European Commission

The Economic Impact of the SADC EPA Group - EU Economic Partnership Agreement

Trade

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This report is produced by the Directorate-General for TRADE and was prepared under the overall coordination of Lucian Cernat, Chief Economist in DG TRADE.

The main contributors were Thierry Beranger, Gijs Berends, Stephan Nolte, DG TRADE.

The simulations presented in this report were performed by Antoine Bouët, David Laborde and Fousseini Traoré (CEPR-IFPRI) under the contract No SI2.705312 implementing Framework Contract TRADE/10/A2/A16.

THE ECONOMIC IMPACT OF THE EU – SADC EPA GROUP

ECONOMIC PARTNERSHIP AGREEMENT

An analysis prepared by the European Commission's Directorate-General for Trade

Executive Summary

On 3 April 2014, Heads of State and Governments of Africa and of the European Union, gathered at the Fourth EU Africa Summit, declared: *"Our economies remain closely linked, and we will work to ensure that the growth of the one will help the other. We are also convinced that trade and investment and closer economic integration on each of our continents will accelerate that growth."* While acknowledging the *"valuable role"* of development assistance, they called for *"a fundamental shift from aid to trade and investment as agents of growth, jobs and poverty reduction."*[1]

Economic Partnership Agreements (EPAs) between the EU and African, Caribbean and Pacific (ACP) countries are the main pillar of ACP-EU trade cooperation, and aim at creating the right conditions for trade and investment. In this context, the EPA between the EU and the SADC (Southern African Development Community) EPA[2] Group establishes a long-term and stable trade relationship between both Parties, in compliance with international trade rules.

The current population of the SADC EPA countries combined is 89 million people. The two largest countries are South Africa and Mozambique, accounting for respectively 61% and 30% of the region's total population. The average GDP per capita is roughly 3,700 EUR. In purchasing power parities (PPP), this value is much

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[1] EU Africa Summit Declaration of 3 April 2014, §43.

[2] Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland. The composition of various country groups is discussed at the end of section 2.1.

higher, at about 8,400 EUR. Behind this average hides significant variation. Per capita GDP in the region's richest country, Botswana is approximately 15,700 EUR, which is roughly 14 times as high as it is in the region's poorest country, Mozambique. The regional average GDP per capita is about 25% that of the EU. Real GDP grew by an annualised 3% over the last decade, a period in which the corresponding figure for the EU was 1%. In total, the EU imported about 23.7 billion EUR worth of goods from the region whereas its goods exports were 27.2 billion EUR.

The rationale and content of the SADC EPA

The EU's trade relations with the ACP countries were historically framed by a series of conventions, which granted unilateral preferences to the ACP countries on the EU market. By the end of the 1990s, it was found that these conventions did not promote trade competiveness, diversification and growth as intended. They were also found to be in breach of the World Trade Organisation's (WTO) principles, as they established unfair discrimination between developing countries. A change was therefore required. EPAs were the response defined jointly by the ACP countries and the EU in the Cotonou Agreement signed in 2000. EPAs build a new reciprocal partnership for trade and development, asymmetric in favour of ACP countries. In keeping with the objectives set out in the Cotonou Agreement, sustainable development is a key objective of the EPA, which is explicitly based on the "essential and fundamental" elements set out in the Cotonou Agreement (human rights, democratic principles, the rule of law, and good governance). The joint EPA institutions are tasked with the function of monitoring and assessing the impact of the implementation of EPAs on the sustainable development of the Parties, also carving out a clear role for civil society and members of parliament.

In view of these objectives, the EPA differs from most Free Trade Agreements (FTAs) currently in place or negotiated by the EU with other trading partners: while it remains a reciprocal agreement, it weighs in favour of southern Africa through specific provisions:

- Asymmetric market access: The EU has committed to opening its market more than the SADC EPA countries have committed to do. The agreement fully takes into account the differences in the level of development between the two regions.

- Safeguards: Under the terms of the agreement, SADC EPA countries continue to be able to protect their sensitive products from European competition either by keeping tariffs in place or, if necessary, by imposing safeguard measures. To support local agricultural production, the EU has also agreed not to subsidise any of its agricultural exports.
- Flexible rules of origin: companies in the SADC EPA region also have more flexibility to use foreign components while still benefitting from free access to the EU market. In the SADC EPA, the rules defining the origin are formulated in a way to support development of new value chains in the region. The so-called "cumulation of origin" enables canned fruit exporters to source fruit from neighbour countries, or textile producers to use imported fabric. This type of flexible rules of origin will benefit companies in agri-food, fishery and industrial sectors.
- Development: The EU complements the market opening effort of its partners with substantial development assistance. This will contribute to development, sustainable growth and reducing poverty.

The estimated effects of the tariff reductions set out in the SADC EPA

The economic impact of the EPA was assessed using a dynamic general equilibrium model, tailor-made for trade policy analysis and adjusted to the specific characteristics which apply to the southern African countries. In a conservative manner, only the impact of the tariff reductions was assessed, i.e. what is easily quantifiable from the agreement. Essential provisions of the EPA (rules of origin, trade facilitation, cooperation on norms, and development assistance) were not considered in the model even though they weigh in favour of SADC EPA countries. The results presented in this study are therefore expected to be exceeded over time.

Based on the simulation results, SADC EPA countries' GDP will be positively affected by the agreement, albeit to a small extent: Individual countries see their GDP grow by between 0.01% and 1.18%, whereas the weighted average GDP increase, which is strongly dominated by South Africa, is about 0.03% (*Importantly, all results refer to the situation in 2035 compared to a situation without the EPA*).

The variation between countries reflects the extent to which the EPA and the baseline differ: in countries such as Namibia, the EPA provides duty-free quota-free access while the country, in the absence of EPA, would not benefit from a preferential treatment (hence the higher impact). In Botswana, the main export items (e.g. diamonds) would still benefit from low duties without the EPA (hence the lower impact). For a least-developed country like Mozambique, which would still benefit from duty-free quota-free in the absence of EPA, the main benefits to be expected rather come from the flexible rules of origin, regional integration as well as cooperation on norms and standards to boost its exports (all factors which could not be quantified and therefore were not included in the model).

Total exports from the SADC EPA Group to the world are positively affected by the EPA as are total imports. SADC EPA exports are expected to increase on average by 0.13% and imports by 0.14%. In particular, SADC EPA exports to the EU are expected to increase by 0.91%. The agreement has no measureable impact on the EU's overall trade with the world. Exports to the SADC EPA countries are anticipated to increase by 0.73% against a scenario where there would be no EPA.

The sectors with the highest expected increases in exports from SADC EPA countries are red meat (15.3%) and sugar (13.7%). Other sectors where an increase in exports is expected are beverage and tobacco, dairy products, fisheries, motor vehicles, "other food", textile, utilities, vegetable oil, vegetables and fruit, and white meat. While several of the increases are sizeable, decreases are usually below 0.1%, with the exception of wearing apparel (-1.2%), cattle (-0.8%) and electronics (-0.4%). The increase and decrease reflect the comparative treatment of each sector under the EPA by comparison to the baseline: in many sectors, EU customs duties are already low in the baseline scenario (especially when it comes to inputs into the production or primary products), while EU customs duties on finished goods and agricultural goods are much higher in the baseline than in the EPA, hence the higher positive impact in those sectors.

The remuneration of the factors of production is generally positively affected by the EPA even if only to a small extent. Remuneration of labour and land is generally expected to increase, while other factors such as capital and natural resources offer a more mixed picture.

The SADC EPA is expected to modestly reduce the poverty headcount in the two countries observed (South Africa and Namibia).

As a result of tariff reduction, SADC EPA countries will collect less import duties, but the decrease is on average not higher than 0.59% of total import duty collection at the end of the liberalisation period. Revenue loss is therefore expected to be limited.

Conclusion

The EPA paves the way for a stable and long-term bi-regional trade relationship between southern Africa and the EU. The outcome of the negotiations is a WTO-compatible Agreement that offers asymmetry in market access. The duty-free access to the European market for the Botswana, Lesotho, Mozambique, Namibia and Swaziland (BLMNS) countries will no longer be at the discretion of the EU but will be anchored in a treaty between the Parties. South Africa has also negotiated better access than currently granted under the Trade, Development and Cooperation Agreement (TDCA) between South Africa and the EU

Outlook

The EPA, including through its development cooperation pillar, is expected to facilitate intra-regional trade as well as the region's trade with the world. The SADC EPA will also re-establish the common external tariff of the Southern African Customs Union (SACU) and thereby renew the proper functioning of the oldest existing customs union in the world.

The EPA creates a joint Council and a joint Committee in charge of the implementation of the agreement. It will be the task of those institutions to ensure that the EPA is properly implemented, as well as to make proposals for the review of priorities set out in the agreement. For that purpose, constant monitoring of implementation is paramount.

Content

1. Introduction

The negotiations on the Economic Partnership Agreements (EPA) between the EU and the SADC (Southern African Development Community) EPA Group were concluded on 15 July 2014, after more than 10 years of negotiations. The agreement was initialled on the same day in Pretoria by the Chief Negotiators.

The SADC EPA Group consists of seven countries. Botswana, Lesotho, Namibia, South Africa, Swaziland (also called BLNS; together these countries form the Southern African Customs Union, SACU), Mozambique and Angola. Angola has not yet engaged in any market access negotiations and therefore has remained an observer throughout the negotiating process.

This study has the aim of presenting an analysis of the SADC EPA's consequences at a point in time, where all elements are known, i.e. after the end of the negotiations. It has been written to help understand the political and economic context in which the SADC EPA has been negotiated; it also identifies the main elements of the Agreement; and it offers an assessment of the impact of this Agreement on GDP, welfare, government revenue and poverty in the SADC EPA states.

Estimating the future effects of trade agreements is not an exact science, even when the content of the agreement is known. Certain aspects of the EPA make the analysis a challenging task:

- The analysis of the impact of the EPA is made against a baseline that describes what would happen if the SADC EPA States would not ratify the EPA. In the case of Botswana and Namibia, which are both upper middle income countries, exports to the EU would face the most-favoured-nation tariffs (MFN) applicable to all WTO members. Such an outcome would for instance be detrimental for their exports of beef, because the MFN duty is relatively high. Swaziland, which is a lower middle income country, would without an EPA be able to benefit from the Generalised Scheme of Preferences (GSP). GSP offers many tariff preferences but not for sugar, which is one of Swaziland's main export articles. Lesotho and Mozambique, the two least-developed countries (LDC) in the region, would be beneficiaries of the Everything-but-Arms (EBA) scheme, which would still provide duty-free, quota-free access to the EU, but which offers less advantageous rules of origin. Finally, trade with South Africa, in the absence of an EPA, would continue to be governed by the Trade, Development and Cooperation Agreement (TDCA), which is the bilateral agreement between the EU and South Africa that entered into force in 2000.

- Many trade-related elements of the EPA have not been modelled by this study. For instance, the SADC EPA offers rules of origin that are often more favourable than those governing trade between the EU and the SADC EPA countries today. What is more, the SADC EPA offers a large number of safeguards that may be activated by the SADC EPA states to protect domestic markets from surges in imports, but it is difficult to foresee whether the use of such safeguards will be warranted in the future.

- Importantly, the development chapter of the EPA contains commitments by both the European Union and the Member States individually to provide development financing to support the implementation of this Agreement. This financial assistance is an essential part of assuring that the EPA will become an instrument to propel economic growth, attract investment and create jobs. It is however not part of this study and of the model-based economic analysis it presents, which therefore inevitably can give only a partial, conservative, picture of the impact of the EPA.

This study is structured as follows. First, it seeks to explain the context and rationale for concluding the EPA (section 2) as well as the content of the agreement (section 3). Then, it looks at the existing economic and trade relationship between southern Africa and the EU (section 4). After a literature review (section 5), economic modelling tools are applied to assess the impact of the tariff liberalisation schedule set out in the agreement (section 6).

2. Context and objectives for the EU – SADC EPA Group Economic Partnership Agreement

2.1. Context of the Economic Partnership Agreement

The Lomé Conventions (the first of which dates back to 1975) set out the principle of non-reciprocal concessions on trade in favour of African, Caribbean and Pacific countries (ACP)[3]. The first three Conventions were concluded for a period of five years. The fourth Convention covered the period from 1990 to 2000.

By the end of the 1990s, there was a sense of frustration that the significant trade preferences for ACP exports had failed to stem the steady fall in ACP countries' share of total extra-EU imports and to bring the much needed diversification of ACP economies. Moreover, these preferences were not in line with the rules of the World Trade Organisation (WTO), which provide that countries in a similar situation should be treated on an equal basis. However, WTO rules also provide that countries can be granted specific treatment, insofar as such treatment is provided in the framework of a reciprocal free trade agreement that covers substantially all trade between the Parties. The WTO agreed with much difficulty to an exception for the non-reciprocal trade regimes until the end of 2007, after which they were to be replaced by WTO-compatible arrangements.

The ACP countries and the EU have jointly designed the EPAs as a response to this obligation. The Cotonou Agreement therefore foresaw the setting up of a new *reciprocal* partnership for trade and development, but one that would maintain a significant asymmetry in market access commitments, leaving ACP countries considerable policy space for keeping in place selected tariffs vis-a-vis imports from the EU. In 2003 and 2004, formal regional negotiations were launched with West Africa, Central Africa, Eastern and Southern Africa, the Caribbean, southern Africa / SADC and the Pacific. Countries of the East African Community formed a separate negotiating group in August 2007.

The relevant provisions of the Cotonou Agreement, which provided for unilateral trade preferences for the ACP countries, expired on 31

[3] The ACP Group of States was founded by the Georgetown Agreement in 1975.

December 2007. To bridge the gap for countries that were not yet in a position to apply EPAs, the EU set out transitional arrangements applying as from 1 January 2008 to products from the countries in question through the Council Regulation (EC) No. 1528/2007, the so called Market Access Regulation (MAR). This regulation governed the EU import regime for the ACP countries that had initialled EPAs in 2007. It basically unilaterally anticipated the duty-free access that the EU offered in these agreements, pending their entry into force.

However, because several years onwards a large number of ACP countries had neither taken the necessary steps towards the ratification of an EPA nor concluded comprehensive regional negotiations, the MAR was amended in May 2013 (Council Regulation (EC) No. 527/2013) to reserve free access only to those countries that had ratified their EPA or had concluded negotiations for a regional full EPA by 1 October 2014.

Box 1: Who is who in the SADC EPA?

The terminology used to describe the various countries and their regional configurations in the negotiations is not always easy to follow. This is why this box gives a short description of the terms and acronyms used. So who is involved in negotiating the **SADC EPA**?

The easiest way to start is by pointing out that there is already an agreement since 2000 that governs the trade between the EU and South Africa. This agreement is called the Trade, Development and Cooperation Agreement, or **TDCA**. South Africa is a member of the Southern African Customs Union, or **SACU**, which brings together South Africa with four other countries: Botswana, Lesotho, Namibia and Swaziland. Because the TDCA does not govern the trade between the EU and these four countries, it is sometimes needed to refer to these four countries together as to the **BLNS**. The SACU members are, however, not the only countries negotiating the SADC EPA with the EU. Mozambique is also a member and Angola is an observer. Together, these seven countries are known as the **SADC EPA Group**. This should not be confused with **SADC**. SADC is a regional economic community and comprises 15 member states (SADC EPA states in *italics*): *Angola*, *Botswana*, Democratic Republic of Congo, *Lesotho*, Madagascar, Malawi, Mauritius, *Mozambique, Namibia*, Tanzania, Seychelles, *South Africa, Swaziland*, Zambia and Zimbabwe. Under the SADC EPA, the EU gives duty-free, quota-free access to its partners with the exception of South Africa. This is why it is sometimes necessary to distinguish the Botswana, Lesotho, Mozambique, Namibia and Swaziland as a group from South Africa. This is why they are referred to as **BLMNS**.

2.2. Objectives of the EPA

The declared objective of the Parties when negotiating the agreement was broad, aiming at *"fostering the smooth and gradual integration of the ACP States into the world economy with due regard for their political choices and development priorities, thereby promoting their* *sustainable development and contributing to poverty eradication in the ACP countries".*[4] In the SADC EPA, this overall objective has been broken down into a number of more specific aims.

Poverty reduction. Trade is a precondition for economic growth. In turn, economic growth can be a building block for alleviating poverty. The EPA is meant to cement a positive economic dynamic, in line with the EU Africa Summit Declaration of 3 April 2014: *"It is time for a fundamental shift from aid to trade and investment as agents of growth, jobs and poverty reduction."*[5]

Development. The SADC EPA is not just a trade agreement. It is a *development*-oriented agreement. The EPA differs from other free trade agreements in the sense that trade liberalisation is strongly asymmetrical and flanked by measures, taking full account of the difference in economic development between the EU and the SADC EPA states.

Trade and sustainable development. Successful trade agreements deliver new jobs, economic growth and increased trade and investment flows. But these cannot be created at the detriment of core environmental and labour standards. Trade should also not be seen in isolation from essential principles of democracy, rule of law and human rights.

Regional integration. One of the challenges in Africa is to alleviate the high level of fragmentation of African markets. Some have argued that Africa has integrated quicker with the world than with itself.[6] The EPA makes sure that the Southern African Customs Unions (or SACU, which brings together Botswana, Lesotho, Namibia, Swaziland and South Africa) functions with a common external tariff towards products originating in the EU, something which has not been the case until now.

Integration into the world economy. The EPAs present a transformation of the trade relationship between the ACP countries

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[4] Cotonou Agreement, Article 34 §1.

[5] EU Africa Summit Declaration of 3 April 2014, §43.

[6] World Bank, *De-fragmenting Africa: Deepening Regional Trade Integration in Goods and Service*, May 2012

and the EU. A unilateral relationship has been turned into more open, reciprocal trade relations. The EPA makes this trade relationship between the EU and the SADC EPA states fully compatible with WTO obligations.

Improve capacity-building on trade. The EPA contains an entire chapter on development cooperation under which a large number of potential capacity-building efforts are listed.

Improve the economic and business climate. The SADC EPA presents a stable and predictable framework for trade relations between the partners. The EPA also guarantees preferential market access to the EU. This market access will no longer be at the discretion of the EU or dependent on the level of the development of a country's economy. It is laid down in a treaty between the Parties. This creates predictability for business operators.

Services and investment: The EPA contains no specific commitments on trade in services and investment. However, the EPA foresees discussions on a wider negotiation agenda ("rendez-vous clauses") covering for instance services, investment, public procurement or intellectual property rights. Given the importance of services for the economies of the SADC EPA countries, this study includes them into the analysis (cf Annex 2).

3. Contents of the SADC Economic Partnership Agreement

3.1. Trade in Goods

The core of the EPA contains the provisions on *trade in goods*. The main purpose is to facilitate trade by making it less expensive to export and import. This is done through liberalisation of the trade which means that import tariffs will be eliminated or in some cases reduced. The table below shows the degree of liberalisation that the EPA will achieve.

Table 1: Scope of tariff elimination and reduction provided by the SADC EPA

	Offers on trade liberalisation: % of actual trade in volume (2012-2014)
EU offer to BLMNS	
Full liberalisation	100% (except arms and ammunition)
EU offer to South Africa	
Liberalisation (full and partial)	98,7% (96,2% + 2,5%)
Excluded	1,3%
SACU offer to the EU	
Liberalisation (full and partial)	86,2% (74,1% + 12,1%)
Excluded	13,8%
Mozambique offer to EU	
Full liberalisation	74,0%
Excluded	26,0%

Source: DG TRADE estimates based on Eurostat/ Global Trade Atlas data

These figures show that the EPA guarantees that BLMNS will have free access to the EU market (there is an exception for arms and ammunition). This is not different from the situation today, but it is very different from how the situation would develop in absence of the EPA. It is also an important achievement, because thanks to the SADC EPA, this free access for the BLMNS countries will no longer depend on a unilateral policy that the EU can change at its discretion (like Everything-but-Arms, GSP, or even the Market Access Regulation). It is now bound in a treaty between the Parties. Even if a SADC EPA state attains the economic development of an advanced country, it will continue to enjoy this access.

Box 2: How Botswanan beef finds its way on the European market

Botswana may be known for its diamonds, but cattle are the backbone of the society. With a national herd of 2.6 million head, cattle easily outnumber the human population of 2.1 million.

In Botswana social status is traditionally defined through the size of herd, but cattle also play an important role in the country's economy, at a national and gradually at an international level.

Despite the fact that Botswana is a small country and cannot compete with large-scale beef meat exporters like Brazil, the country has a notable advantage in a niche market. In order to ensure to meet the taste of the European consumers, Botswanan cattle farmers started cross-breeding the native Longhorn with cattle breeds of Indian (Brahman cattle) and European (Simmentaler cattle) origin.

Due to the good quality and the very specific aroma of Botswanan beef, the penetration of the European market has been successful. With 80 %, the UK was the major import market for Botswanan beef. Today over 15 countries in the EU consume Botswanan beef. The SADC EPA backs this advantage in guaranteeing duty and quota free access for Botswanan beef to Europe.

(*source: SADC Secretariat – REIS programme*)

South Africa also gets a high degree of market access to the EU, but it has held a slightly different position in the negotiations. Whereas the EPA aims to continue and codify the free access that BLMNS countries have been enjoying for some decades, in the case of South Africa, the aim was to improve on the already existing trade agreement between the EU and South Africa, namely the TDCA. It entered into force in the year 2000. It has already generated a large degree of liberalisation. The EPA has now further improved market access, notably in the area of agricultural products. The EPA grants South Africa new market access for commercially important products such as sugar, wine, fruits and fruit juices. Not all of these concessions can be called "full liberalisation". At times, the result of the negotiations has been "partial liberalisation" instead. Partial liberalisation means for instance that trade has been liberalised for a jointly agreed volume. This is then called a Tariff Rate Quota (TRQ). If one adds up full and partial liberalisation, the SADC EPA will lead to a liberalisation of 98,7% of actual exports from South Africa to the EU.

The TDCA has been an essential factor in the negotiations. The main reason for this is that South Africa forms together with Botswana, Lesotho, Namibia and Swaziland (the BLNS countries) the Southern African Customs Union (SACU).

Box 3: The SADC EPA offers market access additional to the TDCA

Trade between the EU and South Africa has been governed by the TDCA from the day it entered into force in 2000. The trade provisions of the TDCA will now be incorporated into the SADC EPA. Under the EPA negotiations, South Africa has gained new market access into the EU, additional to what had already been agreed under the TDCA. Similarly, the EU will have new access into South Africa. The difference this time is that the market access will be granted by the entire Southern African Customs Union (SACU) - which comprises Botswana, Lesotho, Namibia, South Africa and Swaziland – so that SACU imposes a single common external tariff, as customs unions are expected to do.

New market access for South Africa into the EU: the fish sector will be fully liberalised and South Africa will benefit from TRQs on selected tariff lines of wine, sugar, fruit juices, citrus jams, canned fruit, skimmed milk powder, butter, yeast and ethanol.

New market access for the EU into SACU: SACU liberalises the fish sector and the EU will benefit from TRQs on selected tariff lines of pig meat and fat, Mortadella Bologna, butter, cheese, wheat, barley, cereal preparations and ice cream.

The defining characteristic of a customs union is that the member countries live by a *common external tariff*: irrespective of the importing country, the import duty ought to be the same. But the trade liberalisation agreed under the TDCA only binds the EU and South Africa (even if Botswana, Lesotho and Swaziland have *de facto* been applying the TDCA tariffs).

One of the main objectives of the SADC EPA negotiations was to harmonise the import tariff regime for the whole of SACU and restore the common external tariff of what is known to be the oldest existing customs union in the world. This is why the BLNS countries have offered the EU the same market access as had *already* been granted by South Africa (SACU) under the TDCA, as well as some limited new market access on selected agricultural products that the EU has been granted under the EPA. This harmonisation has been one of the main outcomes of the SADC EPA and has been welcomed by all Parties.

The EPA chapter on trade in goods also covers export duties. The Parties have agreed that no new duties or taxes on exports shall be introduced. They have also agreed that the export duties currently applied shall not be increased. In exceptional circumstances, however, and if SADC EPA states can justify it for reasons of fiscal revenue, environment protection, protection of infant industry, or industrial development, export duties may be temporarily introduced on a limited number of goods.

Box 4: Mozambique as an LDC joins the EPA

Mozambique is classified as a least developed country (LDC)which therefore benefits from the . Under Everything-but-Arms (EBA) regime - a scheme which is linked to a country's level of development.

The EPA, by contrast, locks in the free access to the EU, because the access is laid down in a treaty between the Parties. The EPA is also a reciprocal agreement. By opening its markets to a limited and well-balanced selection of European products, Mozambique will gain better access, inter alia to intermediate products and machinery necessary to diversify its economy.

Under the EPA, Mozambique will also benefit from common relaxed rules of origin, common provisions on sanitary and phytosanitary norms, customs and technical barriers to trade, as well as EPA-related development cooperation.

The elimination of the customs duties for these products is laid down in Mozambique's tariff schedule. Each product has been designated a product category, which is linked to a type of tariff dismantling as can be seen in the table below.

Table 2: Tariff schedule of the SADC EPA for Mozambique

Category	**Basic duty**	**Year**									
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
A	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
B	20%	20%	15%	10%	5%	0%	0%	0%	0%	0%	0%
C	20%	20%	20%	20%	20%	20%	15%	10%	5%	2.5%	0%

For example, air-conditioning machines are categorised as a product listed in the "B1" category. Today the duty to be paid is 20%. Five years after entry into force of the agreement the duty will be eliminated. Mozambique can therefore exempt a large number of products from liberalisation and has been able to impose comfortable dismantling schemes for the products that it will liberalise.

The SADC EPA also contains a number of non-discrimination or "MFN" clauses. The first can be found in the article on export duties. To avoid that only exports to the EU would be subject to export duties, a provision has been included that holds that any more favourable treatment applied to SADC's exports to another major trading partner, will have to be extended to the EU. The second MFN clause can be found in a general article on more favourable treatment. If, in respect of customs duties, the EU will grant any more favourable treatment to a third party, the EU shall extend this treatment also to the SADC EPA States (with specific clauses for South Africa which does not obtain full free access under the EPA). In return, the SADC EPA states, when they grant, in respect of customs duties, any more favourable treatment to other major trading economies, the EU and the SADC EPA State shall enter into consultation to see whether and how this more favourable treatment will be extended to the EU. A third provision is in a way related. In the article on regional integration, it has been agreed that SADC EPA 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 EPA.

Besides the flexibility that the EU has provided in terms of market access, the SADC EPA group members can also invoke a large number of safeguards. These safeguards are meant to protect countries from imports that increase to such an extent that it causes or threatens to cause injury to the domestic industry. Including a bilateral safeguard clause in trade agreements is common practice, but the SADC EPA includes additional safeguards that are not available to the EU: an agricultural safeguard; a food security safeguard; an infant industry safeguard and a special safeguard for Botswana, Lesotho, Namibia and Swaziland.

Box 5: Products excluded from liberalisation

Being a development-oriented agreement, the African SADC EPA partners have been able to exempt their most sensitive products from full liberalisation. Without trying to be exhaustive, this box gives some insights in these exclusions.

SACU has designed three kinds of exemptions. First, some products have been excluded from liberalisation. These products include selected tariff lines of bovine meat, pig meat, lamb and offal; also some dairy and milling products as well as selected minerals such as pitch coke and lubricating oils. A few tariff lines of car parts and vehicles have also been excluded. Secondly, as was listed in Box 2, SACU has granted a number of TRQs to European products. This means that the product is liberalised only partially. Once the agreed volume within the TRQ has been exported, the normal MFN duty will apply. Thirdly, SACU grants a tariff reduction – but not elimination – for a number of tariff lines. This stems from the liberalisation schedule agreed under the TDCA. This tariff reduction mainly applies to leather, textiles, fabrics, footwear, car parts and vehicles.

Mozambique has chosen to distinguish between products that will be fully liberalised (albeit at times through tariff dismantling) or that will be excluded from tariff reductions. It is not easy to summarise the excluded products but they include selected tariff lines on wheat, tuna, wines, footwear, textiles, wooden furniture, cement and ceramics.

3.2. Development

The EU, collectively with its Member States, is committed in supporting challenges countries may face for EPA implementation in line with the provisions agreed in the agreement. EU support may be channelled through an EPA fund should the concerned countries decide to establish one and provided they it complies with the requirements of the Financial Regulation (seven pillar assessment). Assistance is delivered through existing instruments and is subject to the rules and procedures provided by the Cotonou Agreement - in particular the programming of the EDF, and by the relevant instruments financed by the General Budget of the EU. EU assistance should complement Governments' necessary economic, regulatory and fiscal reforms

Overall, based on the OECD definition of Aid for Trade , it is estimated that the total funding allocation under the 11th EDF in support to SADC EPA implementation amounts indicatively to €400 million, of which about €170 million from National programmes and about €230 million from the 11th EDF Eastern Africa – Southern Africa – Indian Ocean Regional Indicative Programme (EA-SA-IO RIP). Moreover €600 million from the intra-ACP programme are proposed to support private sector development in all ACP countries; with additional €17.5 million allocated to support trade facilitation under the DCI funded Pan African instrument.

Under the 11th EDF, NIPs will substantially support sectors that are part of EPA implementation e.g. agriculture – agri-business, standards, infrastructure, etc. EPA Implementation Plans, aiming at identifying national priorities and better channel EU support, are currently being discussed with the concerned Governments.

The 11th EDF EA-SA-IO RIP is a privileged instrument to support EPA implementation, both because of its sectorial focus and implementing modalities. These include the option of funding directly national governments in addition to SADC secretariat on the basis of the direct access and subsidiarity principles. It is estimated that a large part of the total allocation of the RIP (€1,332 billion) will be delivered at national level. SADC benefits of a sub-regional envelope of €90 million, out of which €47 million are earmarked to support regional economic integration in SADC member states and €34 million to support SADC secretariat. Furthermore, the RIP includes a €600 million envelope to finance infrastructure development in the whole region and financing of cross-regional actions to finance EPA relevant issues i.e. such as support to the sustainable fisheries in the Indian Ocean (€35 million); and support to improve maritime security (€40 million).

Box 6: The EA-SA-IO RIP support to EPA implementation

Amongst the 3 focal sectors[7], **62% of the RIP total allocation will target regional economic integration** with an emphasis on the completion of more integrated markets, the development of investment and productive capacities and the improvement of economic infrastructures. The objective is to:

1. Provide institutional **support to the 5 Duly Mandated Regional Organisations (DMROs)**[8] of the region by:
    - Enhancing their capacity to advance on regional economic integration and/or implement regional strategies (regulatory aspects), including the negotiation of EU trade agreements/EPAs;
    - Strengthening monitoring systems to provide comprehensive information on the overall regional integration process, including progress in individual countries;
    - Promoting the harmonization of their integration agendas and support them to fulfil their mandate in trade-related assistance for their member states;

2. Deliver **trade-related assistance and support to private sector at national level**, by:
    - Enhancing conditions for effective integration of the EA-SA-IO countries into regional and international trading systems, including support to the implementation of EPAs[9];
    - Enabling the private sector to take advantage of regional and international trade and investment opportunities, including in the context of EU trade schemes/agreements[10].

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[7] Peace, security and regional stability; Regional economic integration; Regional natural resource management.

[8] COMESA, EAC, IGAD, IOC, SADC

[9] This may cover the whole spectrum of trade related assistance, including trade policy, export strategies, trade facilitation, regulatory aspects, transposition of regional commitments in trade in goods, modernisation of customs systems and the collection of public revenue;

[10] This may include: support to the regulatory environment (business and company laws, industrial standards, intellectual property rules, competition laws, tax policies, including tax fraud); strengthening productive capacities (development of industrial and export strategies, regional training and research institutions); developing financial regional markets to mobilise regional and external finance for business development (in particular SMEs); strengthening the

13% of the RIP total allocation will target **regional natural resource management** with the objective of:

1. Improving drought resilience at regional level by strengthening information systems, market regulation, food supply systems, food stock systems, value chains;
2. Supporting sustainable management and exploitation of agriculture, fisheries and mineral resources.

The support is articulated in:

- 5 financial envelopes, one for each DMRO and its member states (total €450 million);
- One allocation for **infrastructure financing** (total €600 million) to be delivered mainly through blending, including support to hard and soft measures i.e. enhancement of the strategic and regulatory framework to sustain and maximise utilisation of physical infrastructure;

3.3. Rules of Origin

Rules of origin are part of any free trade agreement leading to a preferential reduction of tariffs. In today's global economy, many sectors are characterised by successive steps of production organised in international value chains. As a result, final products are composed of components and inputs of various country origins. Therefore, it is important to distinguish the goods which qualify for the preferences agreed under the EPA from those goods which do not "originate" from the EU or the SADC EPA countries,

Rules of origin distinguish between “wholly obtained” products, “substantially transformed” products, and those which are considered

capacity of non-state actors to participate actively in regional integration and EPA processes (policy-making, implementation); and promoting inter-enterprise cooperation (networks, supply chains, business associations), including with EU companies.

not to originate from the country. For that purpose, the agreement defines the following:

- The conditions for products to be considered as wholly obtained in the SADC EPA countries or in the EU. One can think of, for instance, of mineral products extracted from their soil, live animals born and raised there, and so on;

- The types of working or processing operations considered as insufficient to confer the status of originating product. Removal of coverings or affixing of labels are examples of such processing operations.

- The types of working or processing operations considered as sufficient to confer the status of originating products ("substantial transformation"). Specific annexes clearly define the applicable criteria per category of products (specific conditions). An example is the textile sector, where only "single transformation" is required. This means that origin is conferred by a single set of processing operations leading to clothing, such as spinning, weaving or assembly. In contrast to this, according to the "double transformation rule" an operator would have to make yarn into fabric *and* fabric into clothing.

- Cumulation of origin is a derogation from the basic principle that a product should obtain originating status in a single country. This means that producers in more than one country may jointly meet the requirements for a "substantial transformation". An example for canned fruit was given above. Under the SADC EPA Agreement, cumulation of origin is extended to the EU and the SADC EPA members, but also to other ACP States which apply an EPA or to the Overseas Countries and Territories (OCTs) associated with the EU. Furthermore, new cumulation possibilities are allowed under certain conditions with other GSP and FTA partners of the EU. This provision takes account of the fact that value chains extend to different zones: inputs can therefore be sourced from various countries without the risk of losing preferential treatment when exported to the EU. Rules of origin are, as a consequence, a key element for investment location decisions in the manufacturing and processing sectors. In the long term, the geographical extension will contribute to a better integration of ACP countries in global value chains as well as the creation of value chains across ACP countries.

3.4. Geographical Indications

GIs are the names of products that originate in the territory of a particular country, region or locality where a quality, reputation or other characteristic is closely linked to the product's geographical origin. Protection of GIs brings many advantages. Foremostly it protects the intellectual property rights of the original producers of products in a locality. GIs can, if well exploited, protect financial assets, distinguish products in the market place and bring increased value to the products of local communities. GIs can also be used as part of a regional strategic plan to encourage rural development and thereby create new jobs. Under the SADC EPA, South Africa and the EU have agreed to a protocol that brings such protection to 251 European GIs and to 105 South African GIs.

GIs are names protected against

- Any direct or indirect commercial use of a protected name,
- Any misuse, imitation or evocation,
- Any other false or misleading indication as to the provenance, origin, nature or essential qualities of a like product,
- Any other practice liable to mislead the consumer as to the true origin of a like product.

The EU GIs include wines, foodstuffs, beers and spirits. On the South African side, GIs are essentially all wines plus the three food GIs - Karoo meat of origin, Honeybush tea and Rooibos tea. All protect typical and well-known South African products.

Box 7: South African Rooibos tea

Rooibos is derived from a plant which grows in the Cape region of South Africa. For many centuries, it was known to the inhabitants of the region who used to cut the leaves of the plant and, after processing them, consumed it as tea. For many centuries, Rooibos was only consumed inside South Africa. At the end of the 18th century, the plant got known outside South Africa for being caffeine free and as a healthy product. Parallel to the increasing demand outside South Africa, first attempts of professionalising and expanding the production at a larger scale succeeded. The country used this advantage for building up and diversifying its rooibos production.

Now that Rooibos has become protected as a GI, the use of the name is protected, which means:

- A producer in an EU member state would like to market a tea, processed from a plant from its own territory, as "Rooibos". This is not possible because the name "Rooibos" is protected under the agreement.
- The producer decides to add the name of the region where his product comes from – such as "California Rooibos". This is still not possible as, even though the true origin may be clear, the name Rooibos is protected only for the South African product. It would have to be called something else – like "California herbal tea".
- The producer then decides to call it by a translated name, but makes reference to Western Cape in the new name: the label suggests the tea comes from South Africa. This is not possible because the agreement stops any misleading indication as to the origin of the product even if the name is translated.
- The producer then decides to use a different name, but adds well-known images of Rooibos plants, Rooibos farming, and images of the Western Cape. This is not possible either, because the agreement protects against evocation – that is when the consumer looks at the label, he or she thinks of the original South African Rooibos.

3.5. Trade and sustainable development

Trade is a precondition for economic growth and therefore an important factor in the creation of sustainable development. At the same time, it is important that the opportunities for trade are not harvested through a weakening of social and environmental standards.

This is why the SADC EPA begins with a chapter on trade and sustainable development. Under its provisions, the Parties (a) reaffirm their commitment to international conventions on labour and environment; (b) agree that they can only adopt and modify their environment and labour laws provided changes are consistent with internationally recognised standards and agreements; (c) reaffirm the importance of environmental and labour protection and therefore (d) shall not derogate from, or persistently fail to enforce the relevant legislation; (e) can request consultations on any sustainable development matter and (f) agree on a number of areas such as forest management and fishing practices for further cooperation.

Moreover, the SADC EPA resides under the Cotonou framework which contains provisions on human rights, democratic principles, the rule of law and good governance. These are called the "essential elements". In case of violation of these elements, the Parties may take "appropriate measures". In choosing the right measure, the Parties will take care to select the measure that least affects the operation of the Cotonou Agreement, but, as a last resort, benefits could potentially be suspended. The SADC EPA has a special provision – the so-called non-execution clause – that holds that nothing in the EPA can be interpreted so as to prevent such appropriate measures from being taken.

Under the trade and sustainable development chapter, a special provision has been carved out to make sure that in discussions and consultations on labour and environment matters, each party can reach out to other stakeholders such as NGOs, non-state actors and other members of the civil society.

Finally, significant monitoring obligations exist for the SADC EPA. Several committees are concerned with monitoring of whether the

Parties live up to the commitments under the agreement. Additionally, there is also an article that obliges the Parties to monitor “the impact” of the Agreement, “within their respective participative processes” and to ensure that “benefits for the people” are maximised.

4. Overview of the economic and trade relations between the EU and the SADC EPA region

4.1. Economy of the SADC EPA region

This chapter discusses by means of descriptive statistics and other information the current situation of the SADC EPA countries as far as trade and the economy are concerned.

Table 3 shows key socio-economic indicators of SADC EPA countries and compares them with corresponding values for the EU and the entire world. The current population is 89 million people in the SADC EPA region. The two largest countries in terms of population are South Africa and Mozambique, accounting for respectively 61% and 30% of the region's total population.

Real GDP has been 330 billion EUR in 2015. This translates into an average GDP per capita of roughly 3,700 EUR. In purchasing power parities (PPP), this value is significantly higher with about 8,400 EUR. Behind this average hides significant variation. Per capita GDP in the region's richest country, Botswana is with about 15,700 EUR about 14 times as high as it is in the region's poorest country, Mozambique (1,121 EUR). The latter occupies rank 179 out of 187 in terms of per capita GDP, whereas Botswana is on place 71. The region on average occupies a virtual rank of 106.

The regional average GDP per capita is about 25% that of the EU, which would be ranked 30th out of 187 countries in terms of per capita GDP.

The relatively low level of GDP contrasts with the comparably high recent growth rate. Real GDP grew by an annualised 3% over the decade from 2005 to 2015, a period in which the corresponding figure for the EU was a mere 1%. This growth rate has still been lower than global average with 3.4% in the same period. Future growth rates are forecast by the IMF to converge in the same period. Both the global average and the SADC EPA region's growth rate are projected to be lower in the coming five years, whereas that of the EU is expected to pick up slightly.

In a ranking according to their Human Development Index (HDI) score, the SADC EPA members score consistently worse than they do in terms of per capita GDP. On a simple average, the region would be on place 140. This significant difference is, however, also driven by the fact that for the HDI rank a simple average must be applied.

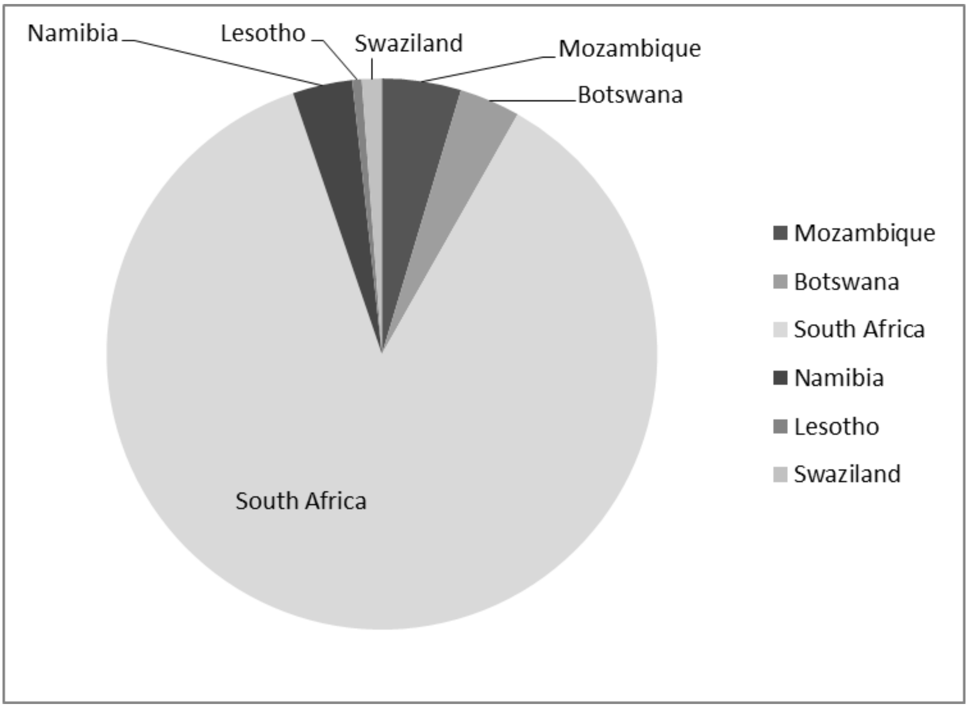
Table 3: Overview of SADC EPA countries' economy

	GDP 2015, billion EUR	Recent annualized real growth (2005-2015)	Projected future real growth (2015-2020)	Per capita GDP in PPP EUR	Per capita GDP in PPP rank (of 187)	HDI rank (of 188)	Population (2015)
Mozambique	15.3	7.2%	9.8%	1,121	179	180	27.1
Botswana	11.8	5.0%	3.9%	15,733	71	106	2.1
South Africa	286.0	2.6%	2.2%	11,895	90	116	54.9
Namibia	11.6	4.1%	5.2%	10,079	100	126	2.2
Lesotho	1.8	4.5%	4.0%	2,718	151	161	1.9
Swaziland	3.9	2.7%	1.2%	8,755	106	150	1.1
SADC EPA	**330.4**	**3.0%**	**2.7%**	**8,435**	***106***	**140**	**89.4**
EU	14,660.3	1.0%	1.8%	34,071	30	28	507
World	65,968.9	3.4%	3.2%	14,156	-	-	7,205

Source: IMF (2015), UNDP (2016), ECB (2016); Remarks: Results for SADC EPA Group, EU and world are weighted averages where applicable. For country aggregates, the GDP per capita rank is the virtual rank of the weighted average GDP of members. The HDI rank is the simple average of individual ranks. The sources provide data mostly in USD. For conversion to EUR for this table and elsewhere, average exchange rates as published by the ECB from 1 January 2015 to 1 January 2016 are applied (1.1095 USD/EUR).

Figure 1 shows the information contained in the first column of table 1 in graphical form. It vividly illustrates the economic dominance of South Africa in the region; its GDP makes up about 87% of the region's total.

Figure 1: Share of GDP in total SADC EPA group



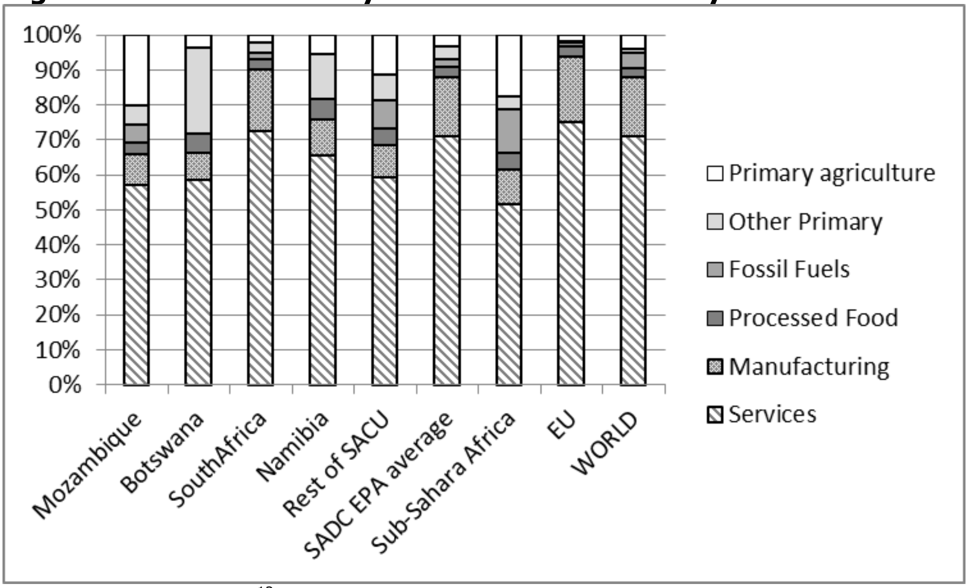
Source: IMF (2015), own calculations

Figure 2 presents the structure of the SADC EPA Group economies and compares the group to the whole Sub-Sahara African region, to the EU and to the global average.[11] The second figure shows once more how South Africa's economy dominates the entire region's result as its economy's structure is almost fully mirrored in the regional average. This is characterised by a sectoral composition that more closely resembles that of the EU and the rest of the world than that of Sub-Sahara Africa. In particular, primary sectors including fossil fuels are less important, and manufacturing and services play a greater role. With regard to the single country results, notably for Swaziland and

[11] We used the model database as a source. Alternatively, the world development indicators would provide similarly structured information. The sectoral disaggregation scheme seemed less useful for the purposes of this study though. More specifically, primary activities such as primary agriculture, forestry and mining are lumped together with processing industries in some cases. Furthermore, many sectors that we would like to subsume under services such as construction are subsumed under industry there. One disadvantage is that we have to report data for Swaziland and Lesotho as "Rest of SACU" since individual data is not available.

the Lesotho and Mozambique, the two least developed countries (LDC) in the group, resemble the Sub-Sahara African structure more closely. The figure also sheds light on the importance of the mining sector in Botswana.

Figure 2: Value Added by Sector of the Economy



Source: MIRAGE database.[12]

Table 4 presents two common institutional indicators to capture the quality of the economic environment: the World Bank's Doing Business Indicator (DBI) and the World Economic Forum's Global Competitiveness Index (GCI).

The virtual average DBI rank of SADC EPA countries of 100 out of 189 is slightly above the region's virtual rank in terms of per capita GDP and significantly above its rank concerning the HDI. The EU's rank is rather similar to its virtual ranks on those two indicators (31 of 189 for the DBI and 30 of 187 for GDP per capita).

12 The "MIRAGE database" is the data used by the MIRAGRODEP model in the aggregation (cf. Annex 2) used for the simulations in this study. This data is in turn based on the GTAP9 database.

The GCI score ranges between 3.2 and 4.4, a higher score corresponding to a higher competitiveness. The computed rank of the SADC EPA region (simple average) would be 105 out of 140, whereas the EU's rank would be 30, again very close to its ranks on other previously discussed indicators. It may be worthwhile to mention that eight out of 28 EU member states score worse than South Africa, who has the highest score in the SADC EPA region.

Table 4: SADC EPA countries' institutional indicators

	Ease of Doing Business Rank of 189	Global Competitiveness Index
Mozambique	133	3.200
Botswana	72	4.190
South Africa	73	4.386
Namibia	101	3.985
Lesotho	114	3.702
Swaziland	105	3.403
SADC EPA Group	**100**	**3.811**
EU	31	4.751

Source: World Bank Group (2016), WEF (2016)

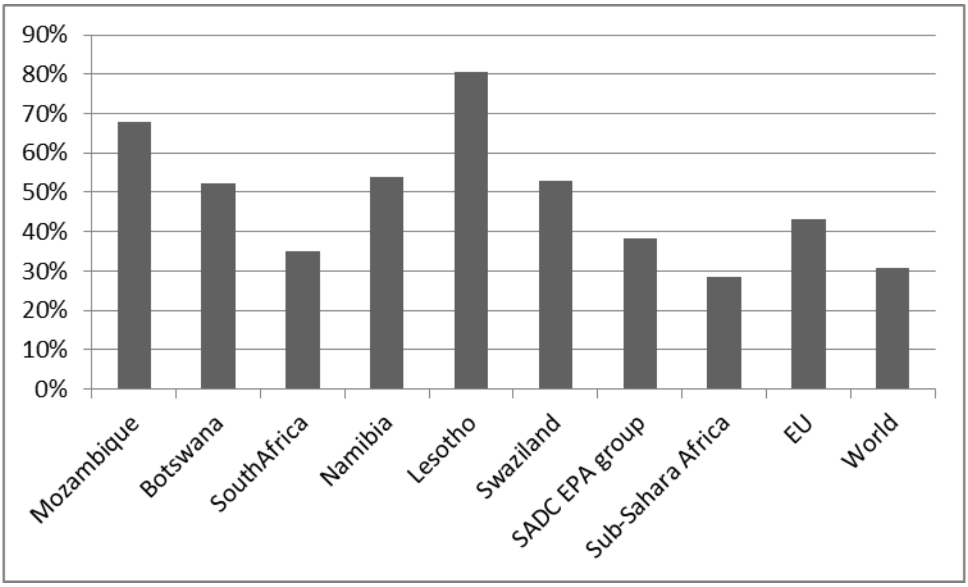
4.2. Comparison of the SADC EPA region's trade with the world

All members of the SADC EPA group have been WTO members as of 1995, the year when the organisation was established. The SACU and the TDCA are the two bilateral agreements notified by its member countries to the WTO.

Most of its members are however also eligible to various preferential trading schemes, for instance the EU's EBA initiative granting duty-free and quota-free trade to Lesotho and Mozambique as LDCs since 2001 as well as the Lomé Convention and Cotonou Agreement. Their decades-long preferential market access is now in the process of being legally consolidated in the EPA.

Figure 3 shows the share of trade (average of exports and imports of goods and services) in GDP of SADC EPA countries and different benchmark regions. Traditionally, this is interpreted as an indicator of openness of an economy. Normally, a high figure is an indicator for an open economy or, in other words, an indicator for a high integration of an country in the world economy. In the context of the particular situation of SADC EPA countries, this may be misleading. The ratios of trade to GDP are exceptionally high for some of the countries, in particular the two LDCs. This is however not driven by integration in the world economy, but by a sizeable trade deficit. The average of about 38% that the figure displays for the SADC EPA region is a weighted average. A simple average would have yielded a ratio of 57%.

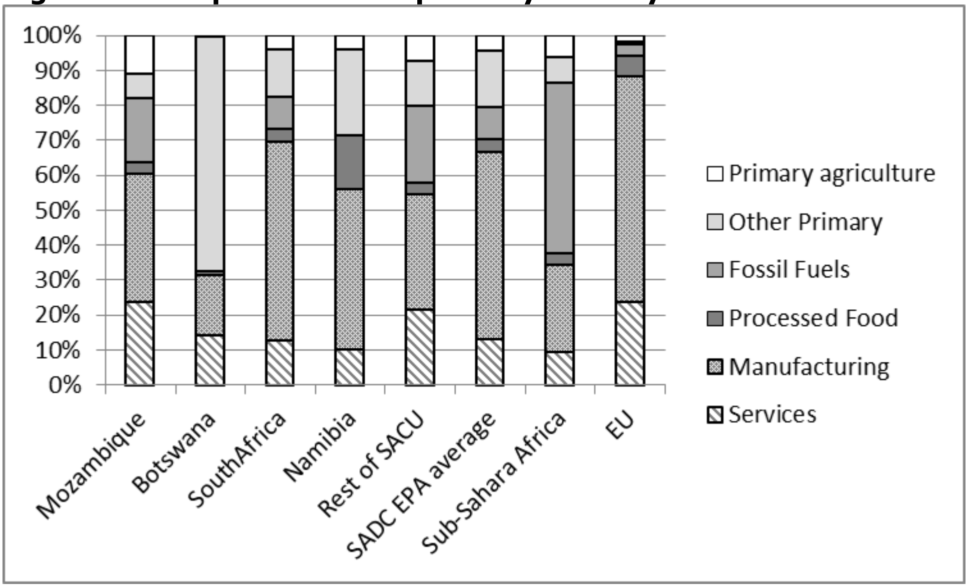
Figure 3: Trade (average of exports and imports of goods and services) in % of GDP, 2014



Source: World Bank.

Figure 4 shows the sectoral composition of exports by country.[13] As shown in the previous figures, South Africa is once again strongly determining the regional SADC EPA average. However, unlike the structure of value-added that was presented in figure 2, the structure of SADC EPA countries' exports is more strongly tilted towards primary sectors than the global average, although remarkably less so than the average of Sub-Sahara Africa. The region is in particular less reliant on fossil fuel exports.

Figure 4: Composition of exports by country



Source: MIRAGE database.

The sectoral composition of imports, as shown in figure 5, is less diverse than that of exports. Notable are the large level of services imports of Swaziland and Lesotho (Rest of SACU in figure 5) and the overall large imports of primary products of Namibia.

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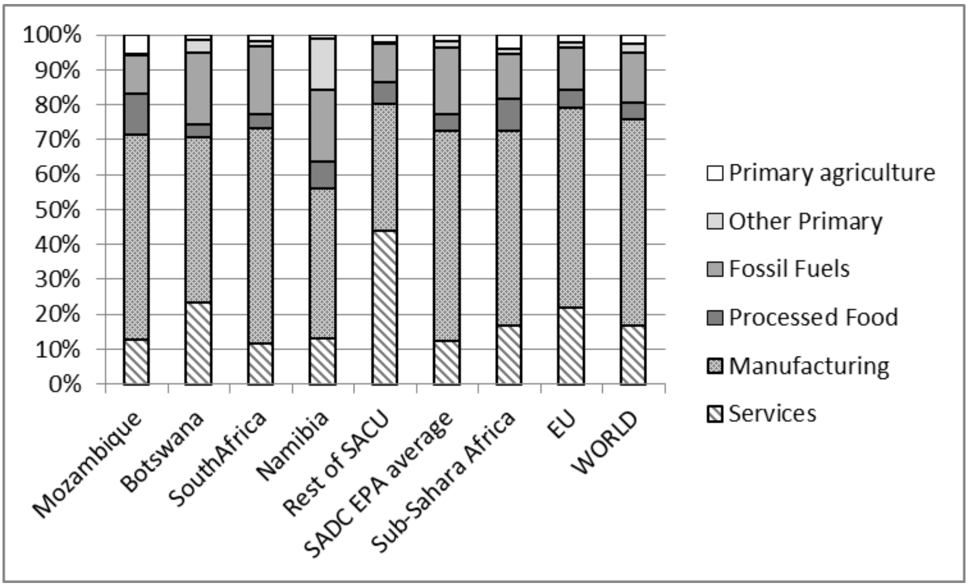
13 Again, the model database has been used as a source rather than the obvious database which is UN COMTRADE. The problem with COMTRADE is twofold. First, the classification in HS sections is still rather detailed, even though it does not separate primary products from manufactured ones. Furthermore, about 20% of South Africa's trade is not categorized at all in COMTRADE.

Figure 5: Composition of imports by country



Source: MIRAGE database.

4.3. Trade relations between the EU and the SADC EPA region

Table 5 below shows the EU's goods trade with SADC EPA countries. In total, the EU imported about 22.8 billion EUR worth of goods from the region, whereas its goods exports were 26.5 billion EUR. South Africa was the source for 78% of these imports and the destination of 92% of these exports.[14]

[14] UN COMTRADE data notified by SADC EPA countries shows significant white spots, which is why we did not use it here.

Table 5: EU trade in goods with SADC EPA countries, million EUR, average 2013 -15

	Imports	Exports
Botswana	2,256	505
Lesotho	230	13
Mozambique	1,378	904
Namibia	981	581
South Africa	17,813	24,421
Swaziland	173	29
SADC EPA group	22,830	26,451

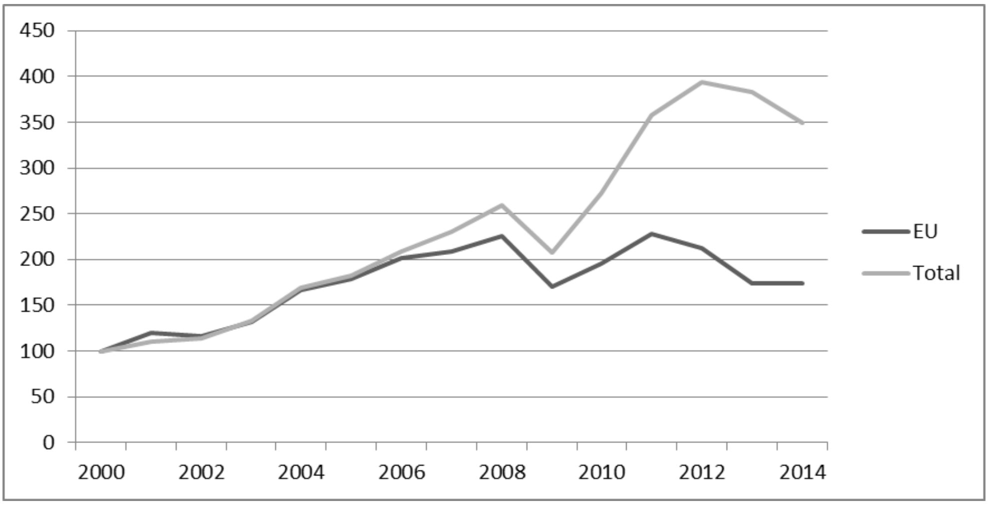
Source: Eurostat (COMEXT)

Bilateral data for services trade is not available on a comprehensive basis. The only country with which the EU publishes bilateral services trade statistics is South Africa. Services imports into the EU from South Africa reached 4.5 billion EUR in 2014 and exports from the EU to South Africa stood at 7.4 billion. This corresponds to about 23% and 29%, respectively, of bilateral goods trade between the EU and South Africa in 2014.

Figures 6 and 7 below show the evolution of SADC EPA countries goods trade.[15] Since the beginning of the new millennium, EU trade with the region has increased significantly, but at a lesser rate than the region's overall trade. SADC EPA countries' exports to the EU increased by 74%, whereas the region's overall goods exports increased by 249% from 2000 to 2014. Imports from the EU increased by 149% in the same period, whereas total imports grew by 232%. These figures should be seen against the background of rising Asian economies, most notably China, in the same period of time.

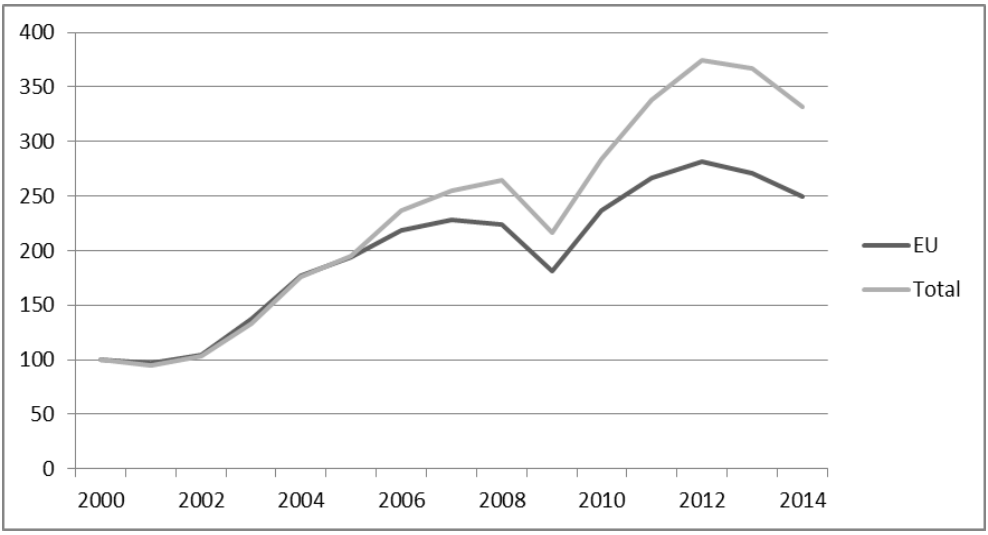
[15] Here we used UN COMTRADE (importer notifications). The problem of patchy data persists, but given the dominance of South Africa, where the data is complete, the bias to the trend we show is likely negligible.

Figure 6: Evolution of goods exports of SADC EPA Group, 2000 = 100



Source: UN Comtrade

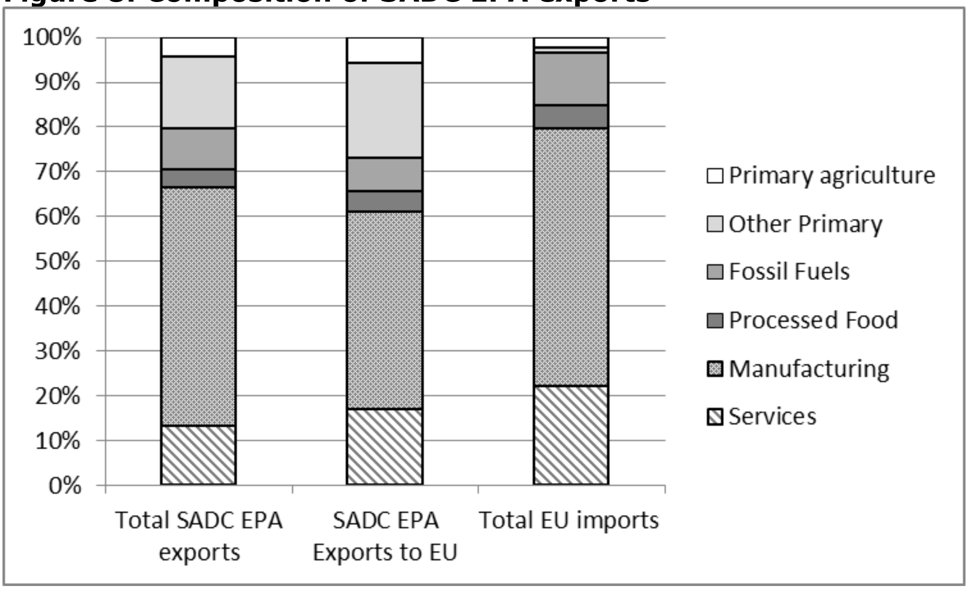
Figure 7: Evolution of goods imports of SADC EPA Group, 2000 = 100



Remark: No data for Swaziland from 2008 onwards, no data for Lesotho from 2005-2007 and from 2013 onwards.
Source: UN Comtrade.

Figure 8 displays the sector composition of SADC EPA countries' goods exports to the EU. The first column in the graph is taken from figure 4 above. It shows the overall sectoral composition of exports. This is compared to the composition of bilateral exports to the EU in the second column and to the overall composition of the EU's total imports. The figure shows that primary products other than fossil fuels are more prominently represented in bilateral trade than in the multilateral trade of both sides. SADC EPA countries also export more services to the EU than they export in general, however, less than what other countries export to the EU. The manufacturing trade is by contrast comparably small between the two regions.

Figure 8: Composition of SADC EPA exports

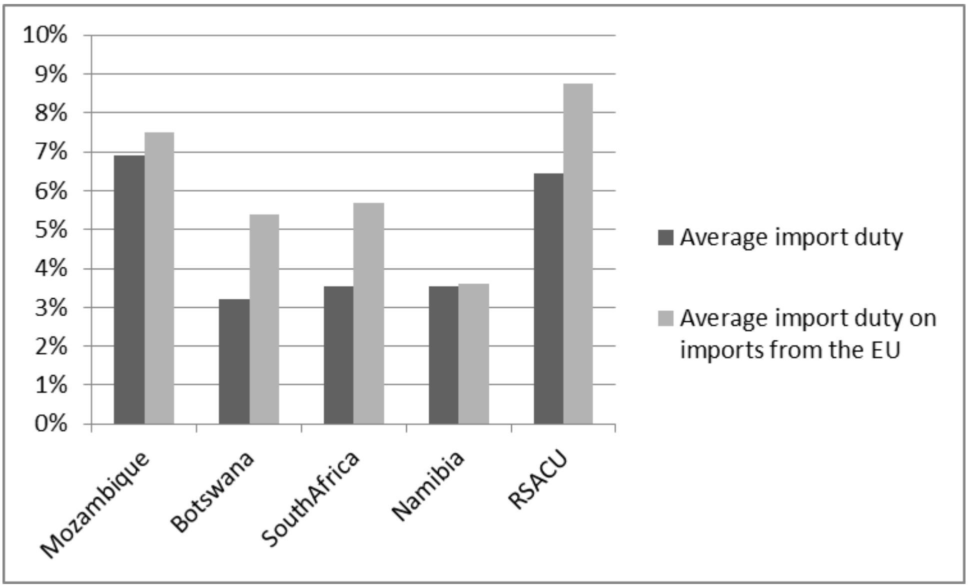


Source: MIRAGE database.

Figure 9 shows the average tariff protection on goods imports into individual SADC EPA countries. Rates are lowest in Botswana with about 3 % and highest in Mozambique with about 7%. Tariffs levied on imports from the EU are larger than average rates in all SADC EPA countries. This is due to composition effects and trade preferences. In Namibia and Mozambique, this difference is rather small, but for the other countries it is about two percentage points.

Given the existing regimes, tariffs on SADC EPA goods entering the EU are virtually already at 0%, despite some rates remaining positive. The highest average tariff rate the EU applies for imports from South Africa is slightly less than 0.2% ad valorem.

Figure 9: Current applicable tariff protection of SADC EPA countries



Source: MIRAGE database.

5. Literature review

Recent academic literature on the EU-SADC EPA is rather scarce, in particular when it comes to economic modelling. This may be due to the long span of the negotiations and the fact that the scope of the agreement was not known at the time, which did not allow for a precise evaluation. A number of studies date back to 2005-2008 at the moment where the negotiations between the EU and SADC EPA countries were launched.

The methodologies across studies show large variations, on the geographical scope of the agreement or the level of liberalisation. Studies at the level of all ACP countries were also undertaken.[16]

For instance, Keck and Piermartini (2008)[17] considered several "experiments" in terms of trade liberalisation and regional agreements. Under a scenario where full symmetric liberalisation is achieved, one result of the study is that *"an EU–SADC FTA has a strong potential for increased trade between the two regions (…). SADC countries overall realise important welfare gains from liberalisation in the context of EPAs."* Impact on GDP was positive for South Africa (+0.2%), "rest of SACU" (+0.28%), but it was slightly negative for Botswana (-0.06%). Bouët et al. (2007)[18] also found positive real income and welfare impacts for the larger SADC region assuming a full EU-EPA scenario, using the MIRAGE model (see chapter 6).

On the basis of a global computable general equilibrium model, using the assumption of a 90% liberalisation scenario for the SADC-EPA group, Osman (2014)[19] found that the main impact on trade will be

16 See, in particular, Fontagne L., Mitaritonna, C. and Laborde, D. (2010) *An impact study of the EU ACP* Economic *Partnership Agreements (EPAs) in the six ACP regions*, CEPII-CIREM, Journal of African Economies, Vol. 20

17 Keck, A. and Piermartini, R. (2008) *The impact of Economic Partnership Agreements in countries of the Southern African Development Community*, Journal of African Economies, Vol. 17.

18 Bouët, A., Laborde, D. and Mevel, S. (2007) *Searching for an alternative to Economic Partnership Agreements,* International Food Policy Research Institute, Research Brief, 10.

19 Osman, R. O. M. (2014) *SADC trade with the European Union from a preferential to a reciprocal modality*, South African Journal of Economics Vol 83:1.

for the "Rest of SACU" countries. They might face a 10% increase in total exports and a 30% increase of total imports. Osman concluded that a *"comprehensive EPA scenario"* (i.e. going from the SADC "EPA group" to cover all SADC members) *"is welfare-improving for many SADC members."*

6. Analysis of the potential economic effects of the tariff reductions set out in the Economic Partnership Agreement

6.1. Description of the methodology

The objective of this section is to assess the economic effects of the EU-SADC EPA, primarily on SADC-EPA members, in terms of welfare, GDP, trade, production and poverty. The assessment is based on a dynamic multi-country, multi-sector Computable General Equilibrium (CGE) model. In general, CGE models evaluate the impact of policy shocks, like trade policy changes, or on economic variables such as income, prices, production and employment at sector as well as macro level.

The CGE model used for this study is MIRAGRODEP, which is a recent version of MIRAGE[20], developed for the AGRODEP initiative[21]. Since the EPA affects countries other than its signatories, it is important to use a multi-country model so as to represent in detail and consistently the economic and trade relations with the rest of the world. The gradual implementation of the agreement, i.e. gradual tariff reductions, and their occurring simultaneously exogenous socio-economic developments suggest the use of a dynamic version of the model. A dynamic analysis allows a sequential view within the model. The equilibrium is hereby moved from one year to another.

Initially, the structure of the examined economies - with all the associated transactions among the economic agents (households, government, firms) - is reproduced. A dynamic baseline is then simulated so as to project the economic situation of these countries within a specific timeframe. The baseline reflects current EU and SADC EPA countries' FTAs in force as well as those for which negotiations have been concluded, including the TDCA, and the SACU Agreement as explained in sections 2 and 3. Without the EPA, Mozambique and Lesotho, the LDCs would remain eligible for duty-free, quota-free market access to the EU under the EBA initiative. For South Africa, the

[20] MIRAGE (Modeling International Relations under Applied General Equilibrium) is a model initially developed by CEPII (Centre d'Études Prospectives et d'Informations Internationales) and devoted to trade policy analysis.

[21] The African Growth and Development Policy modeling consortium aims to enable African experts to lead in policies related to the region’s strategic development and agricultural growth.

TDCA would continue to be applicable and Swaziland would benefit from the EU's standard GSP. Finally, Botswana and Namibia would not be eligible for preferential market access to the EU of any kind and fall back to MFN treatment.

A scenario simulation is then performed under the assumption that a specific policy change takes place and the result is compared to the baseline. Specifically, the economic effects of the EPA are quantified based on the tariff dismantling schedule set out in the EPA by comparison to the baseline. Both the baseline and the EPA scenario are projected for 20 years up to the year 2035.

The specific characteristics of the African continent are taken into due consideration with the following cutting-edge specifications that are introduced in the model and the overall analysis:

- Fiscal revenues of SADC EPA countries: The effect of the agreement on public revenues is projected based on actual revenues instead of nominal import duties and accounting for fiscal inefficiencies[22].
- Impact of the agreement on poverty: The CGE model is complemented by a top down micro-simulation approach. With the use of a micro-macro distributional toolbox[23], the impact at the macroeconomic level (e.g. change in relative prices of goods, impact on labour market, change in relative factor remuneration, change in government revenue, change in consumption pattern by households etc.) are linked to microeconomic data (e.g. household budget surveys) to account for impacts at the household level and to analyse the effects on income distribution. Due to data availability constraints, the micro-simulation exercise was conducted for two countries: South Africa and Namibia[24]. These

22 As most African economies have a relatively low rate of effective tax collection, considering that their tariff revenue is equal to the product of nominal tariff and trade flows is an overestimation. Therefore, country-sector specific or country specific efficiency ratios are used to duplicate effective tariff revenue as indicated in International Monetary Fund's (IMF) financial reports. See for instance Decaluwe B., Laborde D., Maisonnave H. and Robichaud V. (2008).

23 http://www.agrodep.org/model/micro-macro-distributional-analysis-toolbox.

24 The household surveys that were used were the 2009 Household Income and Expenditure Survey carried out for Namibia and the 2010 Household Income and Expenditure Survey carried out in South Africa. These were the only household surveys that were publicly available and included an income module (households' income sources, apart from the expenditure/ consumption component).

two countries account for 90% of the region's GDP and 64% of its population (IMF, 2015).

- Additional sensitivity analyses were carried out in order to address the specificities of the SADC EPA economies (e.g. weight of informal sector, fiscal strategies to cope with revenue loss from tariff reductions). However, their impact was rather limited on the following results:
    - Dual-dual economy: The objective of this option is to make a distinction between workers attached to the rural versus the urban sector, and the informal versus the formal one, so as to account for differences in the production and consumption decisions of each category and the contingent labour migration among them[25].
    - Fiscal policy instruments: An increase of consumption taxes and, alternatively, income taxes is simulated and calibrated in the way that increased fiscal revenue exactly compensates for the loss from tariff revenue associated to the EPA.

The database used was Global Trade Analysis Project-GTAP 9, a fully-documented, publicly available global database which contains complete bilateral trade information, transport and protection linkages among 140 regions for all 57 GTAP commodities for 2011. Specifically, four out of the six SADC EPA countries (namely Botswana, Namibia, Mozambique and South Africa) are included, while the remaining two countries (Swaziland and Lesotho) are embedded in the region Rest of SACU.[26] The main macroeconomic variables were updated to reflect the latest available data.

6.2. Analysis of the results

This section presents the main results, at macroeconomic and microeconomic level, of implementing the tariff reductions set out in the EPA. It is important to note that the results in this section refer to the EPA scenario compared to the baseline in 2035. For example, if

[25] This modeling is inspired by Stifel and Thorbecke (2003).

[26] The individually modelled countries represent 97% of the entire region's population and 98% of its GDP.

there is a "5% increase" in bilateral exports in 2035, this means that bilateral exports would be 5% higher with the EPA than without. Respectively, a "5% decrease" does not necessarily mean that bilateral exports will decrease compared to today. It rather implies that bilateral exports in 2035 are lower by 5% compared to their would-be value in 2035 without the EPA.

Macroeconomic outputs (GDP, welfare, exports and imports)

The main macroeconomic results from the model simulations are summarised in table 6. The tariff reductions have a small but positive impact on both **real GDP** and **welfare** for basically all SADC EPA countries.[27] For example, in 2035, Botswana's real GDP will be 0.03% higher and welfare 0.02% higher, compared to the situation where an EPA would not be in place. The variation between countries reflects the extent to which the EPA and the baseline differ: in Mozambique for instance, liberalisation is limited while the country already benefits from duty-free quota-free for its exports to the EU (hence the lower impact); in Botswana, the main export items (e.g. diamonds) would still benefit from low duties without the EPA. For other countries such as Namibia, the EPA provides duty-free quota-free access while the country, in the absence of EPA, would not benefit from a preferential treatment (hence the higher impact). The agreement has a negligible effect in terms of GDP and welfare on Parties that are not part of it.

Table 6: Macroeconomic effects, 2035 (EPA vs. baseline, %)

	GDP	**Welfare**
Mozambique	0.01	0.00
Botswana	0.03	0.02
South Africa	0.01	0.02
Namibia	0.23	0.29
Rest of SACU	1.18	1.46
SADC EPA (all countries)	0.03	0.03

Source: CGE simulations carried out for DG Trade[28]

[27] Welfare is unaffected for Mozambique.

[28] These simulations were performed by Bouët A., Laborde D. and Traoré F. (CEPR-IFPRI).

Total exports of SADC EPA countries to the world also increase as a result of the SADC EPA, e.g. by 0.13% in the case of Mozambique. In total, SADC EPA countries' exports increase by 0.13% and their imports by 0.14%, as shown in table 7. The impact on the EU is positive but very small, given the relatively low share of EU trade with the region compared to overall EU trade.

Table 7: Total trade, real, in 2035 (EPA vs. baseline, %)

	Total Exports	Total Imports
Mozambique	0.13	0.09
Botswana	0.02	0.06
South Africa	0.11	0.12
Namibia	0.24	0.55
Rest of SACU	0.85	1.99
SADC EPA (all countries)	0.13	0.14
Rest of Africa	0.00	0.00
European Union	0.01	0.01

Source: CGE simulations carried out for DG Trade, own calculations

SADC EPA countries' exports to the EU

The impact of the EPA regarding EU-SADC EPA group bilateral trade are in line with expectations, as many SADC EPA countries would enjoy preferential access even in absence of the EPA. The exceptions are Namibia and Botswana who would be subject to MFN treatment. Swaziland would still enjoy GSP preferences, but in one of the country's key export sectors, sugar, there are no GSP preferences. Overall, SADC EPA countries' exports to the EU would be 0.91% higher under the EPA.

Individual country results can be seen in Table 8. For example, exports from South Africa to the EU increase by 0.88%.

Table 8: SADC EPA countries' exports to the EU, 2035 (EPA vs. baseline, %)

	Exports to the EU
Mozambique	0.14
Botswana	0.12
South Africa	0.88
Namibia	1.97
Rest of SACU	8.92
SADC EPA	0.91

Source: CGE simulations carried out for DG Trade.

Exports by sector

The sectors with the highest expected increases in exports from SADC EPA countries are red meat (15.3%) and sugar (13.7%). Other sectors where an increase in exports is expected are beverage and tobacco, dairy products, fisheries, motor vehicles, "other food", textile, utilities, vegetable oil, vegetables and fruit, and white meat. While several of the increases are sizeable, decreases are usually below 0.1%, with the exception of wearing apparel (-1.2%), cattle (-0.8%) and electronics (-0.4%). The increase and decrease reflect the comparative treatment of each sector under the EPA by comparison to the baseline: in many sectors, EU customs duties are already low in the baseline scenario (especially when it comes to inputs into the production or primary products), while EU customs duties on finished goods and agricultural goods are much higher in the baseline than in the EPA, hence the higher positive impact in those sectors.[29]

[29] In the modelling, the EPA changes the affectation of resources across sectors: in other words, a decrease in a sector is also attributable not only to tariff changes in that sector, but also to the relatively higher opportunities in other sectors due to the EPA.

Table 9: Total exports by sector, SADC EPA, 2035 (EPA vs. baseline, %)

Sectors	EPA's impact
Beverage and Tobacco	9.8
Business Services	0.0
Capital Goods	-0.1
Cattle	-0.8
Cereals	-0.1
Chemicals	-0.1
Construction	-0.1
Dairy products	0.4
Electronics	-0.4
Fisheries	2.0
Fossil Fuel	0.0
Leather Product	0.0
Metals	0.0
Motor Vehicles	0.1
Oilseeds	0.0
Other Animal	-0.1
Other Crops	0.0
Other Food	0.8
Other Industries	-0.1
Other Mineral	0.0
Other Natural Resources	0.0
Other services	0.0
Paper Products	-0.1
Public Services	-0.2
Red Meat	15.3
Sugar	13.7
Textile	0.1
Trade	0.0
Transportation	0.0
Utilities	0.1
Vegetable Oil	0.1
Vegetables and Fruits	1.5
Wearing Apparel	-1.2
White Meat	0.5
Wood Products	-0.1

Source: CGE simulations carried out for DG Trade

Table 10: SADC EPA countries' total exports by main sectors, 2035
(1st column: EPA vs. baseline, %; 2nd column: share in the country's exports, baseline)

	Chemicals		Motor Vehicles		Construc-tion		Other Natural Resources		Metals		Capital Goods		Utilities		Trade		Transpor-tation		Business Services		Other services		Public Services		Total (main sectors)	
	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share
MOZ	0.2	0.1	0.3	0.0	0.1	0.2	0.0	4.2	0.2	55.0	0.2	0.4	0.1	19.0	0.1	0.1	0.1	2.0	0.1	1.0	0.0	0.2	0.2	0.4	0.1	82.5
BOT	-0.1	0.6	0.0	1.6	-0.1	0.3	0.0	59.1	-0.2	4.8	-0.1	1.8	-0.1	0.1	0.0	1.5	0.0	4.4	-0.1	7.6	0.0	1.6	-0.1	3.1	0.0	86.5
ZAF	-0.1	6.1	0.1	6.2	0.0	0.1	0.0	14.4	-0.1	35.8	-0.1	6.9	0.0	0.3	0.0	1.1	0.0	3.4	0.0	3.0	0.0	1.2	0.0	0.9	0.0	79.5
NAM	-0.5	15.2	-0.5	3.1	-0.2	1.0	-0.2	17.9	-0.2	22.3	-0.8	4.0	-0.4	0.2	-0.4	0.4	-0.3	3.1	-0.2	1.6	-0.2	2.7	-0.7	1.2	-0.3	72.9
RSACU	-1.5	10.1	-0.9	0.2	-0.7	0.2	-0.3	9.3	-0.6	1.6	-1.7	5.2	0.1	1.7	-0.8	0.3	-0.5	1.2	-0.1	15.4	0.2	0.3	-2.3	2.6	-0.8	48.2

Source: CGE simulations carried out for DG Trade. Remark: The positive effects on exports of Namibia and Rest of SACU countries are strongly concentrated in the agricultural sector, which for the SADC EPA group on aggregate is much less important. That explains their negative results in the last column of this table.

Table 11: SADC EPA countries' production by main sectors, 2035
(1st column: EPA vs. baseline, %; 2nd column: share in the country's production, baseline)

	Chemicals		Motor Vehicles		Construc-tion		Other Natural Resources		Metals		Capital Goods		Utilities		Trade		Transpor-tation		Business Services		Other services		Public Services		Total (main sectors)	
	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	EPA	share	Share	EPA
MOZ	-0.2	0.7	-0.1	0.3	0.0	6.6	0.0	3.9	0.2	15.2	-0.3	0.7	0.1	14.0	-0.1	7.2	0.0	8.0	0.0	8.7	0.0	4.8	-0.1	7.2	0.0	77.5
BOT	0.0	0.8	0.0	0.4	0.1	16.6	0.0	15.3	-0.1	2.7	-0.1	0.6	0.0	1.2	0.0	9.9	0.0	4.0	0.0	11.9	0.0	5.1	0.0	13.3	0.0	82.0
ZAF	0.0	5.7	-0.1	4.1	0.0	4.7	0.0	2.0	-0.1	8.3	0.0	4.2	0.0	1.4	0.0	9.9	0.0	4.2	0.0	18.1	0.0	5.7	0.0	13.1	0.0	81.3
NAM	-0.3	5.0	-0.2	1.4	0.5	6.8	-0.3	7.0	-0.2	6.1	-0.3	2.5	0.1	1.7	0.0	11.6	0.2	6.1	0.2	13.6	0.3	7.1	0.1	9.5	0.1	78.4
RSA CU	-0.7	4.0	1.6	0.6	4.1	2.6	0.1	4.1	1.3	1.2	0.0	2.7	0.9	2.0	1.1	14.9	1.0	5.1	1.0	15.5	1.9	4.4	0.4	9.8	0.9	66.9

Source: CGE simulations carried out for DG Trade

Table 10 and Table 11 depict further the impacts on SADC EPA countries' exports, as well as on their production, regarding the most important sectors in the regions' economy. The twelve most important sectors are selected for detailed discussion in tables 10 and 11 based on their average (both simple and weighted) production volume.

This way, between 48% and 87% of SADC EPA countries' exports and 67% and 82% of their production volume are covered by the tables. For example, 55% of Mozambique's total exports are in metals. These exports are positively affected by the EPA, as they increase by 0.2%. The last column shows the aggregate impact on each country's main export sectors, e.g. Mozambique increases its exports by 0.1% in its main export sectors (i.e. in 82.5% of its total exports).

Production by sector

Production-wise, the effects are usually too small to be visible at the level of rounding (see table 11). Mozambique's metal sector accounting for 15.2% of the country's production volume increases its output by 0.2%. Overall, production in the selected sectors, which account for 77.5% of Mozambique's overall production volume, is unchanged by the EPA.

Imports of SADC EPA countries from the EU

As a result of trade liberalisation, **exports from the EU** into SADC EPA countries are also positively affected by the EPA. EU's exports to the region would be 0.73% higher with the EPA than without. Individual country results can be seen in Table 12. Imports into Mozambique from the EU, for example, increase by 3.96% compared to the baseline.

Table 1: SADC EPA countries' imports from the EU, 2035 (EPA vs. baseline, %)

	Imports from the EU
Mozambique	3.96
Botswana	0.09
South Africa	0.60
Namibia	0.82
Rest of SACU	1.77
SADC	0.73

Source: CGE simulations carried out for DG Trade.

Remuneration of production factors

The remuneration of the factors of production is generally positively affected by the EPA, albeit to a small extent. As shown in Table 13 below, remuneration of unskilled labour in Mozambique increases by 0.1%. The strongest effects by factor can be seen for land, given that the trade barriers in the counterfactual scenarios are especially concentrated in agriculture. Generally speaking, wages and land rents seem to be positively affected and interests and natural resource rents seem to be negatively affected. Country-wise, the effects on factor prices are strongest for Rest of SACU, likely driven by Swaziland.

Table 13: Remuneration of production factors, real, 2035 (EPA vs. baseline, %)

	Unskilled Labour	Skilled Labour	Capital	Land	Natural resources
Mozambique	0.01%	-0.02%	0.04%	0.01%	0.05%
Botswana	0.03%	0.03%	-0.03%	0.64%	-0.01%
South Africa	0.02%	0.01%	0.01%	0.28%	-0.11%
Namibia	0.30%	0.29%	-0.15%	1.83%	0.11%
Rest of SACU	1.20%	1.85%	-0.74%	3.02%	-0.50%

Source: CGE simulations carried out for DG Trade

Impact on poverty

Based on the micro-simulation approach, the tariff reduction will have a (marginal) positive impact on poverty reduction in South Africa and Namibia, the two countries considered in the simulation. The results for these countries can be transferred to the region as a whole. As depicted in Table 14 below, the percentage of the population living with less than 1 USD a day decreases slightly by 0.02 % in South Africa and by 0.03 % in Namibia thanks to the EPA. The percentage of the population living below 1.25 USD decreases by 0.01 % in South Africa and is unaffected in Namibia.

Table 14: Impact on poverty (% of population below 1USD and 1.25USD per day) in South Africa and Namibia, 2035 (percentage points)

	South Africa	Namibia
1 USD	-0.02	-0.03
1.25 USD	-0.01	0.00

Source: Household Analysis and CGE simulations carried out for DG Trade

Impact on import duties

As a result of the tariff reduction, SADC EPA countries will collect less import duties, except Lesotho and Swaziland ("rest of SACU") where the loss in import duties is offset increase in economic activity (more imports overall). The decrease in collected import duties for SADC EPA countries is on average of 0.59% at the end of the liberalisation period (see Table 15). It differs by country, depending on the share of EU products in the imports of the country. It is worth recalling that this change in tariff revenue is merely a displacement of resources from governments to consumers and companies. Therefore, the loss of import duties identified above has no impact as such on the overall GDP, which is expected to increase as a result of the EPA (see Table 6).

Table 15: Collected import duties, 2035 (% change EPA vs. baseline)

	Change in collected import duties (% vs. baseline)
Mozambique	-1.50
Botswana	0.04
South Africa	-0.59
Namibia	-0.13
Rest of SACU	1.84
SADC EPA	-0.59

Source: CGE simulations carried out for DG Trade

6.3. Summary of the modelling results

Based on the simulation results, SADC EPA countries' GDP will be positively affected by the agreement, albeit to a small extent. On average this will be 0.03%, but single country results range from 0.01% to 1.18% by comparison to a baseline without the EPA. Welfare is also expected to slightly increase. The simulated effect ranges between 0.0% and 1.46% depending on the country. The average effect for the region is 0.03%.

Total exports from SADC EPA countries to the world are positively affected by the EPA and so are total imports. Exports are expected to increase on average by 0.13%, and imports to increase by 0.14%. SADC EPA countries' exports to the EU will increase by 0.91%, whereas bilateral imports will increase by 0.73%.

The remuneration of production factors is heterogeneously affected by the SADC EPA, albeit to a small extent. Remuneration of labour is mainly seen increasing as are land rents.

The effect on poverty reduction is also slightly positive, in particular where persons living on less than 1 USD are concerned.[30]

[30] As mentioned above, additional simulations were performed taking into account the specific characteristics of the African continent with regard to the existence of formal and informal

7. Overall conclusion

The EPA paves the way for a stable and long-term bi-regional trade relationship between southern Africa and the EU. The outcome of the negotiations is a WTO-compatible Agreement that offers asymmetry in market access. The duty-free access to the European market for the BLMNS countries will no longer be at the discretion of the EU, but will be anchored in a treaty between the Parties. South Africa has also negotiated better access than currently granted under the TDCA. The EPA, including through its development cooperation pillar, is expected to facilitate intra-regional trade as well as the region's trade with the world. The SADC EPA will also re-establish the common external tariff of SACU and therefore renew the proper functioning of the oldest existing customs union in the world.

The simulation of the impact of tariff reductions set out in the SADC EPA shows moderate, but positive gains. The impact on GDP in all SADC EPA countries is positive as is the impact on welfare (even if the effect on welfare in Mozambique is neutral). The SADC EPA countries will export more to the EU than in a scenario without the EPA and the EU will export more to the SADC EPA countries compared to a situation where there would be no EPA. The remuneration of production factors (namely wages and land) is generally positively affected by the SADC EPA, albeit to a small extent. Fiscal revenue losses are limited and there is a small but positive impact on poverty levels for those countries where sufficiently available data allowed for analysis.

Gains for SADC EPA countries can be considered as underestimations of the real gains, as the economic modelling only takes into account those aspects of the SADC EPA that are readily quantifiable (like tariff

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sectors, and rural and urban ones (dual-dual economy), as well as different assumptions on how SADC EPA countries cope with associated losses in tariff revenues.

The results in all the examined variables (GDP, welfare, exports) in the additional simulations are very close to the ones generated without the distinction of the production sectors and with no changes in other tax rates. The direction and the order of magnitude of the results are usually not affected. Only in the case of Mozambique does the increase of tax rates lead to a slightly negative effect on welfare (-0.02 to -0.03%). The standard model did not yield any change in welfare for Mozambique, cf. Table 6).

reductions), but does not cover other aspects that are more difficult to quantify like preferential rules of origin, improvements of infrastructure and other trade facilitating measures. Preferential rules of origin provisions, for example, enable countries to take better advantage of the EU market access and to enhance cooperation and regional integration among themselves. Improvements in the quality of infrastructure and reduction of delays in trading through trade facilitation measures can reduce trade costs, increase competitiveness and further encourage exports. By establishing a favourable and predictable regulatory environment, the SADC EPA countries can stimulate trade and investment.

The SADC EPA creates several joint institutions in charge of the implementation of the agreement. It will be the task of all those institutions to ensure that the SADC EPA is properly implemented, as well as to make proposals for the review of priorities set out in the agreement. For that purpose, constant monitoring of implementation is paramount. In addition, the EPA foresees discussions on a wider negotiation agenda ("rendez-vous clauses") covering for instance services, investment, public procurement or intellectual property rights, which could bring additional positive results for the countries concerned.

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Annex 1: list of acronyms

ACP	Africa, Caribbean, Pacific
BLMNS	Botswana, Lesotho, Mozambique, Namibia, Swaziland
CGE	Computable General Equilibrium
DFQF	Duty-Free, Quota-Free
EBA	Everything But Arms
EPA	Economic Partnership Agreement
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP	Generalised Scheme of Preferences
GTAP	Global Trade Analysis Project
HS	Harmonised System
IMF	International Monetary Fund
IPR	Intellectual Property Rights
LDC	Least Developed Country
MAR	Market Access Regulation
MFN	Most Favoured Nation
OCT	Overseas Countries and Territories
RIP	Regional Indicative programme
SACU	Southern African Customs Union
SADC	Southern African Development Community
SMEs	Small and medium-sized enterprises
TDCA	Trade, Development and Cooperation Agreement
WTO	World Trade Organisation

Annex 2: Sectoral aggregation

Table 2: From GTAP sectors to model (Miragrodep) aggregation

GTAP sectors	MIRAGRODEP aggregation
Beverages and tobacco products	Beverage and Tobacco
Communication	Business Services
Financial services nec	
Insurance	
Business services nec	
Transport equipment nec	Capital Goods
Machinery and equipment nec	
Cattle.sheep.goats.horses	Cattle
Raw milk	
Wheat	Cereals
Cereal grains nec	
Chemical.rubber.plastic prods	Chemicals
Construction	Construction
Dairy products	Dairy products
Electronic equipment	Electronics
Fishing	Fisheries
Coal	Fossil Fuel
Oil	
Gas	
Petroleum. coal products	
Leather products	Leather Product
Ferrous metals	Metals
Metals nec	
Metal products	
Motor vehicles and parts	Motor Vehicles
Oil seeds	Oilseeds
Animal products nec	Other Animal
Wool. silk-worm cocoons	
Crops nec	Other Crops

GTAP sectors	MIRAGRODEP aggregation
Food products nec	Other Food
Manufactures nec	Other Industries
Mineral products nec	Other Mineral
Forestry	Other Natural Resources
Minerals nec	
Recreation and other services	Other services
Dwellings	
Paper products. publishing	Paper Products
Plant-based fibers	Plant Fibers
PubAdmin/Defence/Health/Educat	Public Services
Meat: cattle.sheep.goats.horse	Red Meat
Paddy rice	Rice
Processed rice	
Sugar cane. sugar beet	Sugar
Sugar	
Textiles	Textile
Trade	Trade
Transport nec	Transportation
Sea transport	
Air transport	
Electricity	Utilities
Gas manufacture. distribution	
Water	
Vegetable oils and fats	Vegetable Oil
Vegetables. fruit. nuts	Vegetables and Fruits
Wearing apparel	Wearing Apparel
Meat products nec	White Meat
Wood products	Wood Products

Source: CGE simulations carried out for DG Trade

Table 3: From 37 MIRAGRODEP sectors to 3 mega-sectors

Agro-food	Industry / Raw materials / Energy	Services
Rice	Other Natural Resources	Utilities
Cereals	Fossil Fuel	Construction
Vegetables and Fruits	Textile	Trade
Oilseeds	Wearing Apparel	Transportation
Sugar	Leather Product	Business Services
Plant Fibers	Wood Products	Other services
Other Crops	Paper Products	Public Services
Cattle	Chemicals	
Other Animal	Other Mineral	
Fisheries	Metals	
Red Meat	Motor Vehicles	
White Meat	Capital Goods	
Vegetable Oil	Electronics	
Dairy products	Other Industries	
Other Food		
Beverage and Tobacco		

Source: CGE simulations carried out for DG Trade