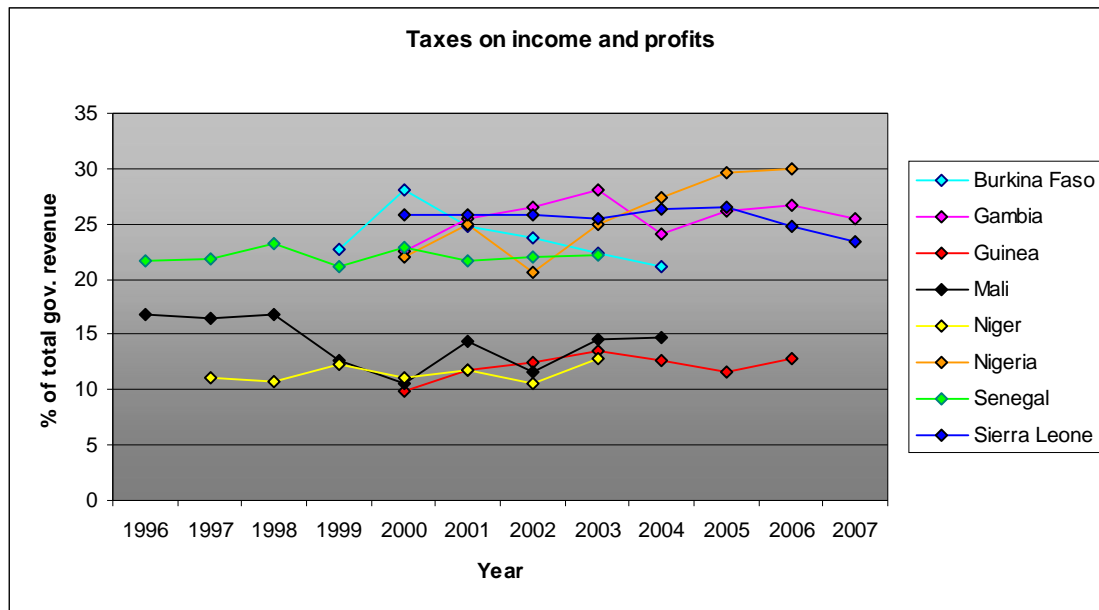
Figure 3. Taxes on Goods and Services in ECOWAS Countries



Source: IMF Selected Issues and Article IV Consultations

Taxes on goods and services where the VAT is an important component make up a substantial share of total revenues in Burkina Faso, Senegal and Guinea (see Figure 3). The trend is pointing towards an increase in the revenue share of these taxes; however, for Guinea, their share is on the decline.

Figure 4. Taxes on Income and Profits in ECOWAS Countries



Source: IMF Selected Issues and Article IV Consultations

As can be seen in Figure 4, countries with a high level of mineral extraction or a large tourism sector such as Nigeria, Sierra Leone and Gambia have a high share of taxes on income and profits. In fact Nigeria's oil-revenue accounted for a substantial 85 percent of total revenues in 2006; this explains Nigeria's particularly low reliance on other revenue sources. For the majority of countries, the share of these taxes in total revenue seems to have remained more or less constant.

5.1 Aggregate Studies

When analysing the quantitative effects of trade agreements, a partial or a general equilibrium model is commonly used. General equilibrium models attempt to predict the effects on the economy as a whole and to capture the dynamic effects of interactions between different sectors of the economy (Karingi, 2005, pp. 22). Thus they are suitable for analysing the effects of EPAs as they would identify substitution between producers as well as predict which countries are likely to benefit and which are likely to lose from an EPA. However, general equilibrium models demand highly detailed data on sectoral production and on substitution elasticities. These data are rarely widely available for

developing countries with large informal sectors; moreover the predictions are likely to be vague since these countries are often exposed to domestic and external shocks. Instead, many studies on the subject have performed a partial equilibrium analysis. These models estimate detailed effects of trade creation and trade diversion, and can also be used to predict impact on fiscal revenue.

Busse et al. (2004, pp. 17) use a partial equilibrium model for estimating the impact of an EPA on trade flows in ECOWAS countries² and in Mauritania. The data has been obtained from the UNCTAD, the UNIDO and the ITC. This study is the most detailed and comprehensive study to have been made on the impact of the foreseen EPA on the ECOWAS. It will therefore be used to compare results from other studies reviewed. Busse et al. apply the model of Verdoorn (1960) which incorporates Armington assumptions, i.e. goods from different countries are perceived as imperfect substitutes. In the case of the West African EPA this a reasonable assumption to make since most of West Africa's imports are manufactured goods. When estimating trade creation and trade diversion, data on import demand and substitution elasticities are required in order to account for product differentiation. As these data are not easily available for West African countries the values of elasticities have to be assumed. Three liberalisation scenarios are assumed: high, mid and low with respective differing elasticities.

In this analysis it is assumed that 100 percent of imports will be liberalised which will not be the case in the agreements currently being negotiated, thus the results can be seen as upper limit estimates of the impact on trade flows and fiscal revenues (Busse et al., 2004, p. 24). The base year for all estimations is 2001.

² Liberia and Sierra Leone are not included in the analysis due to insufficient data.

Table 3. Trade Effects under an EPA on ECOWAS Countries, 2001

Country	Trade creation		Trade diversion		Total trade effects	
	mill. US\$	% of preferred imports	mill. US\$	% of non-preferred imports	mill. US\$	% of preferred imports
Benin	20.4	7.6%	10.7	3.2%	31.1	11.6%
Burkina Faso	14.1	5.7%	9.8	3.2%	23.9	9.7%
Cape Verde	16.9	9.2%	4.5	7.1%	21.5	11.7%
Côte d'Ivoire	69.3	6.0%	25.3	2.9%	94.7	8.2%
Gambia	8.2	5.8%	5.8	6.6%	14.0	9.9%
Ghana	45.8	3.7%	40.2	2.4%	85.9	6.9%
Guinea	14.3	4.9%	10	3.3%	24.3	8.3%
Guinea-Bissau	1.6	4.5%	0.3	1.1%	1.9	5.2%
Mali	13.3	3.6%	8.3	1.3%	21.6	5.9%
Mauritania	9.8	5.5%	5.4	2.8%	15.2	8.6%
Niger	4.6	4.9%	3.5	1.5%	8.1	8.6%
Nigeria	348.3	12.5%	229.1	7.6%	577.4	20.8%
Senegal	71.2	8.0%	31.4	3.8%	102.7	11.5%
Togo	10.1	8.7%	6.5	3.2%	16.6	10.9%

Source: Busse et al., 2004, p. 25

For all countries and scenarios, trade creation exceeds trade diversion. Table 3 reports the results from the mid scenario which shows an expected increase in total imports (trade creation plus trade diversion) ranging between 5.2 percent and 20.8 percent of preferred imports. The most significant effects can be observed for Nigeria (20.8 percent), Cape Verde (11.7 percent), Benin (11.6 percent) and Senegal (11.5 percent), whereas in Guinea-Bissau, Mali, and Ghana smaller increases in trade volumes can be expected of 5.2 percent, 5.9 percent and 6.9 percent respectively. The key reasons for the larger increases are high tariff rates on EU imports in these countries and/or high duty collection-efficiency ratios³ (see Table 4).

³ Collection-efficiency ratio is defined as the share of duty collected on the c.i.f value of imports divided by an import-weighted tariff.

Table 4. Decline in Import Duties in ECOWAS Countries, 2001

Country	Decline in import duties				Import duty collection efficiency ratio (%)	Imports from the EU, % of total imports
	mill. US\$	% of total import duties	% of total government revenue	% of GDP		
Benin	27.6	47.4%	8.6%	1.16%	76.5	44.4
Burkina Faso	17.5	46.8%	5.6%	0.71%	61.3	44.6
Cape Verde	24.0	79.9%	19.8%	4.09%	78.7	74.3
Côte d'Ivoire	82.9	55.5%	4.6%	0.80%	68.8	57.4
Gambia	13.8	65.0%	21.9%	3.54%	78.3	61.8
Ghana	90.8	66.4%	10.3%	1.82%	29.1	43.1
Guinea	16.7	51.6%	4.9%	0.56%	89.9	49.0
Guinea-Bissau	2.16	65.8%	5.6%	1.09%	38.2	59.7
Mali	16.6	35.6%	3.8%	0.63%	43.7	36.3
Mauritania	11.8	49.3%	6.3%	1.17%	73.3	47.5
Niger	6.6	29.6%	3.6%	0.34%	53.4	28.9
Nigeria	487.8	52.7%	2.5%	1.19%	79.7	47.9
Senegal	87.9	60.0%	10.7%	1.89%	90.0	51.8
Togo	12.9	43.2%	7.4%	1.02%	77.0	43.0

Source: Busse et al. 2004, pp. 28

The decline in import duties and government revenue from the mid scenario is reported in table 4. The most severely affected countries are Cape Verde and Gambia with estimated declines in government revenues of 19.8 and 21.9 percent of government revenues respectively for the mid scenario. This will put a heavy strain on their public finances and will be difficult to compensate for with other taxes. As was the case with the analysis on trade flows, these results are due to the dependency on EU imports of these countries and the high collection efficiency ratios. For Senegal and Ghana the impact is reduced but still significant; they face revenue losses of 10.7 and 10.3 percent respectively for the mid scenario.

Nielsen and Zouhon-Bi (2007) perform the same kind of partial equilibrium analysis as per Busse et al., using the model of Verdoorn (1960). They perform their analysis on four of the ECOWAS members: Nigeria, Ghana, Senegal and Cape Verde and assume complete liberalisation at the initial stage of the EPA. The data being used was obtained from IMF staff reports and from desk officers. The base year for all estimations is 2004.

Table 5. EU-ECOWAS EPA: Trade and Fiscal Effects

	Cape Verde	Ghana	Nigeria	Senegal
Trade effects				
Total trade effects (millions US \$)	36.2	199.5	903.9	166.3
% of preferred imports (EU)	11.4	10.9	11.5	10.6
Tariff revenue loss				
million US \$	34.3	150.6	682	154.7
% of Total Government Revenue	15.8	7.1	2.4	10.4
% of GDP	3.6	1.7	1.0	2.0

Source: Nielsen and Zouhon-Bi, 2007, p.12

Regarding trade effects (see table 5), the results for Cape Verde and Senegal are in line with those of Busse et al. (2004). For Ghana, Busse et al. estimated smaller trade effects, while those for Nigeria were significantly higher, 20.8 percent compared to 10.8 percent in this analysis. Trade creation exceeds trade diversion for Nigeria and Ghana in relative terms, the opposite is true for Cape Verde and Senegal. The differing results from the two studies are likely due to newer data used by Nielsen and Zouhon-Bi and the fact that Busse et al. assumed 3 different sets of elasticities for agricultural products, raw materials and for manufactured goods whereas Nielsen and Zouhon-Bi applied the same elasticities all over. Turning to the fiscal effects, these estimates are lower for Cape Verde and Ghana compared to those of Busse et al.

5.2 Case Studies

This section reports findings from eight case studies on individual West African countries. The majority of these studies were prepared for the West African governments in support for the EPA negotiations and financed by the Secretariat of the ACP group of states; one of them is a study by the IMF. The choice of what countries to include in this section was based on the availability and the quality of accessible studies. Complementary material and data has in addition been obtained from the IMF.

5.2.1 Burkina Faso

Despite being a landlocked, small country suffering from a dry climate, growth has been steady and vigorous in Burkina Faso during the last decade, with an annual growth rate of on average 6.1 percent for the period 1995-2002 (P.C.I., 2005, p. 27). This good performance is mainly due to reform efforts, aiming at liberalising the economy and improving the administration of public finances.

Cotton, gold and bovine products along with fruit and vegetables are the main export goods (P.C.I., 2005, p. 56). Since they are all primary goods, with a small amount of differentiation, they are particularly exposed to fluctuations in world market prices. The cotton sector, which accounts for around 60 percent of exports, is expected to be positively affected from an EPA as a result of producers gaining access to cheaper and more available inputs (*ibid.* pp. 59). Other sensitive sectors include the bovine sector which faces competition from frozen meat exported from Europe to neighbouring countries. Furthermore, non-tariff barriers like sanitary norms limit prospective exports in this sector. Several sectors of the economy face competition from lower-cost European imports including: rice producers, sugar and tobacco processors as well as several manufacturing industries.

Estimations of trade and fiscal effects from an EPA have been estimated in a partial equilibrium model with Armington assumptions (P.C.I., 2005, pp. 91). Elasticities of substitution are estimated on three levels depending on the origin of the product. The liberalisation is assumed to take place over twelve years. According to the simulations, imports from the EU would increase with 31 percent, with imports from the ECOWAS falling with 5.31 percent, respectively 4.41 percent for the ROW. Trade effects are expected to be largely positive with trade creation exceeding trade diversion. Losses in tariff revenues of 11.9 billion CFAF annually are estimated (*ibid.* pp. 98). According to the data used in the case study, this represents 11.8 percent of import duties in 2003 and 2.7 percent of total government revenue.

Burkina Faso has a relatively high share of indirect taxes, taxes on goods and services represent around 50 percent of total revenues (see Figure 2). The share of trade taxes are on the other hand relatively low accounting for 16 percent of revenues. The latest series of fiscal reforms foreseen by the Burkinabe authorities addresses the tax administration and aims to enlarge the fiscal base. A system for sending reminders to non-filers and late-filers will be implemented to strengthen revenue collection and a mechanism for refunding VAT within 90 days will be introduced (IMF, 2007, pp. 19). Moreover, taxation for small taxpayers will be simplified.

5.2.2 The Gambia

The Gambia is a small agrarian economy entirely surrounded by Senegal except along its Western coast. The most important cash crop is the groundnut; other key sectors are fisheries, horticulture and cereals (Enterplan, 2005b, pp. 5). Given that 70 percent of the population derives its livelihood from agriculture, protecting this sector is likely to be a priority for The Gambia in the EPA negotiations. The fastest growing sector is the tourism sector contributing to around 16 percent of GDP; this sector constitutes an opportunity in the EPA context in terms of foreign direct investment (FDI) which should be embraced.

Trade with the EU has been growing steadily over time and accounts for a substantial share of total trade, 65 percent in 2003 (Enterplan, 2005b, p. 38). Its other main trading partners are Asia and North America; trade with the ECOWAS is limited but is likely to be underestimated since a large share of trade flows are not registered. The Gambia has for a long while been a hub for re-exports to neighbouring countries which makes it highly dependant on import duties as a source of government revenue. Taxes on international trade constitute nearly 50 percent of government revenue (see figure 2).

Using the same partial equilibrium model as per Busse et al. (2004), Enterplan (2005b, pp. 60) estimates trade creation and trade diversion effects for the Gambia as a result of an EPA. The same import elasticities are used as those used in the study by Busse et al.

For the scenario which potentially is the most likely scenario, trade creation and trade diversion effects are equal at 6.6 percent. Under the low scenario, trade creation exceeds trade diversion slightly whereas the situation is reversed for the high scenario. The Gambia produces few manufactured goods so imports from the EU do not pose a threat in that sense. However, local poultry production, which is common at the household level, faces competition from frozen meat exported from the EU. Other sensitive products are wheat, maize and millet which all will find it hard to compete with large-scale and cheap European production.

The decline in tariff revenue as a result of the EPA will amount to 33 percent of total import duties (Enterplan, 2005b, p. 67). These losses represent 15.4 percent of government revenue and 2.8 percent of the GDP. The significance of these losses is a result of The Gambia's large share of EU imports and high dependency on import duties in government revenue. However, Busse et al. (2004) estimated significantly larger revenue losses of 65 percent of import duties and 21.9 percent of public revenues. The differences are likely to be due to the different sources from where data were obtained; Enterplan used data obtained from the Gambian Customs authority and Busse et al. obtained their data from UNCTAD, UNIDO and ITC. Also, Enterplan, calculated a slightly different collection efficiency ratio, 73.8 percent, compared to Busse et al., 78.3 percent.

Over the last four years, reform of the fiscal system has been concentrated on improving the revenue administration (IMF, 2008, p. 16). The Gambia Revenue Authority was established together with a large taxpayer unit and the introduction of identification numbers for tax payers. With gains from improved administration now reaching its limit, the authorities are instead focusing on reducing the proportion of imports exempt from customs duties and on reducing the overall dependency on import taxes in revenues. The biggest challenge for The Gambia in coping with the fiscal effects from an EPA will lie in decreasing its reliance on trade taxes as a main source of fiscal revenue.

5.2.3 Guinea

Guinea, despite its rich endowment of mineral resources is one of the poorest countries in the world, ranking extremely low in terms of the human development index (HDI). It is estimated that Guinea holds a third of the world's bauxite⁴ reserves and is also abundant in gold, diamonds, iron ore and uranium (IMF, 2007, p. 5). Political conflicts in neighbouring countries Sierra Leone and Liberia have contributed to severe regional insecurity and to an unfavourable investment climate; transport on land along the Liberian border has become nearly impossible due to security constraints.

Guinea is more dependent on exports of minerals than any other ECOWAS country, exports of bauxite and aluminum account for around 60 percent of total exports and generate a quarter of fiscal revenues (Saeed Qureshi and Fedorov, 2008, pp. 3). World aluminum demand is expected to increase in the medium term and Guinea could play a critical role in meeting this demand. However, the mining industry is underdeveloped and has an unexploited potential as there are few local refining facilities and most bauxite is exported raw; bauxite prices are weakly correlated with aluminum prices. Furthermore, taxation of the mining companies is not uniform and contributes to an unfavourable investment climate; this sector has the potential to contribute much more to government revenue.

Guinea is not a major producer of agricultural products. Therefore its export sector is unlikely to be affected by competition from European imports but certain areas of local production may face competition from European producers. Bovine and dairy products run the risk of being replaced by subsidised European foodstuffs (METRA, 2004, pp. A21). Production of potatoes and onion is also especially vulnerable since European production of these crops is on the increase with the new Eastern European accession countries. Conversely, unexploited sectors such as the fishing and the forestry industry are likely to benefit from an EPA. The fishing industry in particular could gain access to technologies that would make it compatible with European SPS standards. Liberalising

⁴ Bauxite is an aluminium ore that is usually processed into aluminium.

the economy would also be particularly valuable for the mining sector which could bring in large amounts of FDI.

Public finances have run a large budget deficit since 2000 when growth stalled; public expenditure is now to a large extent dependent on grants. Taxes on international trade represent between 17 and 20 percent of total government revenue, which is less than for the average West African country (see Figure 2). More worryingly is the evidence that taxes on goods and services as a share of total revenue is declining significantly; their part in revenues has fallen from almost one half of revenues in 2003 to around 30 percent in 2006. Revenue losses following an EPA are estimated at 129.6 billion CFAF representing 78 percent of import duties and 12.4 percent of total government revenue (METRA, 2004, pp. 58). These estimates are not obtained through a partial or general equilibrium approach but are simply approximated by using data from the Guinean customs authorities and calculating the share of EU imports in duties for 2003. They do not predict future revenues and must be interpreted with some caution. These losses are significantly larger than the revenue losses estimated by Busse et al. (2004).

Guinean authorities have embarked upon a reform of the Mining Code in order to streamline and improve the taxation regime intending to increase its contribution to government revenue (Saeed Qureshi and Fedorov, 2008, pp. 11). Moreover, measures have been implemented to reduce tax and tariff exemptions and to strengthen the customs and tax administration. Due to a turbulent political environment it has been difficult to implement any long-term reforms.

5.2.4 Mali

Since the 1990's, the economy of Mali has doubled in size and growth has averaged almost 5 percent, yet Mali still remains very poor (IMF, 2008, p. 6). The main exports are gold and non-manufactured cotton, making Mali highly vulnerable to draught and external shocks. A persistent low world price for cotton, partly due to subsidies given to cotton producers in developed countries, has hampered growth in the agricultural sector,

the core of the economy. Mali is also a main exporter of bovine products to Senegal and Côte d'Ivoire and under an EPA trade in these products runs a risk of being substituted by EU suppliers.

The impact of an EPA on the Malian economy is estimated by using a computable general equilibrium (CGE) model (Rampulla et al., 2007, pp. 24). Five scenarios are envisaged depending on the scope and transition period of the liberalisation. Results from scenario 1, which assumes full and immediate liberalisation will be reported here in order to facilitate comparison with Busse et al. (2004). The following impacts on macroeconomic factors compared to the base scenario when the EPA is not implemented are estimated: the annual rate of investment is expected to increase, the GDP growth rate will increase, EU imports are likely to increase but not remarkably and Malian exports are expected to decrease (Rampulla et al., 2007, pp. 38). The last effect could be explained by the reliance on export of raw gold and cotton which will not directly benefit from an EPA.

Mali is heavily reliant on trade taxes as a means of financing public expenditure, trade taxes have averaged between 45-50 percent during 1996-2002 (see Figure 2). However, almost 70 percent of these revenues are composed of VAT on imports and import duties on petroleum products levied within the ECOWAS. The VAT will continue to apply on imports after liberalisation. Trade liberalisation under an EPA would lead to losses in fiscal revenues of 18.4 billion CFAF which according to the data used represents 17 percent of import duties and 3.6 percent of total revenues (Rampulla et al., 2007, pp. 43). The CGE model further allows for taking into account the potential dynamic effects that an EPA would have on the Malian economy. This would reduce revenue losses to 13.5 percent of import duties (2.8 percent of total revenues). These losses are compared to previous studies very small; Busse et al. (2004) estimated revenue losses of 35.6 percent. As discussed before, CGE models require detailed data on the entire economy, and the quality of data drives the results, thus these models are probably less suitable to use in this context.

Late tax reforms in Mali have been positive and have been taking important steps towards the transition of a fiscal system more reliant on indirect taxes (Rampulla et al., 2007, p. 48). The measures undertaken include the suppression of a general tax on all revenues in favour of schedular taxes, a wider application of the VAT and unification of the VAT rate of 18 percent as well as the adoption of the ECOWAS CET. In addition, efforts have been made to expand the tax base towards the informal sector, to computerise the tax administration and to educate tax officers. However, a large share of the economy, mainly the informal sector is still exempted from taxation and as few as 400 companies account for 80 percent of total tax revenues. The agricultural sector is not subject to any taxation at all. The reforms regarding the VAT seem to have been well directed; the share of taxes on goods and services in total revenues has almost doubled during the period 1996-2002; they accounted for nearly 20 percent of revenues in 2002 compared to 12 percent in 1996.

5.2.5 Niger

The landlocked country of Niger has one of the fastest growing populations in the world, who are mostly reliant on subsistence agriculture, cattle and fishing (IMF, 2008, pp. 4). Its main export good, uranium, has developed favourably; the price of uranium rose dramatically in 2002 and doubled between 2007 and 2008.

Niger is also a big producer of foodstuffs, it has specialised in onion production which it exports to Nigeria, Côte d'Ivoire, Togo, Ghana and Burkina Faso (Blein et al., 2004, pp. 135). The onion variety exported currently faces competition from the EU and the Maghreb countries, thus the EPA could divert trade from Nigerien producers. Furthermore, the bovine and the dairy sectors face competition from subsidised more competitive European products. Niger currently exports meat within West Africa and is planning to expand its exports to Central Africa.

Niger is relatively dependent on trade taxes as a source of revenue; they constituted 36 percent of revenues in 2003 (see figures 2-4). Income and profit tax and taxes on goods

and services accounted for 12.8 and 15.4 percent respectively. Blein et al. (2004, pp. 104) estimate losses in fiscal revenues simply by computing the average annual growth ratio for EU imports and then use it to predict import data for 2007. They estimate tariff losses of 47.2 percent of import duties representing 14 percent of fiscal revenues (predicted data on government revenue for 2007 was not available). Busse et al. (2004) estimated lower revenue losses of around 30 percent which perhaps is a more realistic assumption since Niger imports less from the EU than the average West African country (28.9 percent compared to around 50 percent).

The contribution of the uranium sector to total revenues is a mere 3 percent hence Niger has recently made investments in the mining sector which is likely to generate tax revenues (IMF, 2008, pp. 10). Efforts have also been made to strengthen the tax administration. In order to improve the investment climate and to attract FDI, the authorities intend to reduce the corporate profit tax rate from 35 percent to 30 percent. This reform is also expected to promote diversification of the economy.

5.2.6 Nigeria

The case of Nigeria is different from the other ECOWAS members due to its very large oil sector generating some 40 percent of GDP and also its large population of approximately 130 million (Enterplan, 2005a, p. 9). Since the 1970's, Nigeria has been one of the worlds major oil producers and as a consequence has enjoyed higher growth than the rest of the region. The economy is heavily dependent on oil; revenues related to the oil sector such as petroleum profit tax and export tax on crude oil accounted for 85 percent of tax revenues in 2006 (see section 5.1). Because of the importance of oil as a source of revenue other sectors of the economy have suffered; Nigeria has for example been a net importer of food since the 1990's (Gobat, 2005, p. 23). These are major factors in explaining the outspoken Nigerian resistance to the EPA.

Enterplan (2005a, pp. 71) assesses the impacts of an EPA on the Nigerian economy by using a partial equilibrium model to estimate the effect on fiscal revenues and a CGE

model for determining the welfare effects of an EPA on GDP, consumption and production. The partial equilibrium analysis assumes gradual liberalisation over twelve years with 80 percent of EU imports being liberalised. Products that could be good candidates for liberalisation are divided into three groups: agriculture products for politically sensitive reasons, products that generate the highest tariff revenues or products with the highest MFN tariffs. The different scenarios result in losses of 42 percent of tariff revenue on average, representing around 3 percent of government revenue. More specifically and as expected, excluding goods that generate the most revenue would have the least impact on fiscal revenue, followed by agricultural products. These results are in line with those of Busse et al. (2004) who estimated tariff revenue losses of 52.7 percent but assumed full and immediate liberalisation. No information on import demand and substitution elasticities or whether collection efficiency ratios were taken into account is available for the case study.

The results from the CGE simulations indicate that protecting agriculture would have a positive impact on GDP two years on from the initial implementation (Enterplan, 2005a., p. 83). Turning to production, the agricultural sector is the most sensitive sector to liberalisation. The effects on manufacturing production are slightly less significant. Output in these two sectors would suffer initially from liberalisation but is expected to pick up after a transition period of a few years.

In the long term, the problem for Nigeria in reaching fiscal stability lies in its dependency on crude oil (Baunsgaard, 2003. p. 4). The high volatility of world oil market prices has lead to unpredictable government revenue which in turn has encouraged procyclical spending and has spilled over into budget deficits generating a negative growth performance. Past policy measures have not succeeded in transferring profits from oil revenues to other sectors in order to enhance their competitiveness. Furthermore, reliance on oil export is a risky strategy in the long run. Assuming that environmental agreements such as the Kyoto Protocol will have an effect on the demand for oil within the foreseeable future, the prospect for growth in Nigerian exports will be reduced.

In 2004, seeking to tackle the deficiencies in fiscal policy and achieving macroeconomic stability, the government introduced an oil-price-based fiscal rule (IMF, 2007, p. 10). Based on a budgeted oil price, any oil revenue in excess of predicted revenue is transferred into an oil-savings account at the central bank. An EPA between the ECOWAS and the EU could contribute positively in diversifying the economy away from oil. It could also play an important role in attracting investment to the non-oil private sector which has experienced negative growth in productivity between 1960 and 2000 (Gobat, 2005, p. 25). Increased productivity in the non-oil sectors is vital for broadening the tax base and increasing the importance of other sources of revenue such as VAT and personal income tax.

5.2.7 Senegal

Senegal has been experiencing higher growth than the average for West African countries which has boosted investment in infrastructure and made improvements in reducing poverty (Mitra, 2008, pp. 3). However, its main export products: fish, groundnut products, refined petrol and phosphoric acid have all been decreasing in value and volume over the last two decades. Senegal is amongst the countries in the region that most fiercely opposes the EPA.

Simulations of the impacts on trade for Senegal assume that trade diversion of 10 percent of preferred imports would occur (Segura-Ubiergo, 2008, p. 43). The actual trade diversion effects could potentially be smaller though, since the share of EU imports is already high and the elasticity of substitution of imports from Asian exporters is low. EU imports are likely to divert imports from countries with similar production structures, like the US and Canada.

Moving on to prospective losses from tariff revenues, three main scenarios of liberalisation have been set up: (i) a full and immediate trade liberalisation, (ii) substantial and immediate liberalisation and (iii) substantial but gradual liberalisation (Segura-Ubiergo, 2008, p. 43). Substantial liberalisation implies that 80 percent of all

imports are being liberalised. Scenario (iii) includes three different possibilities with regard to the pace of liberalisation: *frontloaded*, *progressive* and *backloaded*. Estimates under scenario (iii) are presented in Table 5.

Table 6. Average Annual Revenue Loss by Liberalisation Scenario, Senegal (% of GDP)

	2010-2014	2015-2019	2020-2024	2025 onwards	2010-2024
Frontloaded liberalisation	0.6	0.8	1.0	1.2	0.8
% of total revenues	3				
Progressive liberalisation	0.3	0.6	0.9	1.2	0.6
% of total revenues	1.5				
Backloaded liberalisation	0.2	0.4	0.6	1.2	0.4
% of total revenues	1				

Source: Segura-Ubiergo, 2008, p. 46

As can be seen from Table 5, frontloaded trade liberalisation leads to large initial losses of 0.6 percent of GDP which would be a major shock for the Senegalese fiscal system. Progressive liberalisation implies an initial revenue loss of 0.3 percent of GDP representing 1.5 percent of total revenues. A backloaded liberalisation will generate a smaller revenue loss corresponding to 0.2 percent of GDP in the first years but towards the end of the implementation period, losses will rise more significantly than under the other scenarios.

The Senegalese fiscal system is considered strong in comparison to most sub-Saharan countries and many of its implemented tax reforms are considered best practice (Segura-Ubiergo, 2008, pp. 40). Tax revenues as percent of GDP have been steadily increasing from 12 percent in 1994 to 20 percent in 2007. The country has decreased its dependency on trade taxes significantly: in 1996 they accounted for almost 30 percent of total revenues and in 2003 for 15 percent (see Figures 2-4). Taxes on income and profits have remained constant at around 22 percent of total revenues whilst taxes on goods and services have increased as share of revenues; they accounted for 42.9 percent of total revenues in 2003. Recently introduced tax reforms include the introduction of the WAEMU common external tariff and the simplification of various key taxes and the

VAT. On the administrative side, tax-payers' identification numbers have been introduced and the tax authorities' collection system has been computerised. Furthermore, Senegalese authorities keep up a persistent resistance against corruption and tax evasion.

5.2.8 Sierra Leone

After a decade of war, Sierra Leone's economic performance lags behind the sub-Saharan African average despite some strong economic growth in recent years. It ranks last on the 2008 HDI index. Production in Sierra Leone is mainly concentrated in the agricultural sector; rice is the main cash crop but cocoa and coffee are also important export goods (Landell Mills, 2006. pp. 63). Furthermore, Sierra Leone has a large mining sector producing diamonds on a large scale as well as rutile (an ore of titanium) and bauxite.

Public finances are relatively weak; over the last few years Sierra Leone has had an important budget deficit of on average 12 percent of GDP (Landell Mills 2006, p. 7). Trade taxes as a share of government revenue have fluctuated between 40 and 50 percent during the last ten years (see Figure 2). The share of taxes on goods and services in total revenues is growing; it is higher than in countries like Mali, Niger and Gambia. In comparison to other ECOWAS members, the share of imports from the EU is moderate; in 2003 they made up 30 percent of total imports whereas EU imports in neighbouring countries often account for nearly 50 percent of GDP (ibid., p. 50). This is reflected in high import-weighted tariff rates for EU imports of 16.7 percent, compared to 12 percent for the region on average.

Data on the Sierra Leonean trade and production sectors is not robust enough to allow a detailed analysis of the trade and fiscal effects of an EPA. Landell Mills (2006, pp. 47) attempts to estimate the impact of an EPA by using Verdoorn's (1960) partial equilibrium model per Busse et al. (2004) but conducting the analysis on the two-digit HS level instead of on the four-digit level, due to a lack of disaggregated data. The results from the simulations assume for the mid scenario that import duties will decrease by 32.6 percent,

corresponding to 15.2 percent of government revenue. Since no other studies on Sierra Leone are available the obtained results cannot be compared but it is worth noting that the fall in import duties is low compared to the estimates of Busse et al. for other West African countries. This estimate could be reasonable and could be explained by Sierra Leone's relatively low share of EU imports. The estimate of revenue losses on the other hand is high and corresponds to estimates for countries that would expect to see declines of 60-80 percent in their import duties. An explanatory factor behind this result could be that Sierra Leone applies higher import-weighted tariffs on EU imports than the majority of West African countries.

As a post-conflict country in the early stages of recovering, Sierra Leone's fiscal system is to a large extent underdeveloped and The National Revenue Authority was only recently established (IMF, 2006, p. 15). Measures have been implemented to improve domestic revenue collection through revising agreements with private sector agents in order to improve competition. Preparations have been made to introduce a VAT on goods and services and steps have been taken to enhance transparency in revenue collection from the mining sector. For a country that is recovering from a decade of war, the adjustment to the revenue effects from the EPA could be particularly hard and the post-conflict setting could be an obstacle to attracting foreign investment.

5.3 Summary of the Case Study Predictions

The case studies reviewed in the previous section use different methods for estimating the trade and the fiscal effects of an EPA. For that reason they are difficult to compare with each other and with the aggregate studies. Moreover, they make different assumptions on the scope and the transition period of liberalisation. Another reason to be cautious when interpreting these results is the limited reliability of national statistics in developing countries.

Table 7. Case Study Predictions of Revenue Loss under the West African EPA

Country	Revenue loss as % of import duties		Share of government revenue	
	Case Studies	Busse et al.	Case Studies	Busse et al.
Burkina Faso ⁵	11.8 ⁶	46.8	2.7 ⁶	5.6
Gambia	33.0	65.0	15.4	21.9
Guinea	78.0 ⁶	51.6	12.4	4.9
Mali	17.0 ⁶	35.6	3.6 ⁶	3.8
Niger	47.2	29.6	14.0 ⁷	3.6
Nigeria	42.0	52.7	3.0	2.5
Senegal ⁸	13.1 ⁶	60.0	1.5	10.7
Sierra Leone	32.6	-	15.0	-

In general, in comparison to the study by Busse et al. (2004), the case studies estimate smaller revenue losses (see Table 7). What is more, the decline in import duties as a share of government revenue is for Sierra Leone and Guinea very large, losses of this size would imply a severe strain on their public finances. Overall, the evidence points to a significant negative impact for West African countries. The countries that are in the best position to handle these impacts are probably those with a strong fiscal system such as Senegal or countries that can expect to raise revenue from investment and growth in sectors processing valuable raw material.

With regards to trade effects, the case studies do not focus particularly on these but EU imports can be expected to increase at the expense of imports from the rest of ECOWAS and the ROW. If EU suppliers replace intra-regional trade, it should be trade creating. However, in cases where the EU is potentially the most efficient supplier due to its producers being subsidised, West African producers are exposed to unfair competition preventing them from fully benefiting from their competitive advantage. This could be the case with, for example, rice, and for bovine and dairy products. When trade creation occurs, there will potentially be consumption effects as a result of consumers facing

⁵ Annual revenue loss in case study

⁶ Own computation using data and estimates from case study

⁷ Share of fiscal revenue

⁸ Annual revenue loss under substantial and gradual, progressive liberalisation in case study

lower prices. These effects will occur provided that exporters lower their prices in line with tariff eliminations and this will only happen if there is enough competition between suppliers.

The EU is a major exporter of manufactured goods to West Africa, thus an increase in imports of these commodities can be expected under an EPA. This could have two consequences; firstly, consumers are likely to benefit from cheaper manufactured products which should spur growth and generate tax revenue in terms of VAT. Secondly local industries might not be able to survive and thus this will lead to unemployment which implies social and economic costs in the short to medium term.

6 Conclusion

The West African countries are at a crossroad at this point in time. The EPA offers a chance for West Africa to undertake major trade reform and to integrate into the world economy. Nonetheless, the EPA will imply severe challenges in terms of coping with fiscal revenue losses and the restructuring of economies. The time when countries could rely on tariffs as a main source of revenue has probably come to an end and the reform of protective trading regimes will have to occur at some point.

The alternative to concluding the EPA is for the LDCs to continue to trade under the EBA preferences which offer them virtually the same access to European markets as under an EPA. However, these are unilaterally granted by the EU and can be withdrawn at any moment. If the LDCs are to definitely gain market access under an EPA, the final agreement must provide for elimination of non-tariff barriers such as more generous rules of origin and standardised SPS measures. The different incentives for West African countries to sign an EPA are reflected in their positions in the negotiations. Clearly, the non-LDCs are more likely to gain from an EPA than are the LDCs hence Ghana and Côte d'Ivoire did not hesitate to conclude interim agreements before the expiration of the Cotonou preferences. Nigeria on the other hand, uses its bargaining power from being a major oil exporter to try and exert pressure on the EU to extend its offer of providing

financial and technical assistance. Opting out of signing the interim EPA, Nigeria has indicated that it is not prepared to committing itself to trade liberalisation unless the EU offers substantial compensation in return.

The West African countries are price takers on the world market when they export their agricultural commodities. The opening up of markets and the potential structural adjustment of the economies as a result of liberalisation could reverse this trend by allowing producers to differentiate their products and to take advantage of economies of scale. If the EPA is indeed to become a pro-development tool and bring dynamic gains in terms of investment, technology and production growth, the necessary infrastructure and institutions have to be in place. Otherwise these gains are unlikely to be realised for many years. The EU has so far indicated that it is willing to provide financial support regarding compensation for lost fiscal revenues but not to extend its support much further.

As to the subject of revenue losses, empirical estimates of the impact of an EPA on fiscal revenues vary, but overall the evidence points to a significant negative impact for West African countries. The ability to absorb revenue losses will depend on how quickly countries can adapt their fiscal systems and shift to other sources of revenue. In post-conflict countries like Sierra Leone and Guinea, where government institutions are weak and recently established, this transition will be particularly hard. Most West African countries are aware of the importance of increasing their reliance on indirect taxes and are currently implementing measures in order to reform their fiscal systems. However, it is doubtful whether the measures undertaken are sufficient to make up for the expected losses in tariff revenues. Corrupt institutions and large informal sectors are other reasons why broadening the fiscal base is likely to be problematic. Furthermore, it is important that the support the EU offers in terms of compensation for lost revenues is technical as well as financial. Otherwise there is a potential risk that countries do not undergo the necessary structural reform.

Finally, one of the major development objectives of the EPAs is to promote deepened integration in the ACP regions. If trade is diverted from intra-ECOWAS suppliers in

favour of EU suppliers to a significant degree, the regional integration process in West Africa could be hampered as countries trade less with each other. For the same reason, a major increase in EU imports could inhibit South-South trade.

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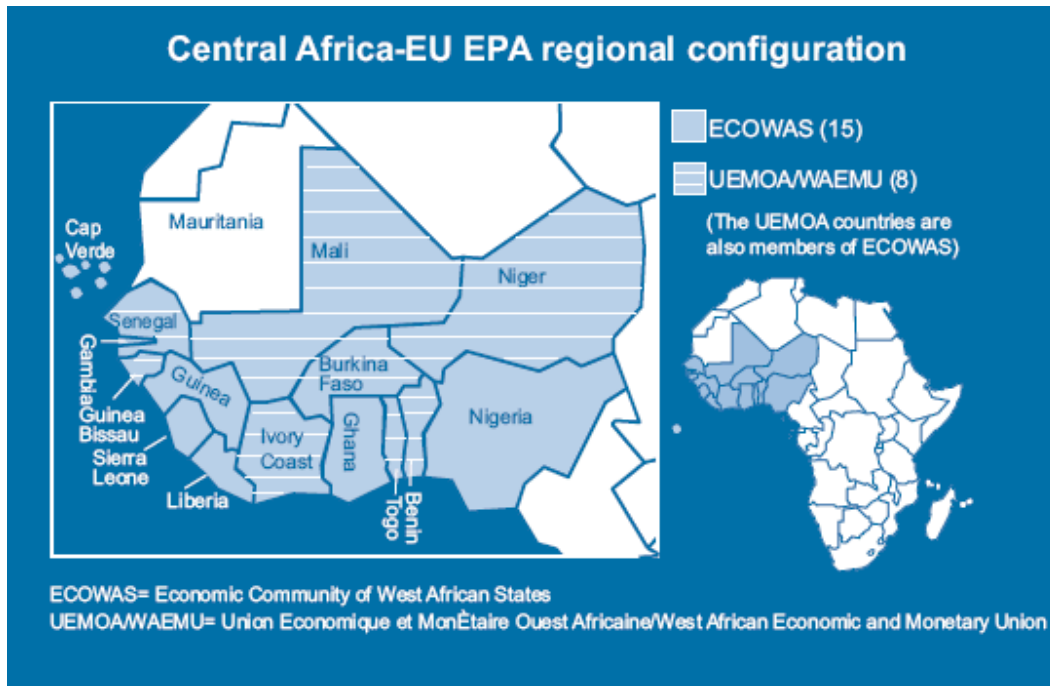
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Appendix 1 Regional groupings in the ACP-EU EPA negotiations

ECOWAS+ Mauritania	ECCAS+STP	ESA	SADC group	Caribbean	Pacific
Benin	Cameroon	Burundi	Angola	Antigua & Barbuda	Cook Islands
Burkina Faso	Central African Rep	Comoros	Botswana	Bahamas	Fed Micronesia
Cape Verde	Chad	Djibouti	Lesotho	Barbados	Fiji
Côte d'Ivoire	Congo-Brazzaville	Eritrea	Mozambique	Belize	Kiribati
Gambia	D.R. Congo	Ethiopia	Namibia	Dominica	Marshall Islands
Ghana	Gabon	Kenya	Swaziland	Dominican Rep	Nauru
Guinea	S. Tomé, Príncipe	Malawi	South Africa	Grenada	Niue
Guinea Bissau		Mauritius		Guyana	Palau
Liberia		Madagascar		Haiti	Papua N Guinea
Mali		Rwanda		Jamaica	Samoa
Mauritania		Seychelles		St. Lucia	Solomon Islands
Niger		Sudan		St Vincent	Tonga
Nigeria		Tanzania		St Christ. & Nevis	Tuvalu
Senegal		Uganda		Surinam	Vanuatu
Sierra Leone		Zambia		Trinidad & Tobago	
Togo		Zimbabwe			

Source: EC, 2006c

Appendix 2 West Africa EPA regional configuration



Source: ECDPM, 2006