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THE IMPACT OF ECONOMIC PARTNERSHIP AGREEMENTS (EPAs) IN ZAMBIA

Executive Summary

In the past, trade between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries has been based on preferential terms through various trade agreements. The current trade agreement being negotiated between the ACP and the EU has emerged as the trade component of the Cotonou Partnership Agreement (CPA), referred to as the Economic Partnership Agreement (EPA).

The Jesuit Centre for Theological Reflection (JCTR) together with the Africa-Europe Faith and Justice Network (AEFJN) commissioned this study as an investigation on the impact of an EPA on production and competition capacities in Zambia.

The analysis has shown that since 1991, Zambia has gone through significant economic transformation. This transformation has seen many Zambians lose their jobs and livelihoods as companies were privatised and did not take on many of the Zambian workers. Although, the same transformation has now begun to show some signs of economic recovery, in the mining sector, these improvements are yet to make their mark on employment and income levels for all Zambians. A challenge to this is the volatility in the price of goods, ranging from food to minerals and the outlook for financial development assistance amidst the global financial crisis.

Trade in Zambia is beginning to show recovery in both minerals and non-traditional exports (NTE). The evidence presented suggests that trade is moving away from the EU and instead towards the Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA) and the Asian countries. This puts the EPA negotiations into perspective as it illustrates the opportunity for Zambia to continue exploiting the growing level of trade in the region.

Maize, Zambia's staple crop is not a subject of trade between the EU and Zambia. The most traded agricultural commodities between the EU and Zambia are sugar, cut flowers and horticultural products. The EU is undergoing some structural reforms through the reform of the common agricultural policy (CAP) which will see a decoupling of farmers support from actual production and a lowering of EU agricultural prices. This will mean that Zambia will have to compete for the EU market with other agricultural producers at reduced prices.

With regard to industrial trade, the EU exports products which for the main part attract low or zero duty and are hence irrelevant for the EPA negotiations in terms of tariffs. Heavy manufacturing may see some domestic producers in Zambia squeezed out by EU imports which is likely to result in job and income losses.

The EPA negotiations are affected and also affecting the process of regional integration in Southern Africa. The creation of several EPA negotiating clusters like the EU-SADC EPA; EU-East and Southern

Africa (ESA) EPA and EU-East Africa Community (EAC) EPA is creating problems for regional integration. For its part, the regional integration programme in Southern Africa is faced with serious challenges such as poverty, heavy reliance on trade taxes in some countries and domination by the big regional powers. Though it should be noted that these challenges, are being addressed through the harmonization process of SADC/ COMESA and EAC.

Access to the EU market is, mostly, challenging because of the food safety and animal health (SPS) rules. It is, thus, important to not only seek market access but seek a reduction in market access barriers and capacity building to deal with the SPS issues.

The recommendations to the EC are:

- Improve the legal framework for the Everything But Arms (EBA) for continued and improved access to EU markets by Zambia and other LDCs.
- Show some flexibility regarding Zambia's right to decide whether, how and when to liberalise the economy and sectors.
- Ensure sufficient and timely financial assistance is provided over and above the current 10th European Development Fund (EDF) to help promote regional integration, and to overcome the regional supply side constraints.
- Assist to increase Zambia's supply capacity to trade and ability to cope with the costs of adjustment caused by trade reforms undertaken as a result of the EPA. Additional resources beyond the 10th European Development Fund should be the provision.
- Ensure that the EU's trading relationship and negotiations with Zambia and other ACP countries supports demand driven development efforts rather than EU prescribed driven development strategies.
- Ensure that special and differential treatment for Zambia and other ACP countries is fully respected, observed and acted upon within in the EPA negotiations.
- Ensure that the WTO rules governing regional trade agreements (Article xxiv) goes beyond prolonged transition periods and asymmetry but must include the possibility for non-reciprocity for trade agreements between developed and developing countries.
- Ensure that trade liberalization and market opening in Zambia and other ACP countries is linked to development benchmarks and should not be undertaken unless it will contribute to poverty reduction.

The main recommendations to the Zambian Government are as follows:

- The Government should remain steadfast focused in advancing the cause of attaining the best results in terms of market access, including reductions in entry barriers like the carbon mile limitations while at the same time preventing trade that would cause harm to the Zambian economy and people.
- Zambia's trade with the EU is on the decline. Zambia should put equal or more effort in addressing the challenges of regional integration and the prospects for enhanced Asian trade than on the EPA.
- The Government, together with like minded countries, should pursue the possibility of converting the Everything But Arms (EBA) initiative into a binding trading arrangement under the WTO with more flexibility on the rules of origin.
- Within the EPA negotiations, the Government should seek to obtain assurances of financial and other support to cushion the country from the effects of further liberalisation, unlike the 1991 liberalisation whose consequences were borne fully by the Zambian people, especially the poor and those in rural areas.
- Government must not rush into signing an EPA agreement as envisaged by the European Commission Road map but seek to deepen dialogue with CSOs on a development friendly EPA strategy.

- Government must address the likely dangers of an EPA on loss of revenue so that the process of national development is not disrupted. The EU should be made to pay for the revenue losses.
- The Government should ensure that small scale farmers benefit from market opening by putting in place regulations that compel agribusinesses to pay profitable prices to out grower scheme participants, especially in sugar and cotton.

The main recommendations to Zambian CSOs and its' partners are as follows:

- CSOs to play a critical role in sensitizing the public on issues of trade and economic liberalisation, these efforts should be intensified.
- CSOs must offer government practical alternatives to the current proposed EPA. In particular CSOs should demand that the EU pays for the capacity building needed to overcome the supply side constraints. By the same token, CSOs should ensure that the resources are actually utilised for resolving the supply side constraints.
- Zambian CSOs have been instrumental in advancing pro-poor options to the Zambian Government regarding trade policy formulation, implementation and monitoring. Zambian CSOs should not relent but enhance its efforts in this direction so that the Government is aware of the consequences of trade policy on poverty reduction.
- CSOs should double efforts to penetrate regional integration process as it is very close to the lives of ordinary people in the sub region. This is because economic growth in Zambia is closely linked to the overall growth in southern Africa and joint efforts and programmes at poverty reduction are essential. CSOs' input in this process is critical.
- The CSOs should pressure the EU to provide funding for the social safety nets and training programmes needed to cushion the impacts of EPAs on the employees that may lose their jobs.
- CSOs should lobby the Government and the EU to reduce the burden of the SPS and assist Zambia participate in the sanitary and phytosanitary (SPS) setting fora.
- CSOs should review the findings of this report and pick out issues for continued lobby and advocacy work.
- CSOs should monitor the role played by agribusinesses to ensure that small scale farmers benefit from out grower schemes for export products.